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UKRAINE REPORT

Russo-Ukrainian War: The Political Economy of the Present Balance of Forces

Applying the metric of "money and people" to assess strengths and vulnerabilities as talks aimed at ending the war commence

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PeaceRep's Ukraine programme:
PeaceRep's Ukraine programme is a multi-partner initiative that provides evidence, insight, academic research and policy analysis from Ukraine and the wider region to support Ukrainian sovereignty, territorial integrity and democracy in the face of the Russian invasion. PeaceRep's Ukraine programme is led by the London School of Economics and Political Science (LSE) partnering with the Kyiv School of Economics (KSE) in Ukraine, the Leibniz Institute for East and Southeast European Studies (IOS) in Germany, the Institute of Human Sciences (IWM) in Austria and Jagiellonian University in Poland. Through our collaboration with KSE we work closely with researchers, educationalists and civic activists in Ukraine to ensure that policy solutions are grounded in robust evidence and are calibrated to support democratic outcomes.

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Executive Summary

- The balance of forces in the war is dynamic, not static. Ukraine, with regular financial flows from allies, has successfully "levelled" an otherwise starkly asymmetric war. The likely exit of the United States from the stage of Ukraine support does not make Ukraine doomed to defeat. But neither side have a viable theory of "total victory" at the present time, though the true test of the Russian regime's brittleness and war effort may come as its economic choices harden, possibly in the form of a banking crisis.

- All-out wars pose profound organisational challenges to states. War fighting states seek to develop and strengthen their power of "autonomous organisation" to drive resources towards the war effort, in the process reshaping their market economies.

- When it comes to mobilising the money necessary to fight the war, the Ukrainian and Russian sides have two different forms of external vulnerabilities: dependency on allies for funds (Ukraine) and dependency on oil rents (Russia). The war fighting states' capacity for "autonomous organisation" is shaped by these external dependencies.

- Ukraine's sources of external financing are secured until 2027. By contrast, Russia is in a potentially weaker position, as it is highly exposed to price volatility in global oil markets. Russia has been running down its National Wealth Fund to pay for the war, is locked out of international bonds markets through sanctions, and has become more import dependent since it launched the full-scale invasion despite the incentives that sanctions create to turn towards import substitution. A further downturn in oil market prices could lead to an acute balance of payment problem for the Russian regime.

- Both Russia and Ukraine have developed a "military Keynesian" economy whereby war related spending is crucial to supporting aggregate demand in the economy, thereby driving growth. But the distinct ways they have implemented this framework reflect differing regime dynamics (democratic/autocratic) and external environments.

- Military Keynesianism in Russia has quickly run up against supply side constraints to meet this demand. The initial boost to industrial output appears to be coming to an end. This boost has been far less dramatic an expansion than the post-COVID recovery. In effect, the war provided Russia with an impetus to reverse self-defeating austerity policies and only returned government spending to a 2016 level in real terms.

- Ukraine appears to be winning the battle for monetary stability. Russia and Ukraine's inflation adjusted interest rates have diverged markedly since the summer of 2024.

- Due to a splurge of subsidised politically directed lending to favoured firms (crucially in the defence production sector), alongside a radical tightening of monetary policy for the commercial civilian economy, Russia appears to be heading for a "credit crunch".

- Russia's economic stability to date has facilitated its mobilisation with large financial incentives driving armed forces recruitment. Ukraine is mimicking some of these incentives in its push to expand voluntary mobilisation to the 18-25 age bracket.

- Fragmenting geopolitics are reshaping the balance of forces in the Russo-Ukrainian War. The emerging international landscape is marked by the erosion of traditional alliances, intensified economic protectionism, and a shift towards state capitalism.

- Ukraine and Russia are both embedded closely in the geopolitical disorder produced by these shifts, which defines the context for any peace settlement and its instability.

- Many analysts view any future ceasefire as a temporary pause, arguing Russia's limited territorial gains relative to the war's high costs mean that it has insufficient incentive to negotiate seriously. This may prove to be correct. However, the problems facing Russia's domestic political economy could mean the regime's negotiation calculus may be shifting. Even the elites benefiting from the Russian war economy may have an interest in negotiations, given that Russia could preserve its militarised economy under a ceasefire, refusing disarmament while demanding it from Ukraine.

- At the same time, Ukraine's institutional resilience has prevented the kind of internal collapse Russia may have once hoped for. Rather than pursue a military breakthrough, Ukrainian government advocacy is now focused on security guarantees. In this context, the Trump administration's approach to the negotiations, entirely designed around "great power" bargaining and transactionalism, risks sidelining Ukraine. Negotiations should be firmly anchored in rights-based goals, including independent human rights monitoring in the occupied territories and the release of the captives of the Russian invasion.

Introduction

This research report uses the metric of “money and people” to assess the relative balance of forces in the Russo-Ukrainian War as negotiations to bring about an end to the war begin, though in the highly problematic form of exclusive bilateral talks between Moscow and Washington. Drawing on the historical sociology literature on the relationship between institutional change and state formation[1] in situations of armed conflict, and applying the framework of “military Keynesianism”, it develops the argument that both the Russian and Ukrainian sides have established relatively orthodox, state-led war economies but without the scale of centralisation associated with the paradigmatic examples in World War II. The metric of “money and people” is a shorthand to refer to the questions we should be asking to inform a comparative assessment of the economic resilience of the war fighting states. The terminology reflects a social understanding of the sources of power drawn on in all-out wars.

The report focuses on the global political economy of the balance of forces between the two sides, with some limited scoping analysis of key geopolitical ties in this context. It makes no assessment of the situation on the frontline, the military tactics of the two sides or the potential impact of technological innovation in military equipment. It also has little to say about the flow of military equipment to Ukraine and Russia from their allies. These are important questions that may play an important role in the outcome but are outside the scope of this analysis. Similarly, the report does not analyse post-war reconstruction, including the quite different meanings that are often given to “building back better” in Ukraine. This is likewise a crucial set of issues but not addressed in this report.

As a result of this emphasis, my analysis of the balance of forces is partial, focusing on the strength and vulnerabilities of the two sides as it pertains to the mobilisation of economic resources, including, in this context, the vital role of labour power. My use of the term “balance of forces” differs from how it is often used realist International Relations (IR) to describe a situation of relative equilibrium between two states with large concentrations of power. Instead, I am referring to a situation where two sides are involved in a struggle and seeking to force the other side to change their behaviour. This draws on a relational or Dahlian view of power as only appreciable and meaningful in the context of a concrete dispute.[2]

While power in a relational approach is multidimensional, potentially involving an infinite range of behaviours and assets, the focus in this report is on the dimension of “money and people”, and how this is leveraged behind the frontline, i.e., on the “home front”, in ways that are heavily shaped by the external dependencies on the global political economy. This also points to a need to consider how the two sides are balancing the distributional choices that war poses.

To make this assessment, I draw on publicly available data and secondary sources to develop a conjunctural analysis of which side is in the stronger negotiating position. Data analysed in this report is primarily macroeconomic, though I also make some use of wider conflict data.

War-making and State-making in Historical Sociology

Historical sociologists have long recognised that war poses fundamental organisational and resourcing questions to the warring parties that can incentivise institutionalisation. Wars can result in institutional transformation ("war made the state and the state made war", as Charles Tilly famously put it)[3], but only if the state is able to achieve a sufficient degree of autonomy from private interests. Tilly argued that the contentious process through which states are forged should really be seen as akin to an organised crime syndicate or protection racket, as state builders created institutional bureaucracies that facilitated their extraction of resources.[4]

Any actor preparing to fight a war has to recruit soldiers and provide them with the necessary resources they need, such as food, clothing, accommodation, transportation, armaments and the various other forms of logistical and infrastructure that armed forces require. To do this, they need to raise the money necessary to fund the mobilisation of these resources, either from the domestic economy or through external aid, loans, export income and other forms of financial flows.[5] A need for an administrative bureaucracy to manage the relationship between the civilian and military economy arises from the logic of developing this war fighting capacity.

Tilly observed that in the long European transition from feudalism to modern territorial statehood "[w]ar wove the network of national states, and preparation for war created the internal structure of the states within it".[6] As a framework of analysis this remains useful for considering the strategic problems and challenges that war-fighting parties face when they seek to mobilise the people and resources that require to engage in armed conflict.

Wars do not however always result in a pattern of "state-making" but can lead to "state un-making".[7] The majority of conflicts in the twenty-first century are de-institutionalising or what Mary Kaldor calls "new wars".[8] In these situations, violence is not mobilised for a political end as such but becomes a means of capturing resources from society, driving intractable conflicts. In some cases, those fighting wars do not necessarily have a strong incentive to create institutional bureaucracies associated with state-making. For example, where they have access to rents, or extract resources through informal channels,[9] the conflict produces a political economy antithetical to creating administrative taxation-based bureaucracies.[10]

Developing this social reading of war poses certain questions to assess the balance of forces:

- How effective are states in harnessing economic resources to their goals in the war?
- Are civilian needs being balanced against military ones? Is inflation – always a problem in wars, due to shortages – being controlled and monetary stability assured?
- Are resources being efficiently collected and administered through taxation?
- Is the mobilisation of conscripts for the war effort sufficient and how is this impacting the labour requirements of the wider economy?
- How do the external (i.e., international) relations of the war fighting parties shape their strengths and vulnerabilities? And what dependencies do these relations create?

This report develops a conjunctural assessment to address these questions, identifying some of the relevant factors and data points that can contribute to developing a holistic analysis without assuming to constitute a definitive answer.

Drawing from Tilly, the report uses the concept of the state's *capacity for autonomous organisation*.[11] This refers to the extent to which the institutional structures of the state and those that hold power within it are able to dominate and control private interest groups.

Identifying a state's capacity for autonomous organisation in relation to private interests is, within Tilly's framework, not a normative concept but a framework that can be used to analyse both democratic and authoritarian states. A democratic state with rules-based institutions that can uphold public interest may enjoy substantial bureaucratic resources and have a high capacity for autonomous organisation. An authoritarian state which is highly kleptocratic with rules resembling a mafia-like institution may also be able to wield substantial autonomous and bureaucratic organisational power. Furthermore, both democratic and authoritarian states may succumb to patterns of "state un-making" or deinstitutionalisation in some circumstances.

As the martialling of this power for autonomous organisation is critical to prosecuting a conventional war, we can judge both democratic and authoritarian states according to this metric: the question of how successfully they organise “people and money” for their aims.

This concept is important in relation to Russia and Ukraine because of the economic failure of their transition from the Soviet Union. Both countries experienced a problem of kleptocratic takeover whereby the state lost its capacity for autonomous organisation in the 1990s. The Putin regime made use of oil and gas rents to recover from the post-Soviet crisis, in the process disguising the failure to develop the wider productive economy. Russia’s transition to a petrostate economy contrasts sharply to Ukraine’s long-term de-development (Graph 1). As the state restored its power for autonomous organisation under Putin, it became central to the management of the kleptocratic rent distribution system defines the Russian economy, whereby internationally competitive, mostly fossil fuel, sectors subsidise the rest of the economy.[12] This wealth has also enabled its external intervention in a number of states and de facto states internationally.

Graph 1 – Source: World Bank

Ukraine's Challenges of Wartime State Formation

Russia's clear advantages of scale and power means that our starting point has to be that the balance of forces in the war is fundamentally asymmetric. For Ukraine, the full-scale Russian invasion of February 2022 represented a pivotal moment for state and society relations. The state had to establish a primacy over market relations, protect its control of Ukrainian territory from the invader, strengthen its autonomous organisation and assert its predominance over civil society and the economy by prioritising the war-effort.[13] If the state was successful in achieving these goals, it could defend its territory and potentially address the problem of weak institutions that has blighted the country's post-Soviet history.

Ukraine's strikingly successful resistance, especially in the first two months of the war at the point of maximum asymmetricity, prior to the inflow of significant military and financial aid, demonstrated the role that popular mobilisation around democratic goals can play in strengthening state capacity. But, as Volodymyr Artiukh and Taras Fedirko argue, this transition to state making contained a number of ambiguities and dependencies that shape Ukraine's on-going pattern of state formation.[14] Ukraine has embarked on a campaign of tax revenue mobilisation to support the armed forces and defence industry, but, due to Russia's asymmetric advantage, this is insufficient to fund the war effort, making Ukraine dependent on external transfers from allies.

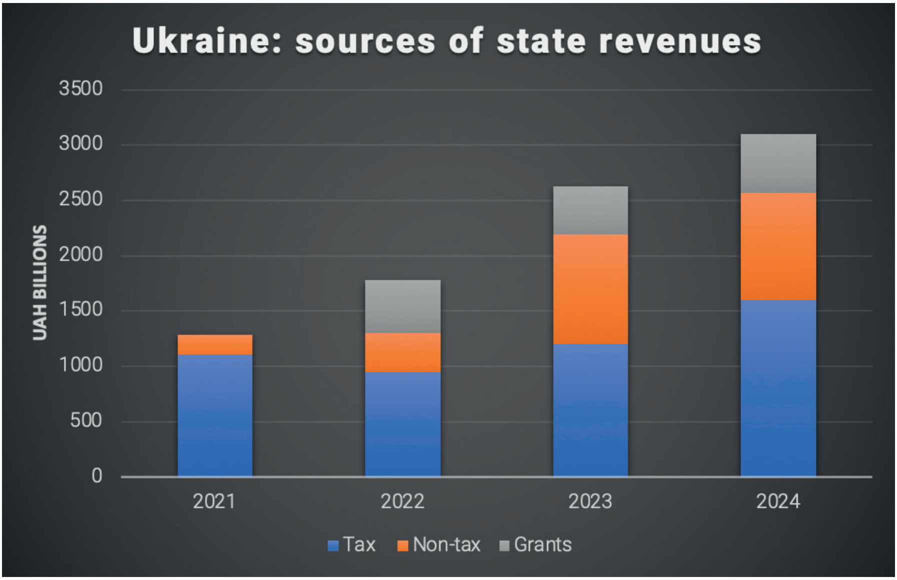
At the same time, state-society relations have also changed internally. Ukrainian citizens that were typically distrustful of the state – seeing it as a site of kleptocratic influence peddling and corruption – rallied behind its resistance to the Russian invasion. But the development of this social contract is profoundly non-linear, with many ambiguities remaining. From ongoing concerns about corruption and the distrust of officials, to the complex relationship of Ukrainian civil society to the state (e.g. these networks are sometimes insiders and other times outsiders of politics, sometimes implementers of state projects, other times the scrutinisers of them, etc.), all serving to complicate Ukraine's new social contract.[15] This means that Ukrainian state making is imbricated in two parallel relationships that its leaders manage: (a) an internal one with citizens and (b) an external, dependent, one with their geopolitical allies. Both these dimensions provide the resources – through tax and donations to the armed forces and aid and loans, respectively – that are critical to Ukraine's war effort.

Tax Revenue Mobilisation and External Dependencies

Ukraine's Tax Mobilisation marks a shift in its pattern of State Formation

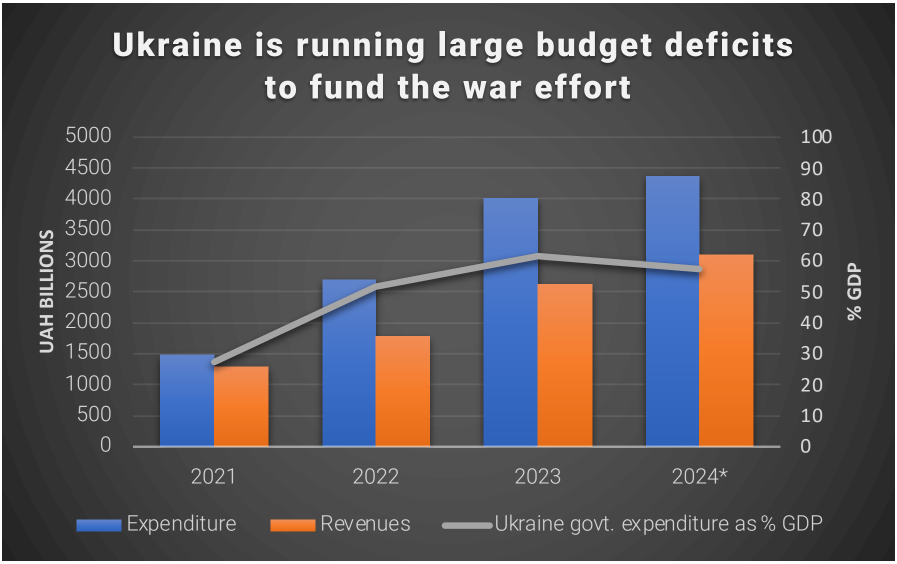
At the outset of the full-scale Russian invasion, the Government of Ukraine initially sought support from international donors for far-reaching tax cuts in the hope of stimulating private sector demand, implying a risky experiment in wartime market economics.[16] In practice, however, the combination of war-related risks to investment, the need for cheap credit and subsidies to support the private sector, and the huge increases in military spending, all put the state at the centre of Ukraine's political economy. Funding these policies while ensuring monetary stability required tax revenue increases. Under pressure from key donors, notably the IMF, the Ukrainian government moved to raise, not cut, taxes. The *National Revenue Strategy 2024 – 2030* adopted in December 2023 aligned with the expectation of state-making theory in times of war, establishing goals of improving administrative bureaucracy, unwinding tax loopholes, and returning to Ukraine to a moderately progressive income tax scale.[17]

Ukrainian citizens also responded to the threat posed by the war by rethinking their relationship to the state. Taxation revenues fell at half the rate of GDP in 2022, a phenomenon The Economist described as "patriotic Ukrainians rushing to pay their taxes".[18] Since then they have not only seen strong growth, but Ukrainian citizens have also been making significant voluntary donations to the armed forces, contributing to the sharp growth of "non-tax" revenues (Graph 2). No matter how great the popular response in society is, though, Ukraine does not materially have the funds to cover the costs of the war effort from domestic sources.



Graph 2 - Source: Ukrstat / KSE Institute

Ukraine's gross domestic savings rate (the difference between its GDP and its final consumption expenditure, indicating the funds available for investment) went negative with the full-scale Russian invasion.[19] This showed that Ukraine's was consuming goods and services – including military spending – at a level greater than its annual output. External support in the form of grants and loans from allies were necessary to make up the difference, creating a fundamental source of geopolitical dependency on allies for Ukraine's ability to fight the war.



Graph 3 - Source: Source: Ukrstat / KSE Institute. *2024 GDP estimated.

In financial revenue terms, however, Ukraine is largely protected from the present geopolitical headwinds (see pages 38 to 41). The EU Ukraine Facility and Extraordinary Revenue Acceleration (ERA) programme, the latter comprising grants and loans derived from sanctioned Russian assets, should provide Ukraine with funds through to the end of 2027.[20] In December 2024, the Biden administration transferred $20 billion ($15 billion in grants, $5 billion in loans) to the World Bank that is administering the fund created through the ERA programme. This astutely protected the funds from the Trump White House.[21] If the war were to come to some form of conclusion in 2025, these funds would play a central role in maintaining a large deterrence-based military force while also managing a stable transition towards a civilian economy and meeting the country's significant reconstruction costs.

Russia's Oil revenues are a source of both Strength and Vulnerability

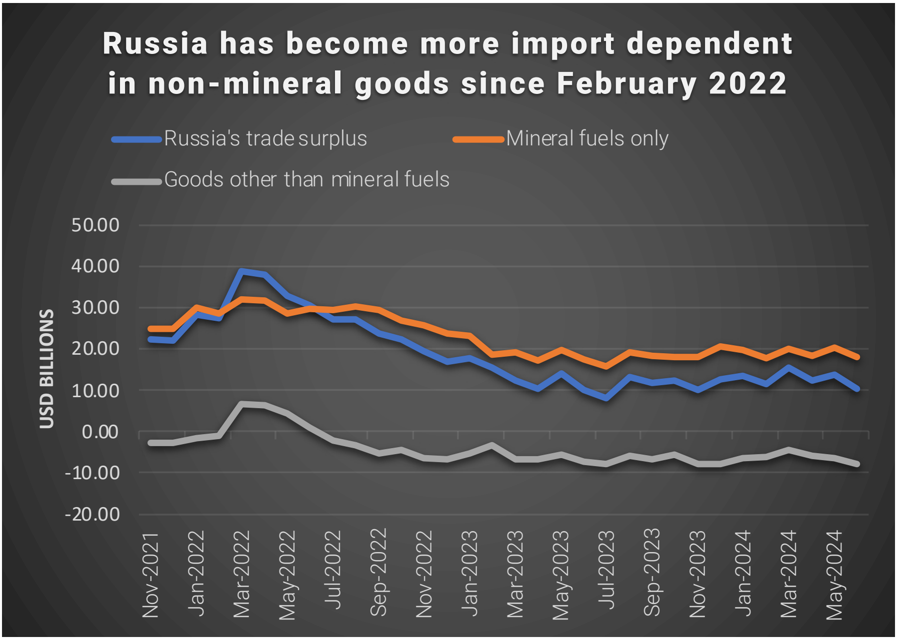
In Russia, we can observe a similar tendency towards tax revenue mobilisation. In July 2024, new tax legislation was signed into law that included increasing corporation tax from 20 to 25% and introduced a moderately progressive tax scale, from 13% to 22% for higher income earners.[22] Unlike Ukraine, however, Russia is able to significantly reduce the financial costs that the civilian population have to pay for the war due to its access to oil and gas rents. This comes with the cost however of exposing it to price volatility in global markets. Indeed, while sanctions have placed a cordon sanitaire around the Russian economy and the western-dominated global financial system, this does not make its economy autarchic. Russian oil and gas revenues have typically contributed 30% to 50% of government revenues in the last decade (only falling below this level in 2020 with the COVID-19 induced collapse in economic demand). The war-related energy crisis of 2022 led to a surge in income for the regime, before these revenues fell back to 30% in 2023 and 2024.[23] To put this in context and underline Russia's petrostate character, this proportion is higher than revenues from all forms of personal income taxes in the 2024-25 UK budget (at 27% it is the largest single contribution).

Access to these oil and gas rents have, in turn, a distorting effect on the wider Russian economy. Revenue generated from these mineral assets creates a system of dependencies, as sectors that are not revenue generating are sustained by the distribution of these rents.[24]

This rentier structure is also reflected in Russia's balance of trade. Indeed, despite the incentive to import substitution created by sanctions, the Russian economy appears to have become more import dependent in non-fossil fuel sectors since it launched the full-scale invasion. Russia's trade surplus in mineral products (i.e., oil and gas) funds its trade deficit in non-mineral products. While the regime has not been publishing trade data since February 2022, estimates from Bruegel based on Russia's 38 largest trading partners underline the economy's fundamental dependency on fossil fuels (Graph 4). As a result, Russia is exposed to price volatility in international markets. Inflated prices allow it to fund the war effort and manage the impact of sanctions, but deflated prices force harder distributional choices.

Importantly, Russia is not a very cost competitive producer even in normal market conditions, i.e., prior to the introduction of the post-2022 sanctions regime. According to analysis undertake for Saudi Aramco in 2018, Russia's estimated post-tax average breakeven cost for new drilling projects to 2030 (assuming a 10% discount rate), is just over $40, around double the ultra-competitive Gulf producers, whose oil is very cheap to extract.[25] Sanctions have added to these costs in several ways: increasing transportation and insurance costs, and driving up capital costs with the withdrawal of western firms from the Russian market, and the $60 price cap. A Yale study from 2023 estimated the increased costs that this has entailed for Russian oil production could mean that it requires a price as high as $80 per barrel.[26] This estimate seems high and should be treated with considerable caution given that oil industry data is largely classified in Russia, making independent verification of the costs of production under sanctions impossible. In addition, the estimate of Russia's non-sanctioned new drilling costs is from an investor briefing by a competitor producer, and should therefore also be treated judiciously. Still, current market prices seem likely to pose a profitability challenge for Russian production. Between March 2024 and March 2025, Russian oil on the Sokol index has been volatile but trending downwards, from $75 to $66 per barrel at the time of writing.[27]

As the majority of Russian gas is consumed in the domestic market, oil provides the most important source of foreign earnings, which it requires to finance the trade deficit in non-mineral products. This fundamental dependency on fossil fuels in a time of global energy transition makes Russia poorly equipped materially to address medium- to long-term strategic challenges. For example, International Energy Agency estimates for market trends suggest that global supply capacity will outstrip demand by 8 million barrels per day by 2030.[28] This poses a particular problem for Russia given its relatively expensive costs of extraction.



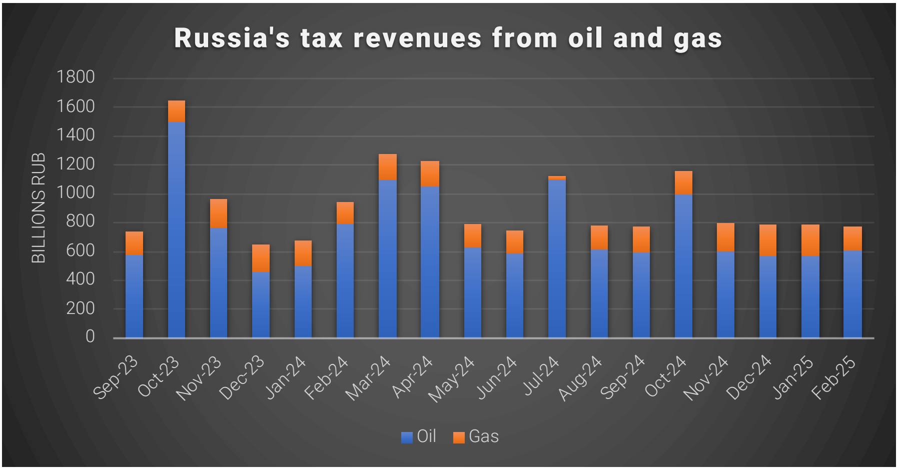
Graph 4 - Source: Bruegel Russia Trade Tracker

Russian Ministry of Finance data (which also cannot be independently verified) does show that state revenue income from oil and gas is falling (Graph 5). The squeeze on the Russian economy can be seen in the overall narrowing of its balance of payment position. In the last quarter of 2024, Russia's current account surplus fell to $4.8bn, its lowest level in four years.[29]

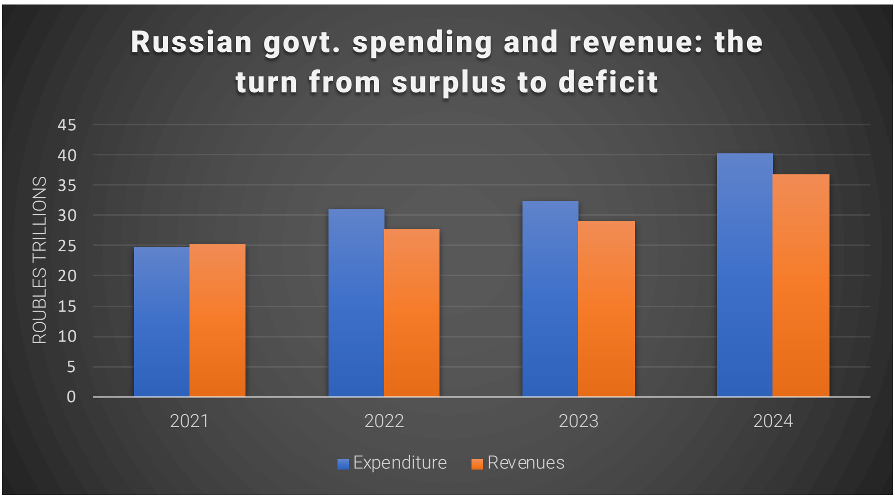
Tax revenues have not been sufficient to fund Russia's military spending. To make up the difference, the regime has been running relatively modest deficits (Graph 6) (while also, as we will come onto below, sharply increasing lending from state owned banks to defence firms).

As Russia is cut out of international bond markets as a result of western sanctions, it relies on domestic sources to fund the deficit. As a result, Russia has been drawing down liquid assets in the National Wealth Fund (Graph 7). It has also been issuing domestic government bonds. Although in October 2024 the Russian state had to cancel auctions due to a lack of demand, it has been more successful in its last fundraising round. Up to and including the 5 March 2025, the Ministry of Finance reported issuing bonds that had a value of just over 1 trillion Russian Roubles.[30] With weighted average yields in the region of 15% to 17%, these are high interest loans [31] but below the Central Bank of Russia rate (21%). This success may have a geopolitical component. The American pivot to Russia under the Trump administration, and the related expectation for a ceasefire agreement, has sent positive signals to financial markets, reflected in a modest but sustained rally of the Rouble in in the first quarter of 2025.

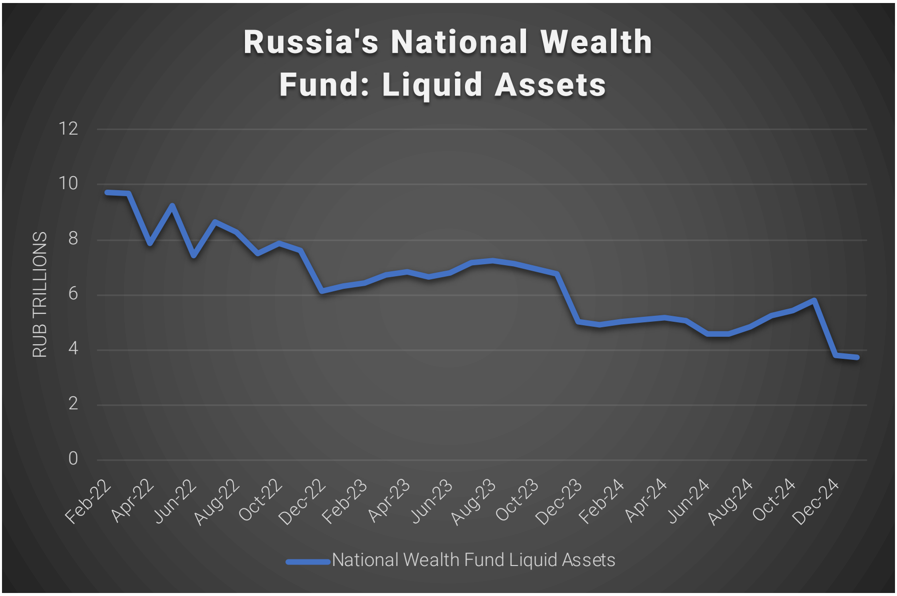
Ukraine, like Russia, has been borrowing from domestic bond markets, and at a weighted average yield of 16.01% in February 2025,[32] it was paying slightly more than the Central Bank rate (14.5% in February 2025, rising to 15.5% in March 2025). As war-fighting states are fundamentally riskier debtors vis-à-vis states not fighting wars, access to such “structurally scarce” [33] financial power is costly. But the inflow of aid and concessional loans from Ukraine’s allies alters these risks for the state dramatically, effectively substituting vulnerability to market power with a form of geopolitical dependency. Still, the point remains, that as wars give rise to scarcity, those that control resources – like money/capital – required for the war effort, can extract rent from states.[34] The ability of a state to manage these inevitable rentier demands during wartime is therefore a test of its autonomous organising capacity.



Graph 5 - Source: Bloomberg / Russian Ministry of Finance



Graph 6 - Source: Russian Ministry of Finance (nominal, i.e., not inflation adjusted)



Graph 7 - Source: Trading Economics / Ministry of Finance

Military Keynesianism in Ukraine and Russia

Wars bring about a shock to the functioning of the economy due to their impacts on both demand and supply. The fundamental risks to people and property in conflict situations has a freezing up effect on markets. Demand for goods and services falls as investment stagnates, incomes decline, and citizens are externally displaced. At the supply side, production is impacted through the mobilisation of the labour force for the armed forces, the occupation of territory, loss of workers to external migration, and the physical destruction of fixed capital.

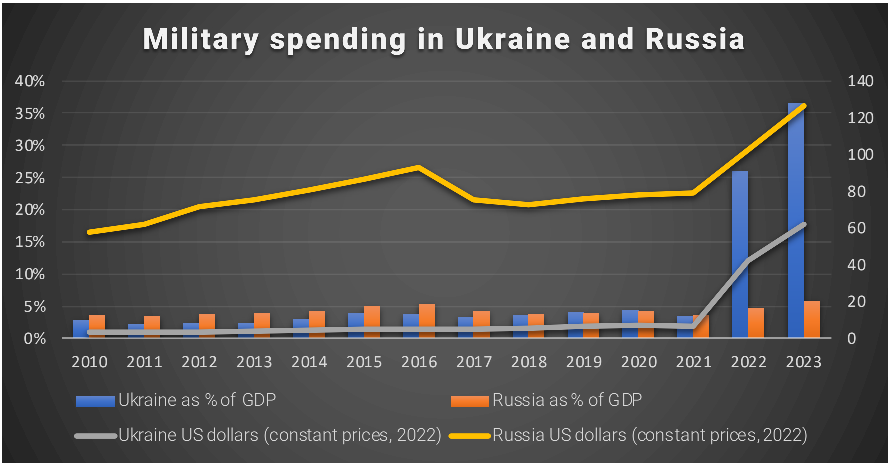
To deal with these problems, both Russia and Ukraine have utilised a “military Keynesian” framework,[35] with war-related spending driving economic demand (Graph 8). Military Keynesianism refers to a situation of government reliance on “expanded military allocations to ensure an adequate level of aggregate demand” in the economy.[36] In some respects, the framework implemented is similar across the two war-fighting states: both have sought to maintain functional markets in the non-militarised economy; and both have faced supply side challenges in their ability to meet the demand generated by the war effort. The latter have created “wage premiums” in sectors experiencing shortages of labour, which, in tandem with military salaries being above average pay levels, have driven a dynamic of consumption-led growth. For businesses these short-term rising costs can incentivise investments in longer term productivity gains. However, whether this creates a favourable economic environment depends on how serious the labour shortages are and the extent to which they constrain output (see below), which impacts the investment environment.

Ukraine and Russia also have a large number of state-owned enterprises (SOEs) but with a different trajectory prior to the full-scale invasion: in Russia, the trend has been towards renationalisation and consolidation of SOEs, as a means of state control over the economy; in Ukraine, political discourse tends to focus on reducing the role of SOEs through privatisation. Still, in both states, SOEs have been critical to the war effort; in the Russian case, they account for the bulk of the defence sector, while in the Ukrainian case, the war effort is shaped by a more mixed economy with a proliferation of drone start-ups operating alongside the traditional defence sector at the centre of which is Ukroboronprom, the large state-owned conglomerate.

Both the Russian and Ukrainian sides face the problem that the use of military Keynesianism involves a dramatic expansion in the military industrial complex and potential rentier dynamics. As military production involves markets of one or few buyers, they are fundamentally uncompetitive, requiring the state to intervene to control the prices and organisational structures of these supply chains.[37] These oligopolistic markets can be prone to rent capture. They also generate interest groups and networks with a material interest in influencing politics by shaping security policy and the threat perceptions that guide it.[38] The Keynesian multiplier effect from expanding military allocations is also inherently weaker than civilian spending because it offers little improvement in the capacities of the wider economy.[39]

Ukraine has two protections against these dynamics: (a) its liberal institutions, strong civil society and culture of democratic competition; and (b) its pathway of integration to European institutions. On the Russian side, by contrast, the militarisation of its economy and its financial isolation expands the elite networks dependent on oil and gas rents, as the critical source of external revenue. The war has therefore further centralised the system, increasing dependency of elites on the Kremlin, while at the same creating a totalitarian domestic context for dissent. While the expanded military industrial complex could create an incentive structure hostile to peace negotiations in Russia, it seems plausible that the militarisation of the economy would remain a priority in a post-war situation regardless, justified by the “threat” from a “Nazi” West.

As this suggests, Ukraine and Russia’s use of military Keynesianism and its challenges needs to be contextualised in light of the differing institutional dynamics and regime types of the two states.



Graph 8 - Source: Stockholm International Peace Research Institute

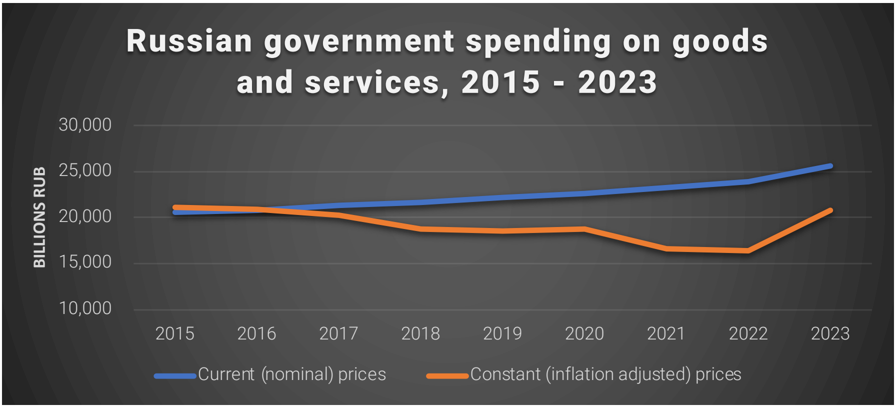
Supply Side Limits on demand-led War Economies

Military Keynesianism starts from the assumption that increases in government spending can make up for the fall in the private sector's contribution to aggregate demand.[40] The extent to which a state is able to do this depends however on the ability of the economy to meet this economic demand. Sceptics of "military Keynesianism" as a paradigm for Russia identified this at a relatively early stage of the public discussion. As Nick Trickett argued, in 2023:

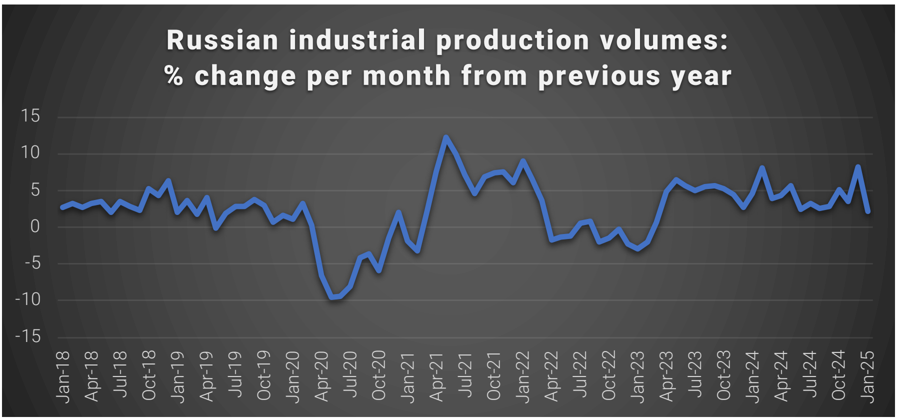
> *"[T]he [Russian economy has been systematically starved of demand for 15 years through the application of punishing austerity measures in the name of 'stability' at the expense of productivity, productive capacity, and public welfare. The comparative boost from spending on the war seen in the last 18 months underscores a longer-term crisis of underconsumption".*[41]

This point can be illustrated by data on government spending in Russia. Once adjusted for inflation (constant prices) government spending was actually trending downwards prior to 2022 (Graph 9). The full-scale invasion provided a much-needed boost – in, of course, an extremely regressive form – to aggregate demand in the Russian economy. Even then, however, this only returned overall government spending to around its 2016 level (Graph 9).

Trickett's argument was that such a radical u-turn in policy would quickly run up against the structural ability of the economy to meet this expansion in demand.[42] James Galbraith put forward the counter-position, also in 2023, that sanctions would act as a "tariff wall" with Russian firms that had been uncompetitive vis-à-vis imports now incentivised to enter these markets, increasing industrial production. Sanctioned Russian oligarchs were also repatriating what capital they could back to Russia, where it would be invested domestically. This meant, Galbraith argued, that as "long as internal demand is maintained – a crucial caveat – in a large market economy like that of Russia" the sanctions regime would be a net benefit, a situation he contrasted favourably to Europe's dependency on energy imports.[43] Two years on, this argument has been resolved in Trickett's favour. Russia's trade deficit [44] in non-mineral products has widened (Graph 4). Accordingly, importers have confounded the "tariff effect" of sanctions, becoming some of the chief beneficiaries of the expansion of aggregate demand with the war.[45] From July 2023, the Russian economy did achieve industrial production volumes growth higher than in the pre-COVID 19 period. However, the growth impact of the military stimulus was much less pronounced than the post-COVID recovery (Graph 10).



Graph 9 - Source: Trading Economics / Russian Federal State Statistics Service



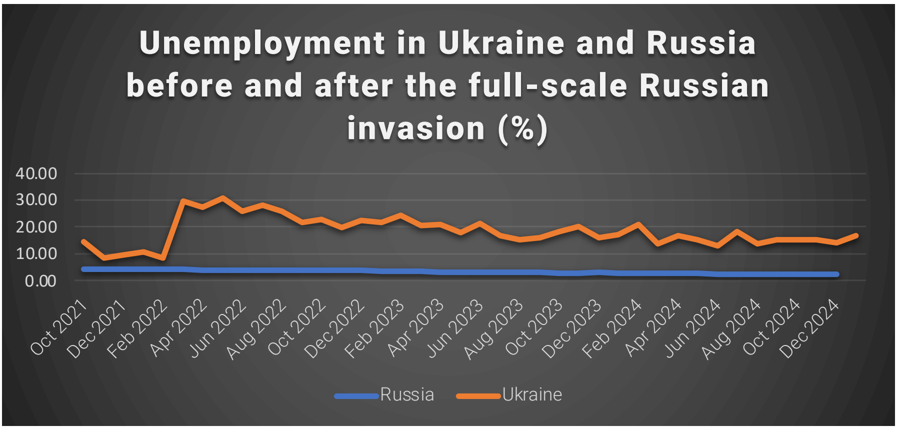
Graph 10 - Source: Trading Economics / Federal State Statistics Service (Russia)

The trend now is towards stagnation in economic output. Fundamentally, the dominance of fossil fuel production in Russian industry means that falling demand for oil, of the type we are witnessing at the current conjuncture, would nearly always result in an overall fall in production volumes, regardless of whether government spending was fiscally expansive or not. The dependency on oil revenue remains, then, the overriding feature of the Russian economy. As Russia needs to finance its import dependency in non-mineral sectors, the fall in its current account surplus to its lowest level for four years in Q4 of 2024 represents a serious problem for the Russian economy, raising the spectre of a potentially painful readjustment.

Financial sanctions mean that it does not have access to the credit lines to fund a current account deficit. “Not even Chinese banks are comfortable extending large lines of yuan”, into the Russian economy, writes Trickett, despite the currency dominating what’s left of the foreign exchange market.[46] The Russia-based Centre for Macroeconomic Analysis and Short-Term Forecasting, in their January 2025 update on the dynamics of industrial production, identify a trend to stagnation that they attribute to the tight monetary policy along with the sanctions regime.[47] In response to the war’s inflationary pressures and the government’s expansionary fiscal policy, the Central Bank of Russia has aggressively raised interest rates. In these credit conditions, Russia’s businesses may now face a wave of bankruptcies that will further reduce output in the economy as a whole.[48] But, as discussed further in the next section, this dynamic is complicated by the existence of what are, in effect, two parallel Russian economies, one with access to rents and the other without rent access.

Both the Russian and Ukrainian economies have faced the issue of needing to find enough workers with the right skills to meet war demand, a challenge attenuated by the mobilisation of personnel for the armed forces. But the situation is quite different across the two war economies (Graph 11). In Russia, near full employment places a clear supply side limit on the economy’s further expansion and stokes inflationary pressures. In Ukraine, high structural unemployment goes alongside many enterprises reporting problems recruiting workers, with contributing factors including skills mismatches and sectoral specific shortages, higher levels of unemployment among IDPs, and other war-effects such as a rise long-term sickness.[49]

There is also some uncertainty over the estimates. The State Statistics Service of Ukraine has not been publishing official data since the full-scale invasion and the war impacts on the population (such as external displacement) pose a problem for representative sampling, especially as Ukraine does not have an up-to-date census. Derived from telephone polling, the figures could also be distorted by a rise in informal work as a means to avoid the military draft. Anecdotally, both trade unions and business leaders in sectors experiencing shortages express scepticism that unemployment could really be as high as the data suggests. Notwithstanding these caveats, Ukraine's labour market is clearly less tight than Russia's.



Graph 11 - Source: Centre for Economic Performance/Sapiens (Ukraine) and Trading Economics (Russia).

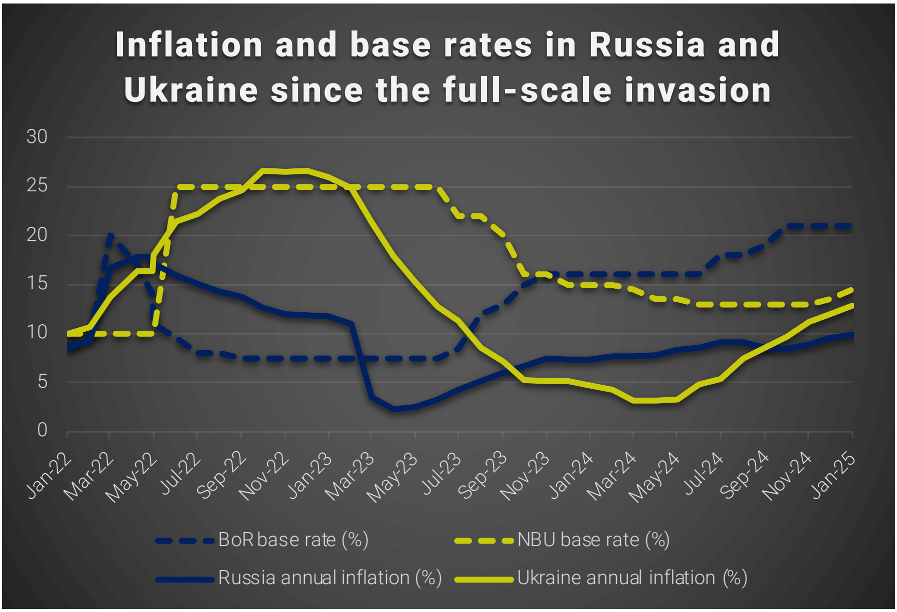
Battle for Monetary Stability: is Russia facing a Credit Crunch?

Monetary stability is a fundamental risk in wartime due to the shortages and dislocations that conflicts produce, driving up prices to the benefit of those that control access to these scare assets. In the global energy price shock of 2022, for example, producers with low costs or traders that bought assets at the previous year's prices were able to bank extraordinary profits.[50] Recognition of such problems led to the allies in World War II utilising sweeping interventionist methods, with prices set by committee and resource allocations planned across the economy.[51] These changes reflected the state of exception that the war brought about – the sense of existential threat – that led market relations to be heavily constrained by a highly 'directive' state. Neither Russian nor Ukraine has utilised such measures. Both states have sought to limit the war's impact on large parts of the economy, maintaining functioning markets and relying on conventional monetary policy, i.e., high interest rates, to fight inflation.

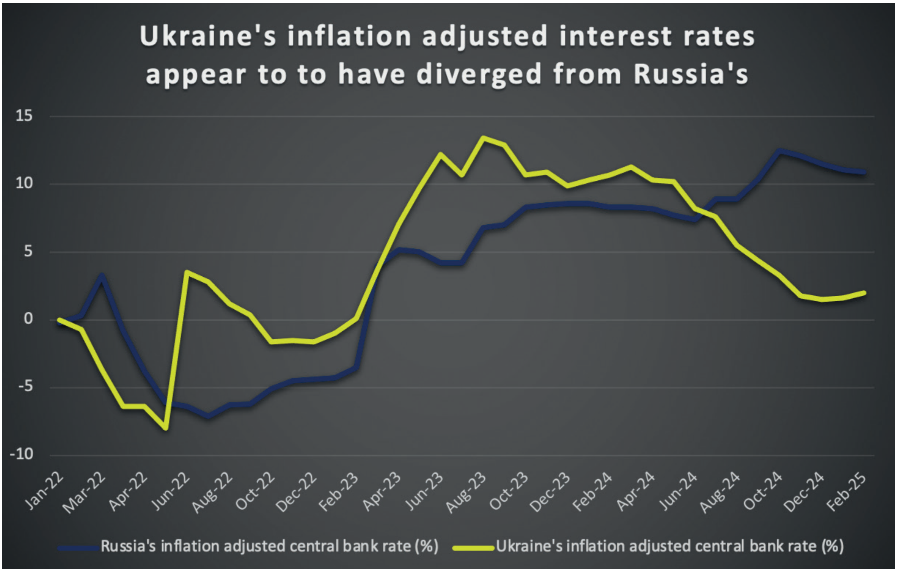
In the previous section, we discussed the problem that Russia faces in relation to inflation as one of supply side constraints. Russian policy makers have also diagnosed this correctly. Putin himself has even said that "the fight against price increases must be primarily achieved by increasing the supply of goods and services so that their volume meets both consumer and investment demand".[52] But they have limited room to manoeuvre on this front, given the labour shortages in the economy. The Russian regime has also made moderate interventions in the market to control food prices. As of December 2024, 38 out of 41 Russian regions were utilising wartime law that permits them to actively enter into agreements with local suppliers and producers to limit food price rises.[53] Ukraine has experimented with different but similarly limited price mitigation measures. The government introduced laws limiting markups of some critical goods to 5% including a number of food, medical and energy related products, but withdrew these in May 2024. The Ukrainians maintain a mark-up limit of 10% on some foodstuffs.[54]

To contrast the Ukrainian and Russian sides' record on maintaining monetary stability we can review (a) the official inflation rates and base rates (Graph 12) and (b) the inflation adjusted central bank rate, defined as the base rate minus the inflation rate (Graph 13). Reflecting its petrostate character, Russia's initial success in bringing down inflation and interest rates at the outset of the full-scale invasion was enabled by the spike in mineral rents in the energy crisis.

As David Lubin has argued, this maintained Russian access to convertible foreign exchange currencies, which still accounted for 50% of export revenue in 2022. As a result of the diversification effort by western states, this had fallen to 10% by the close of 2024.[55] The resulting lack of dollars in the foreign exchange market and the inflationary pressures caused by the war have led the Central Bank of Russia to use to a very high inflation-adjusted interest rate, with the aim of supporting the Rouble and taming price rises in the domestic economy.



Graph 12 - Source: Trading Economics



Graph 13 - Source: Trading Economics

This situation contrasts sharply to a Ukrainian economy kept afloat by an abundance of hard currency inflows from its western allies. Since October 2023, the National Bank of Ukraine has been able to run a lower base rate to the Russian side (Graph 12) and since July 2024 the inflation-adjusted central bank rate has also been lower in Ukraine (Graph 13). Russia's very high inflation-adjusted central bank rate provides an indicator of the credit situation for businesses. It is notably high by international standards (Lubin shows that it amounts to, by some distance, "the world's tightest monetary policy")[56]. Comparison with any other economy, of course, generates the problem that Russia is in no respect a normal market economy. It is fortified against the western dominated trade and financial system by a very radical sanctions regime, is heavily dependent on the distribution of fossil fuel rents through the economy by a kleptocratic regime, and is fighting an all-out, high intensity war in a neighbouring state.

As Yakov Feygin emphasises, these conditions mean that the sources of price pressures in the economy are to a large degree politically induced. This comprises several elements:

- the impact of the financial incentives used to bring workers into the armed forces and military industrial complex into the labour market;
- the higher costs of production that arise from sanctions, for example through supply chain disruption; [57] and
- the massive increase in the money supply in the economy – measured as the monetary aggregate M2, which nearly doubled between 2022 and 2024 – in order to fund the war effort and support aggregate demand.[58]

The latter, in particular, puts the economy in a fundamentally inflationary position.[59] The regime and Central Bank of Russia are attempting to place the burden of suppressing inflation onto the civilian, not war, economy. In a sign of the hardening of these trade-offs, in July 2024 Russia withdrew its subsidised mortgage scheme, which had been offering loans at 8%, a move made in tandem with its shift towards tightening monetary policy (Graphs 12 and 13). A zero-sum logic has thus developed between the military industrial complex funded through rents and the civilian businesses and citizens without rents that face very high borrowing costs.

Many Russia experts are also sceptical of the official rate of inflation and the idea that military Keynesianism has turbo charged working class incomes. Jeremy Morris draws on his network of in-country interlocutors to temper the idea that formally robust real wage increases for those on very low incomes will be meaningfully experienced as such by this stratum. He argues that a high percentage of a small number is still a small number and years of above -inflation increases would be required to address the hardship in the population.[60] He cites Natalia Zubarevich who, in 2023, pointed out that 40% of Russians still have lower real terms incomes than residents of the Russian Soviet republic in 1991.[61] This nuance underlines the broader point that the political economy of the Russian war effort poses distributional choices, which will be increasingly difficult for the regime to manage as the war continues in 2025.

The complexity of this situation however lies in the fact that the conventional monetary tool of changing the best rate does not have the effect of altering the lending conditions for much of Russia's kleptocratic economy. This is due to banks providing below market rate loans to politically favoured enterprises, a feature of the division of the Russian economy into revenue generating and rent dependent sectors.[62] Thanks to Craig Kennedy's excellent recent report, *Russia's Hidden War Debt*,[63] we now have a much clearer appreciation of the extent to which the regime has been radically prioritising the military industrial complex and the implications this has for the Russian financial system. From July 2022 to November 2024, Russia has seen an explosion in the issuing of corporate bonds. With a value of ₽36.6 trillion, this has made up a large composition of the overall expansion in money supply, equivalent to "1.9 times the size of the defence budget for the same period, 7 times what the state had borrowed and 21.3% of 2023 GDP" (nominal).[64] Unlike consumer credit, which fell sharply with the end of mortgage subsidies, the corporate bond market expansion has proven resilient to base rate hikes. Kennedy shows that the reason for this is Russia's network of state-favoured borrowers:

> "Russia's rate-insensitive corporate borrowers are companies that tend to do government contract work in certain unspecified sectors; in connection with those contracts they receive state-directed, preferential bank loans—routinely with subsidized interest rates; and their relentless demand for credit during the second tightening round (August – October 2024) was so strong that it pushed corporate borrowing to a new 3-monthly record, even as incremental demand from at-market borrowers dried up".[65]

Although this dynamic reflects the rentier character of the Russian economy, it also responds to a general problem that the mobilisation of resources for wars poses in a capitalist economy. War economies are fundamentally non-competitive in nature because of the inherent uncertainty that characterises violent conflict. If a firm producing armaments for the war effort was borrowing at commercial rates on the basis of sales to the Russian armed forces, the costs would reflect the possibility that the war could come to an end, thereby reducing demand for the goods, lowering the firm's revenue streams and ultimately their value to the financial sector as a borrower. This is a general problem of wartime economics.

When European states attempted to raise artillery munition production to supply Ukraine, they were reluctant to provide producers with long term contracts, disincentivising a largely privatised sector from making the capital investments required to upscale production. According to Andrius Kubilius, the EU Commissioner for Defence and Space, as a result of this only 20 to 25% of the shells that the European Union are providing Ukraine are actually manufactured in the bloc.[66]

In the Russian case, rather than keeping the spending on the government's books, which may have raised questions regarding the state's ability to sustain such a costly war, the regime neatly removed many of these costs from the state balance sheet altogether, placing them instead on Russia's highly concentrated and mostly state-owned banking system.[67]

This explosion of base-rate impervious and politically directed borrowing has led the Central Bank of Russia to warn of the twin-risks of inflation and a system banking crisis.[68] The Russia-based Macroeconomic Analysis and Short-Term Forecasting Centre has also assessed the risk of a system banking crisis as "highly probable in the future". Interestingly, their focus is on the commercial-rate lending economy. They highlight several risk trajectories at play: (a) the sharp falling off of new lending to consumers and businesses; (b) exhaustion of the banking sector's regulatory capital reserves; and (c) the risk of growth in defaults in the context of very tight monetary policy.[69] Now, interestingly, it is possible that both Kennedy and these Russian economists could be correct: the corporate bond market could be full of junk bonds that are not being valued as such due to their politically directed character, creating an unusual source of financial market instability (Kennedy); and the high interest rates in the commercial lending economy could be putting severe pressure on bank balance sheets (Russian economists). If true, this would mean that the Russian banking system is now characterised by a state of disequilibrium between two parallel economies, only one of which is fully market responsive.

The regime could, of course, be successful in managing these trade-offs. The Central Bank of Russia will be hoping for a "soft landing" with falling output loosening the labour market and giving them the space to bring down the base rate, easing pressures on commercial debtors. The regime also might get lucky with a Putin-sympathetic White House moving from a ceasefire agreement to the easing of financial sanctions. The re-entry of Russia into the international sovereign bond market could for example provide a critical source of funds.

How Russia would manage a systemic banking crisis were it to arise is however the critical strategic question of the current moment. In a salutary warning, Adam Tooze has argued that such a crisis could "be contained by decisive action by the monetary authorities" with a massive injection of liquidity to stabilise the banking system.[70] He also identifies that the cognitive and behavioural element of such a credit crunch means the mere discussion of the possibility can trigger financial markets, effectively becoming a factor in its emergence.[71] But the recognition of this risk – the lack of shock factor – also allows the regime to plan its response. Russia would likely model its response on its reaction to banking crises in 2008 and 2014-2015, both driven by falling oil prices, underlying Russia's central external vulnerability.

There are two caveats to looking at these precedents: the first is how the Russian regime's own learning from these crises shapes the present moment; the second is the severity of the sanctions placed on the regime after the full-scale invasion that limit its room for manoeuvre.

In their important article on the dynamics of the 2014-2015 financial crisis, Ilja Viktorov and Alexander Abramov highlight how the Central Bank of Russia's experiment with heterodox monetary policy after 2011, which imitated policies pursued by western central banks with hard currencies, deepened the banking system's financial fragility and failed in its objective of improving credit conditions for enterprises in the real economy.[72] Somewhat predictably this failure was due to Russia's lower tier status in the global financial hierarchy, which shaped the behaviour of the banking system. Recognising that the gains from speculation were greater than lending to the domestic real economy, the banks utilised the injection of liquidity to engage in currency arbitrage against the rouble. So, perversely, the central bank was, in effect, funding an attack on its currency by a largely state-owned banking system.[73] The authorities' response to this dynamic was to move away from central bank refinancing towards injections of liquidity by the executive branch.[74] This further consolidated central state control over the financial system and its dependency on oil rents. As a result, the 2014-2015 crisis is only loosely a model for how Russian authorities would respond to a new banking crisis, since the financial wall that sanctions have placed around the economy have reduced its exposure to the foreign exchange market volatility that deepened its last crisis. But the ever more state capitalist system created after these inflection points (2015 and 2022) is more dependent on oil revenues to underpin its stability (and that of the rentier economy per se). This means Russia's international reserves would be critical to its response to a new crisis.

A central, strategic research question, then, is whether the Russian state has the financial firepower to deal with such turbulence, including what concrete steps it would be likely to take in response and how this would impact its military. While this requires standalone research, some of the factors at play in the manageability of the crisis for the regime would be:

- **Russia's un-frozen/immobilised international reserves.** These are thought to be largely located in UAE, Hong Kong, India and China, and not comprised of hard currencies. The Russian authorities would presumably seek to utilise these "shadow assets" in a crisis, but it is not clear how easily they can be accessed.[75]

- **Russia's strategic gold reserve.** Russia has made a big bet on gold,[76] as a perceived safe asset. Its strategic reserve, which is held domestically, increased in line with global prices by around 40% from February 2024 to February 2025, giving it a current value of $217.5bn.[77] This could be drawn on in a crisis to recapitalise banks directly or to finance gold backed bonds. Russia could also attempt to sell some of these assets in a friendly market (such as UAE or China). But this would not be risk free, and would be a poor substitute for hard currency backed bailouts, exposing the regime to different forms of external vulnerability. If financial support was in some form secured against these assets, the state would likely attempt a "sterilized" bailout, i.e., one that did not increase the overall money supply, in order to protect against inflation.

- **The source of the banking crisis.** As Kennedy suggests,[78] given that the state has directed the lending to the defence sector, the relevant firms are known to them and could be pre-emptively bailed out directly. But this would only work to address pressure on the banking system if these loans were the source of the credit crunch (and not defaults on commercially priced lending). It would also be potentially inflationary if it led to the further expansion of the money supply in a tight labour market (which the central bank would respond to with high interest rates, increasing default risks in the rest of the economy). If the credit shock came from both these economies – the war-economy and the civilian one – then the trade-offs would become very hard to manage.

- **Use of market repressive measures.** Given the long-term trend towards kleptocratic centralisation under the Putin regime, it seems likely that further centralisation and the prioritisation of the war economy (or defence sector in a post conflict situation) will be the touchstone of the government response. If so, their options would range from moderate proposals such as tax increases to more radical market repressive measures such as price controls and state directed resource allocations (i.e., forms of central planning). This would manage the trade-offs by prioritising the war-economy.

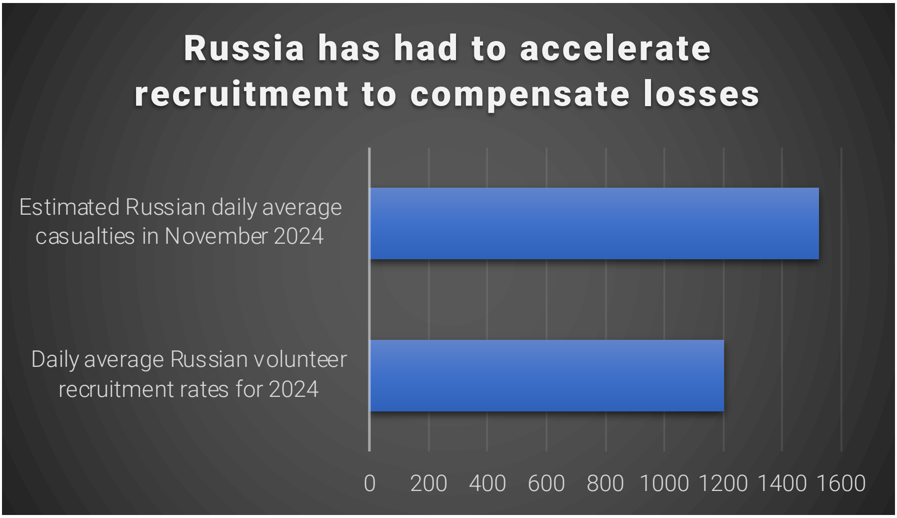
Mobilisation and the Human Costs of the War

Contrasting the mobilisation of recruits for the armed forces, we can see that the Russian regime has a clear advantage over the Ukrainian side. This is a contributing factor, along with its expansion in the military industrial complex, to the tightening of its labour market on “the home front”. As mobilisation has largely been undertaken through financial incentives, Russia has, in practice, avoided coercive conscription for its war of aggression in Ukraine.[79] This has also supported consumption led growth, raising the incomes of the families whose members sign up for the war. The recruitment fees can be significant but depend on the region. Regional authorities top up the federal bonus, implying that they have been given recruitment targets that they use their own resources to meet. The website GoGov.Ru keeps a rolling update of these figures, which, at the time of writing, range from Maris El Republic, which tops up the federal sign-up bonus of ₽400k with a further ₽2.6m, to a mere ₽100k additional fee in Chechnya,[80] where, unlike the rest of Russia, the authorities rely heavily on coercive recruitment. According to the analysis of Janis Kluge, the general approach of relying on financial incentives, which in some regions are sufficient to purchase flats outright, is achieving a geographically spread and growing mobilisation.[81] If the Kluge [82] analysis is viewed in tandem with the Institute for the Study of War assessment of casualty rates (Graph 14), we can see that there may be a relationship between Russian losses and the need to accelerate recruitment with higher fees.

Both sides offer monthly salaries for serving army recruits serving at the frontline well in excess of average wage rates in their wider economies.[83] In an effort to mobilise young people for the war, while avoiding mandatory conscription for under 25s, Ukraine has also mimicked Russian recruitment tactics by offering significant sign-on fees. A recently announced special scheme for young people offers a signing on bonus Hr.1 million (£18.5k), access to zero interest mortgages, the right to travel abroad after a year of service, freedom to choose a unit and specialty, access to post-school education and promises of NATO-standard military training.[84]

The quite analogous uses of financial incentives for mobilisation provide an indication of the critical role that revenue streams play in sustaining the war effort for the two sides, and illustrate the vulnerability of the Russian side in particular were its economy to deteriorate.

While estimates for combat fatalities vary significantly (Graph 15), the war has entailed a significant human cost for the Russian side, reflecting in part its so-called "meat grinder" approach of throwing infantry forces at Ukrainian defensive positions in the hope of finding a break point. These combat fatalities far exceed those from a decade of Soviet occupation in Afghanistan (around 15,000). The scale of these losses will likely pose a problem for a negotiated settlement given that the Russian regime has fallen far short of achieving its overall goals.[85]



Graph 14 - Source: Institute for Study of War drawing on statements from Russian Defence Minister Belousov (recruitment rate for 2024) and the UK Ministry of Defence / Ukrainian General Staff casualty rate estimate.

Graph 15 - Sources: President Zelensky statements (8 and 10 December 2024), UALosses.org website (as of 18 March 2025), and Mediazona/BBC.

Global Fragmentation and the Balance of Forces

There has been considerable discussion of the growing fragmentation of global order, including the breaking up of traditional alliances, the rise of a multiplicity of new externally engaged states with different patterns of engagement,[86] the instability arising from political polarisation and authoritarianisation in established democracies,[87] and the closely interrelated transitions in the global political economy towards protectionism and new forms of state capitalism.[88] Russia and Ukraine's strengths and vulnerabilities are forged in relation to these changes, both have distinct positions within this uneven and combined [89] global system.

The Trump administration in particular throws into crisis the "security complex" of the West as "a set of states whose major perceptions and concerns are so interlinked that their national security problems cannot reasonably be analysed or resolved apart from one another".[90]

Analysing the geopolitical field – and competing geoeconomic strategies – has become particularly challenging, due to the intense disruption that the Trump administration has deliberately set out to generate. As well as driving crises in the security complex of the West, this also often makes it difficult to establish a coherent underlying geoeconomic strategy.[91]

Here I outline some of the main fault lines shaping the balance of forces in the war.

The new "Great Power Politics": mapping impacts of the Trump-Putin axis

Since his return to office, the Trump administration has delivered the Russian regime an important victory at the level of prestige and recognition,[92] recognising its status as a great power and engaging in bilateral negotiations over the head of Europe and Ukraine. This is a long-held aspiration of the Russian regime that reflects its self-identity as a great power with an associated sphere of influence within which it maintains a privileged position of control.

The Trump administration has also implicitly endorsed this thinking in its own aggressive geopolitical positions towards Denmark/Greenland, Canada and Mexico, as well as the proposed Trumpian "takeover" of Gaza. This moves the new administration away from the awkward incoherence of the Biden era, which combined an attachment to the doctrine of "great power competition" alongside a commitment to liberal international norms. The Trump administration articulate a much rawer vision of US primacy.[93] The economic dimension of this policy involves the aspiration to utilise American financial power for geopolitical ends.

There are several elements of this that will likely be significant for the Russo-Ukrainian War:

- **Future of US sanctions on Russia.** If the United States were to unilaterally lift financial sanctions on Russia, this could facilitate its return to sovereign bond markets, opening up a new source of revenue. But the resilience of the Russian economy would remain highly contingent on oil markets. Additionally, it seems unlikely US multinationals would rush to return to Russia, especially given the general volatility of Trumpian policy making.

- **Non-financial forms of dependency on the US.** While Ukraine is financially secure through to 2027, both Ukraine and its European allies have dependencies in relation to US military technology and security assistance that are not replaceable from non-US sources. The most important of these from Ukraine's standpoint are: (a) Patriot missile defence systems, (b) spare parts for US equipment already in Ukraine, which includes F-16 parts and (c) the quality of US intelligence assistance [94] and the impact this has on the targeting of Russian positions and defence from air attacks.

- **Demands for economic rents in exchange for security from allies.** The demand for $500bn in future revenues from Ukraine's mineral and hydrocarbon production as a "return" on past assistance from the United States government was rejected as predatory by the Ukrainian side. It importantly though reflects a general approach from the Trump administration that aims to aggressively leverage US military and economic power to win perceived short term sectional gains for the US. This is a feature of the so-called Mar-a-Lago Accord proposals, which are built on the idea that US allies have been freeloading on American security assistance and must now pay what is due.[95]

- **Global economic impact of the American first policy.** More significant than sanctions relief would ironically be the global economic headwinds from the US trade war on the rest of the world already underway. If this reduces global output, it will further weaken demand for oil. The radical end of the Mar-a-Lago Accord proposals, to force holders of US treasury bonds to accept huge losses,[96] would constitute a US debt default, a move so destabilising that the scale of the consequences is frankly unfathomable.

- **Ideological break but institutional continuity?** A feature of the very fragmented and indeed "confusing" geopolitical field is the combination of (a) the apparent American pivot towards Russia, expressed in UN Assembly and Security Council votes, the suspension of military aid and intelligence sharing to Ukraine in early March 2025, and the general "Putinist" far right narrative; but alongside (b) the persistence of the path-dependent institutional relationships with the West, e.g., Five Eyes, NATO, etc.

The geopolitics of oil markets: the triumvirate of major producers vs. Ukraine?

Prices in oil markets are set by the scale of demand and the control of supply by major producers. The cartels, OPEC and OPEC+ (which includes Russia), manage supply to sustain prices. Over the last fifteen years, American shale production has been the major market disruptor. Its rise to global dominance has been enabled by the more oil dependent OPEC/+ members, whose supply controls sustained the higher prices necessary to make America's relatively costly extraction viable. Saudi Arabia, whose oil is cheap to extract, launched a price war in 2014-2015 against its more costly American and Russian rivals, triggering the financial crisis of 2014-2015 in Russia. In 2020, at the start of the pandemic, Russia and Saudi Arabia engaged in another price war, which was only brought to an end by the Trump administration, which allegedly threatened to withdrawal US security assistance from Saudi Arabia.[97] As Helen Thompson recounts in her book, *Disorder*, the Saudi move to increase supply at a time of falling demand in 2014 was not only commercially motivated: the geopolitics of the Syrian Civil War, where Russia and Iran supported the now fallen Assad regime, also played a role.[98]

These vignettes are suggestive of the geopolitical dimension of oil market pricing. This recent history also makes Riyadh's position as host of the recent Russia-US talks somewhat intriguing, given that they brought together the triumvirate of major producers. Beyond a commitment to oil, these governments do not, however, have obviously aligned commercial interests. America's producers require OPEC and OPEC+ supply controls to maintain their commercial viability at a time of falling demand. Russia is desperate for a high price oil market to sustain itself in order to maintain its rent-based war economy. By contrast, Saudi Arabia's commercial interests are potentially different. Given their oil is much cheaper to extract, they could prioritise seizing market share from their rivals, only increasing prices when they have forced the exit of more costly producers from the marketplace. Saudi Arabia's ambitious infrastructure plans appear to be inhibiting such an aggressive move though, due to their high costs. If this is the case, the seemingly close cooperation emerging between Russia, the US and Saudi Arabia may have an economic dimension, which would be consistent with the transactionalism and extractivist discourses the Trump administration often articulates.

Is the rest of the world more powerful than the idea of "America First" implies?

America's isolationist policy seems likely to produce *isolation* and with it, vulnerability. The Trump administration is pushing at the limits of American power, probing its extent and reach. Like Putin did with his hitherto unsuccessful attempt to conquer Ukraine, America First can be read as a test of the efficacy of great power politics in the 21st century, i.e., the extent to which states with high formal power capacities are able to translate this into the political domination of other states, either through waging/threatening war or economic coercion.

Depending on how far the United States pursues this agenda, it may have the effect of creating a large international coalition against many of these policies. Given that China was also carved out of the Saudi-US-Russia talks, despite having brought forward its peace proposals, a Europe-Ukraine "turn" towards China could be a step towards isolating Trumpism per se. This would be a difficult pill to swallow for a UK Government still strongly committed to the "special relationship" in its rhetoric, but it is easy to see how they could be forced by the turn of events.

Implications for Negotiations to End the War

The consensus view of the majority of Ukrainian-aligned analysts is, broadly, that the Russian regime's gains in the war have been modest, and this makes it difficult for Russia to accept any form of peace deal given the huge loss of Russian lives and economic resources that the war has entailed. As a result, this means any ceasefire agreement will likely only be temporary at best.[99] While this may prove to be correct, a focus on the "home front", i.e., the underlying political economy of the war, brings a different emphasis to this discussion: namely, that Russia's domestic economic travails change the negotiation calculation for the Putin regime. It is possible that the arrival of the Trump White House offers the prospect of a face-saving exit from the war, with some de facto territorial gains, at a time when the Russian regime is facing tough economic choices.

While Russia has created a rent-based military industrial complex whose elites have an interest in large scale military spending, it would be possible for the Putin regime to maintain much of this political economy in a ceasefire context along with the ideological infrastructure of militarisation and ethnonationalism he has established. In this scenario, Russia would refuse to entertain the idea of disarmament, meanwhile arguing that Ukraine does so in exchange for peace. Russia would maintain "high readiness" against the "threat" of the West.

Still, at the time of writing, Russia's official statements show no indication of abandoning its maximalist aims or accepting Ukraine's sovereignty as a legitimate starting point for negotiations. Its preference appears to lie in leveraging geopolitical shifts, particularly the more sympathetic US administration, in order to gain through diplomacy what it cannot secure militarily. The negotiations could easily turn into a theatre for great-power bargaining, side-lining Ukraine and undermining the liberal norms on which its democratic project depends.

On the Ukrainian side, the country's overall resilience has meant it has avoided a collapse into a fragmented, rent-driven warzone characterised by the breakdown of central authority – a pattern seen in many "new war" [100] contexts. Such a breakdown of state authority, which has always been a potential lower-order victory for the Russian side, i.e., short of full annexation and "regime change", now appears to be rather unlikely.

Even the much talked about “rebellion scenario”, for example, where patriotic members of the Ukrainian armed forces refuse to accept a settlement, would constitute a constitutional crisis for the Ukrainian side, which would be very dangerous to its democratic development. But it would need to develop in an extreme direction to result in state collapse. It also seems unlikely as a scenario unless Ukrainian forces are asked to retreat from their current lines without a military need to do so.

Given Russia's general economic vulnerability, negotiations could, in principle, be an opportunity to leverage concessions. As Cindy Wittke has argued, this approach would focus on making tangible gains for rights-based, humanitarian and democratic goals,[101] i.e., exactly the issues overlooked in the “great power” transactional approach. One immediate priority should be the monitoring and protection of human rights in Russian-occupied territories and the release of captives of the Russian invasion (broadly defined, from prisoners of war to Ukrainian civilian detainees and Russian political prisoners [102]). These occupied regions have seen systemic abuses, such as forced Russification, and widespread repression.[103] Any settlement that ignores this will entrench impunity. As an absolute minimum independent human rights monitoring by an appropriate international body must be a condition of an interim agreement.

Over the last year, there has been notable shift in Ukrainian government advocacy away from increases in military aid (with the aim of breaking the Russian frontline and forcing the retreat of its army from Ukrainian territory) towards a focus on security guarantees as a condition of any ceasefire arrangement. For all the Trumpian attacks on President Zelensky's alleged status as a “dictator”, this correlates closely with the trends in Ukrainian public opinion. The European-led guarantee with a reassurance force of around 20,000 troops, focusing on a naval and air presence, would clearly be difficult for the Putin regime to agree to, as it would expose Russia's minimal military and strategic gains from the invasion. But in the context of the status prestige victory the Trump administration has already given President Putin in the Riyadh bilateral talks, and the troubles of Russia's economy, it is not an implausible outcome.

Given Russia's poor economic position, the way Ukraine's allies – including, in this regard, the United States – deal with the sanctions question, will be critical to policing any ceasefire. The sanctions relief would need to balance (a) a positive incentive that is strong enough to protect a ceasefire; while not (b) removing the incentive for a post-Putin Russia to withdraw from the territories that it still occupies; and, at the same time, (c) recognise that the sanctioned Russian assets should be primarily utilised for Ukrainian reparations. A possible solution to this dilemma could be maintaining the seizure of assets, with the profits for Ukraine's reconstruction, while permitting the Russian state to accumulate a new reserve of hard currency assets by reforming the price cap and moderating financial sanctions in lieu of a full-scale withdrawal. A Trump administration determined to rapidly lift all the sanctions would of course act as a spoiler to the design and implementation of such a "carrot and stick" approach.

Conclusion

The war between Russia and Ukraine is often described as an asymmetrical conflict. But this asymmetry is not static; Ukraine's high capacity for "autonomous organisation" of the state, in combination with the financial support it has received from its allies, has underpinned its successful resistance. Over three years, this has confounded the negative expectations of outside observers to build a resilient wartime economy, preserving democratic institutions, and maintaining macroeconomic stability. It has done this, of course, in conditions of extreme duress. Russia, meanwhile, has converted its considerable oil wealth into a significant but still deficient, in terms of the balance of forces on the ground, war fighting capacity. It now faces toughening economic trade-offs between its civilian and new militarised economy.

This report has argued that the core metric for understanding this conflict is "money and people": the mobilisation of financial resources and labour power through effective social organisation and institutionalisation to strengthen the capacity of the state. On this measure, Ukraine shows considerable strength, though it is conditional on sustained external support. The state capacity built during the war bodes well for its transition to civilian reconstruction. Russia, by contrast, faces narrowing options: its resource-based model is approaching its limits due to the downward trend in oil prices, and the longer the war drags on, the more this creates a zero-sum logic between its civilian and military economy. The test of the regime's brittleness is however "still to come" – and could take the form of how it handles a banking crisis. The likely exit of the United States from the stage of Ukraine support does not make Ukraine doomed to defeat. But neither side have a viable theory of "total victory" at the present time, though there may be an argument that Russia's economic challenges put Ukraine in a stronger position if the war does continue in a high intensity form into 2026.

Summary: Russia and Ukraine's comparative Strengths and Vulnerabilities

	Ukraine strengths	Ukraine vulnerabilities	Russia strengths	Russia vulnerabilities
State capacity for autonomous organisation	Highly successful wartime administrative mobilisation	Dependent on external military and financial aid	Authoritarian system and state dominated economy	Kleptocratic institutions; war economy deepens elite rent dependencies
Economic model	Mixed economy supported by donor aid and reform-driven taxation policy	Negative savings rate; highly dependent on grants and loans	Rent-financed state capitalism with large military-industrial output	Overreliance on fossil fuel rents; weak productive diversification
Revenue sources	Strong growth in tax and non-tax revenues; donor-financed budget stability through 2027	Domestic revenue insufficient for total war costs	Significant rent income from oil and gas; control of fossil fuel assets	Highly exposed to negative oil price movements
Military mobilisation	Innovative voluntary schemes and high patriotic mobilisation	Ongoing mobilisation challenges	Financial incentives drive high recruitment; avoids forced conscription (except Chechnya)	Rising costs of mobilisation; the "meat grinder" approach to war fighting
Labour market	Less tight labour market in principle offers room to expand workforce	Skills mismatch; high structural unemployment; informal economy complicates conscription	Situation of full employment	Labour shortages limit capacity; inflationary risk

	Ukraine strengths	Ukraine vulnerabilities	Russia strengths	Russia vulnerabilities
Monetary stability	Relatively stable inflation-adjusted interest rates; hard currency inflows	Ongoing inflation risk due to war; dependency on allies for aid inflows	High inflation-adjusted base rate; initial petro-financed stability	Risk of credit crunch; 'dual economy' trade-offs becoming more pronounced
Geopolitical alignment	Deepening EU integration; embedded in institutional norms and reform incentives	Dependencies on some US military tech and intelligence systems that cannot be replaced by European allies	Maintains strong economic relations with economies not implementing sanctions; the Trump White House	Dependent on unstable global oil diplomacy; geopolitically isolated from large majority of European states
Long-term sustainability	High potential for post-war transformation via EU accession trajectory	Dependent on continued alignment with Western reform incentives	Large reserves (e.g. gold); state-capitalist structures allow flexibility	Long-term erosion of state capacity due to oil dependency and global transition
Negotiation leverage	Coherent democratic state with clear public mandate; stable political institutions	Cannot secure favourable terms without on-going western aid	Leveraging relationship to the Trump administration to negotiate over Ukraine's head	Hubris in negotiations out of kilter with domestic economic challenges

Policy Recommendations

For Ukraine's international partners:

- **Institutionalise long-term support:** Protect Ukraine's financial and military assistance from domestic political shifts, especially in the US, by embedding aid in multilateral structures (e.g., the EU Ukraine Facility, ERA programme).
- **Continue rapid advance of Ukraine to EU membership:** Ensure continued alignment with EU standards by tying support to administrative capacity-building, anti-corruption efforts, and taxation administration reform.
- **Prioritise humanitarian principles in negotiations:** Make independent human rights monitoring in occupied territories and the release of detainees a baseline for any interim or final settlement.
- **Prepare for post-conflict deterrence**: Support a European-led security guarantee focused on naval and air presence to prevent renewed aggression.
- **Monitor Russia's economic vulnerabilities:** Track oil market trends and credit instability in Russia recognising their role as vital pressure points; use this to shape calibrated diplomatic and financial strategies.

For the Government of Ukraine:

- **Continue strengthening institutional capacity:** Build on wartime tax mobilisation successes by deepening administrative reforms and ensuring transparent management of military spending.
- **Balance military needs with democratic legitimacy:** Maintain new focus on financial incentives for mobilisation in order to maintain public trust.
- **Plan for a durable civilian economic transition:** Use secured international funds to begin planning a shift to civilian economic priorities while retaining readiness capacity in the event of renewal of Russian aggression post-war.

For the broader international community:

- **Reject great power politics:** Push back against any settlement framework that marginalises Ukraine's sovereignty or privileges authoritarian prestige and the recognition of so-called "spheres of influence" over democratic institutions.

- **Build a coalition against coercive transactionalism:** Strengthen relationships between states that support multilateralism, including potential outreach to China in the right circumstances, to isolate the politics of "America First", or similar approaches, that threaten the stability of the international order.

Endnotes

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[94] At a recent public event in London, Dymtro Kuleba, the former Minister of Foreign Affairs of Ukraine, described these three areas as "irreplaceable" regardless of how much money is spent in Europe.

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