From Sanctions to War Economy: How Moscow Adapted Its Production System

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When, in February 2022, Russia began the large-scale invasion of Ukraine, many Western observers hypothesized that economic sanctions, financial isolation, and the withdrawal of many international companies from the Russian market would quickly compromise Moscow's ability to sustain the conflict.

More than four years later, this scenario has not materialized as initially expected. The Russian economy has not emerged unscathed from the sanctions and shows increasingly evident imbalances, but it has demonstrated an ability to adapt beyond expectations, converting a significant part of its production system towards military needs.

Russia has not neutralized the consequences of the war: it has rather modified its economic priorities, accepting to sacrifice civilian investments, consumption, and future growth to support the war effort.

The Transformation into a War Economy

The main tool used by Moscow has been the increase in public spending allocated to Defense, security, and industrial production linked to the Armed Forces.

Factories previously operating at ordinary rates have expanded shifts, increased personnel, and received new state orders. The production of ammunition, missiles, armored vehicles, drones, and electronic systems has become one of the main components of Russian industrial activity.

According to SIPRI, in 2025 Russian military spending reached about 190 billion dollars, with an increase of 5.9% compared to the previous year and an incidence equal to 7.5% of the gross domestic product. For 2026, the Russian budget initially forecasted total military spending of about 14,900 billion rubles, equivalent to 6.3% of GDP.

These resources do not exclusively finance operations on the ground but fuel an entire supply chain composed of metallurgical, chemical, electronic, aeronautical, and mechanical industries.

Military spending generates employment, supports wages in industrial regions, and formally contributes to economic growth. However, a tank, a missile, or a grenade increases GDP at the moment they are produced but does not necessarily generate new civilian productive capacity or a lasting improvement in living standards.

The State as the Main Driver of the Economy

The Russian transformation has been made possible by the central role of the State. The government has directed capital, credit, labor, and raw materials towards companies considered strategic.

Defense companies can rely on multi-year contracts, public advances, subsidized loans, and guaranteed demand. This has allowed the military-industrial complex to continue functioning even in the presence of high-interest rates and difficulties in importing some components.

At the same time, Moscow has introduced controls on capital movements, obligations on the conversion of foreign currency revenues, and measures aimed at stabilizing the ruble. The Russian central bank has also adopted a very restrictive monetary policy to contain inflation.

In June 2026, the reference rate was reduced to 14.25%, still remaining at extremely high levels. The same central bank forecasts inflation for 2026 between 4.5 and 5.5%, while the

International Monetary Fund estimates real growth of the Russian economy at 1.1% and an increase in consumer prices of 5.6%.

These numbers describe an economy that continues to grow, but much more slowly compared to the initial phase of expansion fueled by war spending.

Trade Hasn't Stopped, But It Has Changed Direction

One of the decisive elements of Russian resilience has been the ability to redirect its trade relations.

The drastic reduction in trade with Europe has been compensated, at least in part, by greater integration with China, India, Turkey, Gulf countries, Central Asia, and other economies that have not fully adhered to Western sanctions.

Russian oil, gas, coal, and other raw materials have continued to find buyers, often with discounts and higher transportation costs. At the same time, Western goods and industrial components have continued to reach the Russian market through intermediaries, trade triangulations, and parallel imports.

The result has not been a complete overcoming of the sanctions. Moscow has had to bear higher costs, accept increasing dependence on a few partners, and use less efficient trade circuits. However, Russian foreign trade has not been isolated to the extent initially hoped by Western countries.

China, in particular, has become the main supplier of vehicles, machinery, electronics, and numerous dual-use goods. This relationship allows Russia to offset part of the Western restrictions but progressively increases Moscow's economic and technological dependence on Beijing.

Energy Continues to Finance the System

The availability of large energy resources remains one of the main strengths of the Russian economy.

Revenues from the export of oil and gas continue to provide indispensable currency and fiscal resources. As long as Moscow manages to sell substantial quantities of crude oil on international markets, the government will maintain a considerable capacity to finance public and military spending.

The situation is, however, less favorable compared to the early years of the war. Discounts on Russian oil, sanctions against the so-called shadow fleet, higher logistical costs, and price fluctuations have reduced the profitability of exports.

According to some estimates reported by Reuters, in 2026 energy revenues could be 18% lower than what the government expected, contributing to a significant widening of the federal deficit.

These difficulties are compounded by Ukrainian attacks on refineries, depots, and energy infrastructure. In July 2026, Moscow had to redistribute fuel produced in Siberia and increase some imports to counter the shortages caused by damage to Russian refineries.

Growth Exists, But It Is Not Uniform

The growth of the Russian economy does not concern all sectors to the same extent.

Industries linked to Defense receive orders, funding, and labor, while numerous civilian companies have to deal with expensive credit, staff shortages, rising wages, and difficulties in purchasing technologies.

Military mobilization, the emigration of some skilled workers, and the transfer of technicians to Defense factories have aggravated an already problematic demographic situation.

The military-industrial complex can offer higher wages compared to many civilian companies. This allows the State to attract workers to strategic productions but deprives other sectors of personnel and contributes to inflationary pressure.

The risk is to create a two-speed economy: on one side, military companies supported by state demand, on the other, civilian companies penalized by the cost of money and the scarcity of resources.

The Growing Burden on Public Accounts

The ability to finance the war does not mean that the cost is irrelevant.

In the first half of 2026, the Russian federal budget deficit reached about 5,730 billion rubles, equal to 2.5% of GDP and about 1.7 times the level recorded in the same period of the previous year.

For the entire 2026, the deficit could exceed official forecasts by over a thousand billion rubles, mainly due to increased spending. The government also plans to postpone until 2029 the return to a primary balance close to equilibrium.

Moscow still has room for maneuver. Russian public debt remains relatively contained compared to that of many Western economies, and the government can increase taxation, issue bonds on the domestic market, and use the remaining resources of sovereign funds.

But these tools are not unlimited. Greater internal borrowing can absorb capital that would otherwise be destined for private investments, while new taxes and cuts in civilian spending progressively transfer the cost of the war to businesses and citizens.

Have the Sanctions Failed?

To say that the sanctions have been completely ineffective would be inaccurate. Equally inaccurate would be to claim that they have brought the Russian economy to the brink of collapse.

The sanctions have increased the cost of imports, reduced access to Western technologies, complicated international transactions, and weakened long-term development prospects.

However, they have not prevented Russia from continuing to produce armaments, export raw materials, and finance military operations.

Their effectiveness must therefore be evaluated against the objectives. If the aim was to provoke a rapid economic collapse and force Moscow to stop the war, the result has not been achieved. If instead, the goal was to reduce revenues, increase costs, and limit Russian technological potential, the effects are evident but manifest mainly in the medium and long term.

A Model Capable of Resisting, But Not Without Limits

Russia has demonstrated that it possesses tools that many initial analyses underestimated: large natural resources, industrial capabilities inherited from the Soviet era, state control of the economy, a contained public debt, and the availability of important non-Western trading partners.

These elements have allowed Moscow to absorb the initial impact of the sanctions and progressively transform its production system.

The Russian economy, therefore, still withstands the war. But it does so through increasing militarization, greater dependence on public spending, and the transfer of resources from civilian to military sectors.

It is not an economy on the verge of collapse, but neither is it a system without vulnerabilities. Growth slows, the deficit increases, credit remains expensive, and an ever-greater share of national resources is used to produce means destined for the front.

The decisive question is not only how long Moscow can continue to finance the conflict. It is necessary to ask what economy will remain for Russia when the war ends and how deep the imbalances accumulated during the transformation into an increasingly military-oriented production power will be.

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