

The Big Read Russian business & finance

Russia's surprising consumer spending boom



Heavy government expenditure and labour shortages have led to a sharp rise in real wages and consumption but the economy risks overheating

Courtney Weaver in Berlin and **Anastasia Stognei** in Tbilisi 8 HOURS AGO

Immediately following Russia's full-scale invasion of Ukraine in 2022, Anton*, a restaurateur in St Petersburg, feared the worst for his business.

Foreign visitors disappeared. Interest rates soared as Russia anticipated an economic collapse fuelled by western sanctions. Locals had no time for eating out, he says.

But Anton need not have worried: over the past two years the situation has completely reversed. Russians are flush with extra cash — and eager to part with it.

As the war has dragged on, rising salaries in a booming wartime defence industry have forced civilian businesses to follow suit in order to attract workers at a time of acute labour shortages. The result is that Russia has unexpectedly found itself in the midst of a consumer spending boom.

“Real wages are skyrocketing,” says Janis Kluge, an expert on Russia's economy with the German Institute for International and Security Affairs. “You have people who hardly earned any money before the full-scale invasion . . . who suddenly have huge amounts of money.”

Real wages have grown by almost 14 per cent, and the consumption of goods and services by around 25 per cent, according to Rosstat, the Russian state statistics agency.

Russia's invasion of Ukraine has pushed rising salaries even higher

Real wages growth rate (% change)

FINANCIAL TIMES

Source: Rosstat

A further bump in real wages of up to 3.5 per cent is expected this year, alongside an expected 3 per cent jump in real disposable income, according to Russia's Center for Macroeconomic Analysis and Short-Term Forecasting. The unemployment rate, forecast to hit between 7 and 8 per cent in 2022, is at 2.6 per cent — a record post-Soviet low.

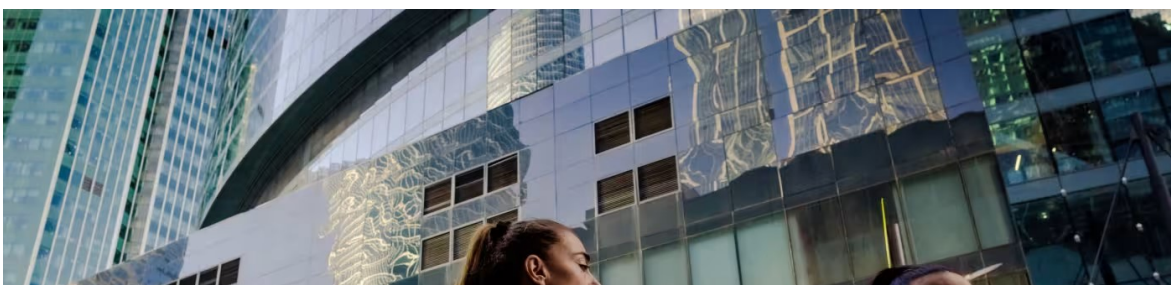
This explosive pay increase is being felt across the socio-economic spectrum, dramatically transforming life for a swath of blue-collar workers.

Weavers, who were earning the rouble equivalent of \$250-\$350 a month in December 2021, can now earn as much as Rbs120,000 (\$1,400) a month, says political scientist Ekaterina Kurbangaleeva. The average salary for long-distance truck drivers has risen 38 per cent year on year.

At the same time, western sanctions and Russian capital controls have grounded funds from wealthy citizens, driving up the luxury sector and giving Moscow and St Petersburg, long famed for its culture, the air of modern-day boomtowns.

One Moscow resident says she and her husband have been keeping a tally of the number of luxury vehicles spotted outside their high-end apartment complex. A neighbour has been showing off photos of his pet lion.

“Everyone who is upper-middle class, they're just enjoying a really good life,” says Sergei Ishkov, a Moscow investor and entrepreneur, highlighting the number of new restaurants and a booming Russian ecommerce market.





Pedestrians walk through Moscow's business district. Russian capital controls have grounded funds from wealthy citizens, giving its main cities the air of modern-day boomtowns © Maxim Shemetov/Reuters

One Russian oligarch told the FT that “almost everyone I know who left Russia after February 2022 and either came back or travels there says Moscow is the best city in the world.”

For many Russians, there is a feeling that their finances are getting better. More than 13 per cent of Russian people rate their financial situation as “good” — the highest since records began in 1999, says Rosstat. Those rating it as “bad” or “very bad” is also at an all-time low, about 14 and 1 per cent respectively.

Now the question is how long the party can last and what the consequences may be.

Economists point out that the boom has largely been fuelled by state spending, investing directly in the defence industry and through support to other sectors, such as agriculture, infrastructure and the real estate market.

The central bank has fought to counter such initiatives and rising core inflation of 8.7 per cent, notably keeping its interest rate at 16 per cent since December 2023.

Some economists forecast a slowdown as soon as this autumn.

“If one would just look at the numbers, the macroeconomic policies of Russia are completely [unbalanced],” says Iikka Korhonen, director of the Bank of Finland Institute for Emerging Economies.

“It tells you about the spillover of this big spending boom on other sectors of the economy,” he says, pointing to an increase in prices. “So far they haven’t really been able to get inflation down and it has been a worry for the government and the central bank.”

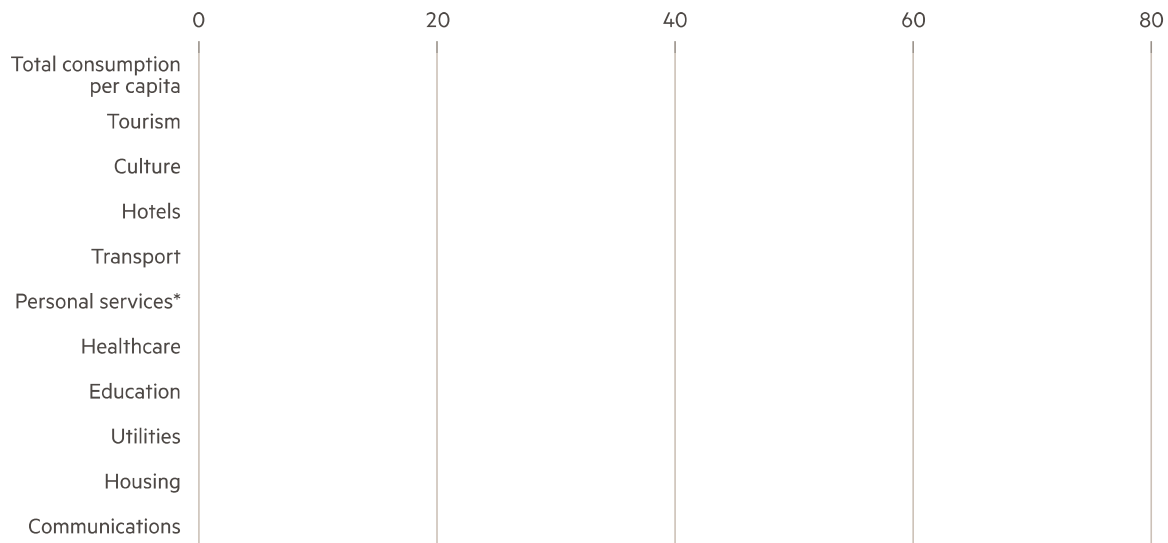
For now, the newfound wealth of Russian consumers is reshaping the domestic economy and society itself.

The demographics that have seen the biggest change in income are those working for the military and groups of blue-collar and grey-collar workers, says Kurbangaleeva, the political scientist. A courier can now earn Rbs200,000 a month — the same as members of the Russian Academy of Sciences, made up of some of the country's leading academics.

“People are getting these higher salaries,” says Alexandra Prokopenko, a fellow at the Carnegie Russia Eurasia Center. “So what are Russian people doing? They're consuming like crazy and this consumption creates domestic demand.”

As wages have risen, Russians are spending more on tourism and leisure activities

% change, 2021 to 2023



FINANCIAL TIMES

Source: Rosstat • * This includes spending on services such as repairs, beauty, spa and saunas, car rental and

Retailers and consumer businesses are rushing to respond. Rostic's, Russia's KFC successor, plans to open up 100 new stores this year, while takeaway coffee consumption in the country has never been higher. Domestic tourism is also thriving.

A person from a Russian travel booking company notes that due to sanctions, which had restricted the ability of airlines to expand and service their fleet, demand for international flights has risen since the start of the invasion. “R...

demand for internal flights was soaring even though airfares are rising. “For almost the first time, it has become profitable for airlines to fly around Russia,” the person says.

Those with previously low incomes are increasing their demand for durable goods such as better housing or cars as well as services, including home repairs, tourism and dining, says Olga Belenkaya, head of the macroeconomic analysis department at Moscow-based brokerage Finam.

Income distribution is also changing, according to some business owners. “Our customers used to be a creative class and young people. Many have left,” says Albert Razilov, founder of the limited-edition footwear brand Mest, whose sales are nearly three times above prewar level. “Our main clients now are adult men, middle managers of large companies, or business owners often involved in import substitution or IT. They now have money to experiment.”

The outflow of capital from Russia has also slowed down. In the aftermath of the invasion, the central bank cited capital flight as a risk to financial stability, but recently removed it from the list of concerns.

“In the upper segment, it’s clear: people have a lot of money, they have nowhere to spend it, so they spend it on experiences,” says Anton, the St Petersburg restaurateur. “If earlier they withdrew money, opened some accounts, bought apartments in Montenegro, now all this money is in the country.”



Diners sit in a café in St Petersburg last April. Consumption of goods and services is up significantly compared with before Russia invaded Ukraine © Dmitri Lovetsky/AP

The effects of that are becoming more apparent across a variety of sectors.

Private schools in Russia have seen a growth in demand with a record number of parents paying school fees, for example. On the domestic Russian art market, some pieces are commanding record prices from collectors. Russian auction houses have already raked in more sales in the first half of 2024 than they did annually in any year before the war started, according to an analysis of auction data by the internet project ARTinvestment.RU.

“The internal market is growing because there are still people who want to buy something,” says one Russian art dealer who requested anonymity to discuss the market dynamics freely.

Other sectors, such as leisure, are reaping the benefits of the spending boom too.

Sasha Skolov, creative director of Sila Vetra, a sailing company courting Russia's middle and upper middle class, says many of its customers — either because of travel restrictions, difficulties getting visas or exorbitant airfare prices — were seeking adventures inside the country, something that never would have happened before the invasion.

The country's premium market is adapted to give high-end customers the offerings they are used to. “Hipsters who used to go to Italian coffee shops demanding the best specialty coffee in the world can find this specialty coffee in [Russia's] Altai Mountains,” he says. “This is a phenomenon that has never existed before.”

Russia's consumer spending boom is a radically different outcome than economists were expecting at the onset of war.

“Two years ago we were expecting a completely different playbook, essentially one in which Russia will have an economic downturn driven by a collapse of exports and unemployment,” says Kluge, of the German Institute for International and Security Affairs. Instead, we are in “a completely different scenario”.

Russia attempts to control inflation amid excessive spending

Interest rate and inflation (%)

State spending (tn Rbs)

Sources: Russian central bank; Russian government; FT calculations • © FT

Shortly after the invasion, the Russian central bank solidified the so-called financial fortress, raising interest rates from 9.5 to 20 per cent overnight and introducing capital controls. Russian exports proved more resilient than expected and it was able to secure most of the goods that were subject to sanctions through parallel imports from third-party countries.

By autumn 2022, the Russian government had significantly ramped up military procurements, says Korhonen, the economist. “That has been powering the economy ever since.”

Compared with 2021, the last prewar year, budget expenditures have increased by 20 per cent, while the state's share in the Russian economy has reached an estimated 50-70 per cent. Russia's central bank identifies government spending as the main driver of GDP growth, according to a report published in June.

War-related spending — including the production of machinery and clothing for the front line, fuel production and payments to those fighting and dying in Ukraine — rose substantially, from about 23 per cent pre-invasion to almost 40 per cent now.

One of the biggest contributors to the recent consumer boom has been a series of

subsidised mortgage programmes.

Shortly after the invasion, the Kremlin significantly ramped up its “mortgages for everyone” programme, which offered cheap loans for new construction that were far lower than the key interest rate. In June, the loan was below 8 per cent compared with 16 per cent, respectively.

“The authorities had to demonstrate that, despite all the shocks and sanctions, people would be able to buy an apartment,” says Sergei Skatov, an expert in the Russian real estate market, pointing out that home ownership carries “the highest value” in post-Soviet society.



A customer shops for seafood at a supermarket in St Petersburg. An explosion in pay has been dramatically transforming life for Russia's blue-collar workers © Anton Vaganov/Reuters

The yawning gap between the official rate and mortgage rate created “excessive arbitrage for the new-build market” and drove record sales. The total value of mortgages held in Russia grew 34.5 per cent last year. Though that programme was phased out on July 1, following repeated pleas from the central bank, the effects have been lasting.

“The financial departments of the largest developers can now be compared to investment banks,” says Skatov. “Developers can sell nothing for a whole year and still remain profitable and solvent: they have already sold everything that they could build in the next three years.”

The sharp increase in public spending has alarmed some fiscal conservatives who along with the central bank had been successful at reining in state-subsidised programmes. Now, such funding mechanisms have become more and more prevalent.

“The booming real estate market is boosted by this [state-sponsored] programme of subsidised mortgages,” says one former high-ranking Russian government official.

“Agriculture. Defence. The oil and gas industry — they are financed by the same mechanisms. Before the war we were trying to [limit] this mechanism. It used to be on an exceptional basis — operation by operation.”



Pedestrians pass an advertisement for the Russian army. The military is among the industries recording some of the biggest changes in worker incomes © Dmitri Lovetsky/AP

To cover a yawning budget deficit, Russia has had to tap into the National Wealth Fund's assets. As a result, its liquid assets have dropped from Rbs8.7tn in January 2022, or 6.6 per cent of GDP, to Rbs4.6tn at the end of June.

Korhonen notes that while the three-year budget plan foresaw a cut in government spending in 2025 — indicating that the authorities had expected the war to be over by then — a recent push to increase taxes suggests the government may now be more pessimistic and will need to “keep the spending levels fairly elevated”.

The central bank leadership has openly pushed back against higher government spending with little success. Instead, they continue to apply traditional monetary policy measures, such as raising rates, in an attempt to prevent the economy from overheating and inflation taking off.

“The central bank can say they’re not happy but that’s it,” says the former government official. “Who would listen?”

The staff shortage is colossal. There are no cooks, no waiters, no bartenders . . . Emigration has crippled me

Other economists note that the fact not even the central bank’s record high interest rate has been able to cool consumer growth showed the degree to which the economy was now influenced by state spending.

“The central bank is very conservative,” says Vasily Astrov, a Russia expert at the Vienna Institute for International Economic Studies. “It has applied textbook, real macroeconomic recipes, so they have

been tightening,” he adds. “The paradox is that . . . even with these very drastic measures — a very tight monetary policy — they have not been able to cool down the economy.”

The former senior official agrees that the central bank’s traditional monetary policy mechanisms are no longer working as they once were. “The [central bank] built the financial fortress,” the person says. “The economy is much more resilient [but] it’s not responding to the central bank’s tools.”

That may be changing. Belenkaya, of Finam, says her brokerage is already forecasting a slowdown in consumer activity, due to an anticipated slowdown in wage growth and ongoing monetary policy tightening.

“I don’t think real incomes can continue to grow . . . as they currently are,” says the Bank of Finland’s Korhonen. “Production growth rates will start to come down this year. There are simply not enough new people.”

Anton, the St Petersburg restaurateur, has seen this first-hand. “The staff shortage is colossal,” he says. “There are no cooks, no waiters, no bartenders . . . Emigration has crippled me because a lot of guys from the service sector have left.”

Labour shortages are widespread. The defence sector is short of about 160,000

specialists, according to deputy prime minister Denis Manturov, despite half a million people moving from civilian jobs to defence-related ones in the last year and a half. Russia's labour ministry forecasts a shortage of 2.4mn workers by 2030.

In time, Russia could find itself in “an Iranian scenario where money is trapped in the country, resulting in exorbitant real estate prices, inflated stock market values and low quality of life,” says the Russian oligarch.

The whole problem with the Russian economy is that the big unknown variable in this equation is the war, says Prokopenko, of the Carnegie Russia Eurasia Center. “The whole economic situation becomes a function of what's going on on the front line.”

**Name has been changed*

Data visualisation by [Aditi Bhandari](#) and [Janina Conboye](#)

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