

Russia's Economy Is Spoiling as Putin Struggles to Balance Guns and Butter

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November 21, 2024



An employee holds packages of the Dolina Legend butter. **Sergei Malgavko / TASS**

As President Vladimir Putin doubles down on military spending, Russia's economy is curdling, leaving Muscovites feeling the squeeze at the checkout.

Butter — a simple staple — has turned into a luxury, with prices soaring by almost 30% in 2024 amid galloping inflation and interest rates at 20-year highs. This isn't just theory — people are now stealing butter to resell on the black market, and supermarkets have resorted to anti-theft casings typically reserved for caviar or fine whiskey.

Prices are skyrocketing on other basics, too: potatoes are up 56%, eggs are once again in short supply, and the ruble has plunged to a one-year low, further eroding the purchasing power of ordinary Russians.

This is more than just a budget crunch. It is a stark symbol of an economy buckling under the

weight of Putin's war-driven spending spree.

The Kremlin's solution? Importing overpriced essentials from Iran, India, and Turkey, while Deputy Prime Minister Dmitry Patrushev "monitors" prices with no plans to cap them. Meanwhile, inflation is being driven not by standard market dynamics but by relentless wartime spending that is pushing the economy to the brink.

My mother-in-law learned this firsthand on a recent visit to Dublin. Last month, she was shocked to find that Brest-Litovsk butter in Moscow now costs 250 rubles (\$2.47) — nearly the same price as premium Kerrygold in Ireland.

Butter prices in Russia have skyrocketed, sparking a wave of supermarket thefts as inflation accelerates amid the highest interest rates in 20 years.

Some Muscovites are turning to armed robbery to obtain such a basic good as prices soar beyond the reach of many. Surveillance footage dated Oct. 29 from a Pyaterochka supermarket on Leningradskoye highway captured two men attempting to steal 25 packs of butter. As they tried to escape, a scuffle broke out at the store's exit: one robber struck a store assistant repeatedly, while the other threatened her with a knife.

According to reports on Telegram, thieves aren't stealing butter for personal use but to resell it. Dozens of these packages have been spotted for sale at metro stalls or listed on dedicated social media channels.

Prices have risen partly due to the shutdown of Health & Nutrition factories, which were seized from French multinational Danone by associates of Chechen warlord Ramzan Kadyrov. In response, the authorities are turning to imports from Turkey, Iran, India, and Latin America, but these goods are coming in at exorbitant prices for consumers.

Imports come at exorbitant prices, compounding inflation, while the Kremlin keeps funneling funds to military spending instead of investing in domestic agriculture or price controls.

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Putin has frequently bragged about the resilience of Russia's economy and claimed Russia could have both "[butter and guns](#)" after he appointed an economist, Andrei Belousov, in May to run the Defence Ministry.

The "Guns or Butter" concept refers to the economic trade-offs between a nation's military and civilian spending. It highlights that governments have limited resources and must choose between the two.

The Kremlin has repeatedly chosen guns, prioritizing spending on arms, troops, and infrastructure for a protracted war, with increasingly less left for "butter" — the goods and services that support daily life. Late last year, Russia was hit by a deficit of eggs and chickens as sanctions exacerbated supply chain disruptions and rising animal feed costs.

Putin's initial confidence that the war would end quickly, with limited impact on domestic

life, has proven completely misguided. Waves of sanctions may have failed to topple the economy, but they've undeniably raised costs for regular Russians by disrupting supply chains and damaging domestic production.

With inflation already out of control, Central Bank Governor Elvira Nabiullina has warned that "drastic" policy changes may be needed, raising rates to an unprecedented 21% last month. But war and sanctions have severed the ruble's link to interest rates, and even high borrowing costs are failing to stabilize the currency.

Putin has leaned on Nabiullina to keep the economy afloat, but fissures are forming. After nearly three years of military Keynesianism, the Central Bank is forecasting growth to halve from 3.9% to 2.5% in 2024, while the World Bank and IMF project just 1.7% and 1.3%.

That is assuming these figures can even be trusted, given that one of Putin's first decrees after the war began was to restrict access to economic data — a move widely seen as an attempt to obscure the true state of the economy.

Meanwhile, sanctions targeting Russia's oil and gas sector — crucial for financing the war in Ukraine — are finally beginning to bite after misfiring for almost three years. Recent measures aimed at Russia's shadow tanker fleet, which has been covertly moving sanctioned crude, have disrupted shipments and squeezed revenue streams. On Oct. 28, Bloomberg News also reported that Russian gas producer Novatek has halted production at its flagship Arctic LNG-2 project.

The situation is worsening for natural gas behemoth Gazprom, which posted a \$6.8 billion loss in 2023 — its first since 1999 — and is reliant on short-term borrowing that could strain Russia's financial sector. With reserves dwindling and no foreign capital, a bailout may not be possible.

Russia's \$2 trillion economy has defied predictions of collapse since the Ukraine invasion, even outpacing the U.S. and most major European economies despite heavy sanctions. Nabiullina has kept it afloat — almost miraculously — but cracks are deepening: dysfunction is mounting, and the specter of stagflation, where stagnant growth meets spiraling inflation, looms larger.

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Reportedly, Nabiullina tried to resign after the 2022 invasion but was ordered by Putin to stay. Her sense of isolation grew last month when her top deputy and closest advisor, Ksenia Yudaeva, left for a post at the International Monetary Fund, leaving Nabiullina to navigate Russia's economy largely alone amid increasing calls by many oligarchs and industrialists for her to go.

High interest rates are squeezing Russian companies, forcing them to cut expansion plans to cover rising maintenance costs and meet wage demands. Debt-laden firms without state-subsidized loans are on the brink of bankruptcy as refinancing becomes nearly impossible.

Previous crashes indicate that real estate often signals broader economic downturns, and Russia's sector is showing troubling signs.

Real estate giant Samolet Group could become one of the first casualties of soaring interest rates. The country's largest developer by land holdings now faces a potential state bailout after its bonds and shares plunged in value.

In the residential sector, the end of the Kremlin's mortgage subsidy program in July led to some loans quadrupling to over 20%, triggering a collapse in new-build and second-hand apartment sales in major cities as buyers were priced out of the market. On the other hand, the rental market is booming as those shut out of homeownership scramble for accommodation.

Meanwhile, over 200 shopping malls in Russia risk bankruptcy due to soaring debt after the recent rate hike, *Kommersant* reported on Nov. 1. The Union of Shopping Centres has appealed to Economic Minister Maxim Reshetnikov for preferential loan support.

Putin's barefaced commitment to prioritizing military strength over domestic needs shows no sign of wavering. Next year, Russia will increase its military spending by 27% to a record 13.5 trillion rubles (\$133,387,141,500) compared to this year, according to draft budget documents.

In total, the Kremlin plans to allocate 40% of its 2025 budget to defense and internal security, surpassing total spending on education, healthcare, social services, and the economy. Nearly 30% will go directly to the military — a level unseen since Soviet times.

With rising expenses and declining revenues, Russia is now posting an annual fiscal deficit of nearly 2% of its Gross Domestic Product. Even more worrying, Russia has been draining its rainy-day National Welfare Fund to about half of its pre-war total.

A Donald Trump-brokered peace deal could offer Putin's economy a lifeline by potentially easing sanctions, freeing up trade, and attracting foreign investment — allowing the Kremlin to shift resources from defense spending to stabilizing the economy.

For ordinary Russians struggling with inflation and sky-high butter prices, such relief cannot come fast enough. Still, with Trump's track record on sanctions and election promises, any real benefit remains very uncertain.

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