

Economy of St. Petersburg two years after the beginning of the conflict in Ukraine

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Abstract

St. Petersburg is the second largest city in Russia and forms a second largest urban agglomeration in the country. Its regional economy has certain peculiarities, but follows general trends of Russia's economy as its constituent part. The long-term stagnation in Russian economy started in 2013 and is based on an exhaustion and ineffectiveness of the existing economic model, which has substantial weakness on the demand side. Real incomes in Russia today are lower than in 2013, and the economic stimulus of sanctions enhanced economic growth in some sectors of economy, but failed to change the basic trend. St. Petersburg's economy continued to grow due to its industrial sector, and this trend still persists in Russia as a whole. The reason for this growth is partly linked to unprecedented budgetary stimulus, and partly linked to repatriation of capital from abroad caused by the sanctions. However, weakness of internal demand creates problems in demand-driven sectors of regional economy, namely in real estate sector, residential construction and retail and wholesale trade. These sectors form the major part of St. Petersburg's economy, while industrial production boosted by budgetary stimulus and import substitution is a minor part of the economy. Inside the industrial sector the best performance is shown by enterprises linked to military-industrial complex, which dominated the regional economy prior to economic reforms of the 1990s, and by export-oriented state holdings. On the other hand, automobile production and other related mid-tech enterprises focused on private demand stopped their operations already in 2022: the output in this subsector decreased dramatically in 2022-2023. In general, the main stagnation trend still persists in regional economy, and relatively successful results of 2023 will not change it. Moreover, significant economic crisis caused by technological backwardness, outdated infrastructure and weak internal demand is inevitable in long-term.

Key words: the Russian economy, the regional economy of St. Petersburg, the sanctions on Russia

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1. Overall economic performance: Gross regional product and structure of the regional economy

1.1 Gross regional product of St. Petersburg

St. Petersburg is an urban region located in Northwest Russia. Its population on December 1, 2023, was 5.6 million people as recorded by Petrostat, the regional statistical service (Petrostat, 2024). Gross regional product (or GRP) of St. Petersburg in 2021 was RUB 9440.4 billion, equal to EUR 108.4 billion - if converted with the Bank of Russia official average annual exchange rate. In 2021, the St. Petersburg GRP was nearly 2.5 times smaller than the corresponding figure for Finland's GDP for the corresponding year: EUR 108.4 billion for St. Petersburg and EUR 251.0 billion for Finland (Statista, 2024). St. Petersburg region and Finland have almost the same population size, so the comparison seems to be relevant¹.

In 2020-2021 GRP of St. Petersburg changed significantly, following the COVID-related crisis and its controversial trends. Lockdowns and general reduction of demand in the first half of 2020 led to a 2.5% decrease of regional economy's basic indicator. On the other hand, post-pandemic recovery took place in 2021 already, despite the COVID-related limitations remained in force until mid-2022. This recovery was reflected by a 4.8% GRP growth in 2021, year-on-year. This GRP dynamics almost coincided with the fluctuations of Russia's national GDP in general: the corresponding change of Russia's GDP was minus 2.7% in 2020 and plus 4.7% in 2021.

In 2022, the economy of St. Petersburg was affected by the start of military conflict in Ukraine and the sanctions imposed on Russia. St. Petersburg's GRP decreased by 2.4%, whereas Russia's GDP contracted by 2.1%. As St. Petersburg's economy was more dependent on service sectors than Russian economy as a whole, its decrease appeared to be more significant. The correlation between industrial and service sectors within the region's economy would be covered below.

As the focus of this report is concentrated on years 2022-2023, so it is important to mention that for these two years the full GRP data (e.g., the GRP structure) is not fully available yet². This is not a new phenomenon for the regional statistical service Petrostat: it has always been providing GRP data for St. Petersburg with a one-year delay. For example, in year 2021 only 2018 data was available for GRP (and for earlier years). Nevertheless, Petrostat provides data for separate industries of St. Petersburg's economy for both 2022 and 2023; consequently, the overall picture of regional economic performance might be observed basing on these indicators. In addition to that one might conclude that St. Petersburg's GRP is changing almost in the same proportions as the national GDP of Russian Federation. The difference between the growth/fall rates for St. Petersburg's GRP and for Russia's GDP is statistically very small. And Russia's GDP figures are available for 2023 already.

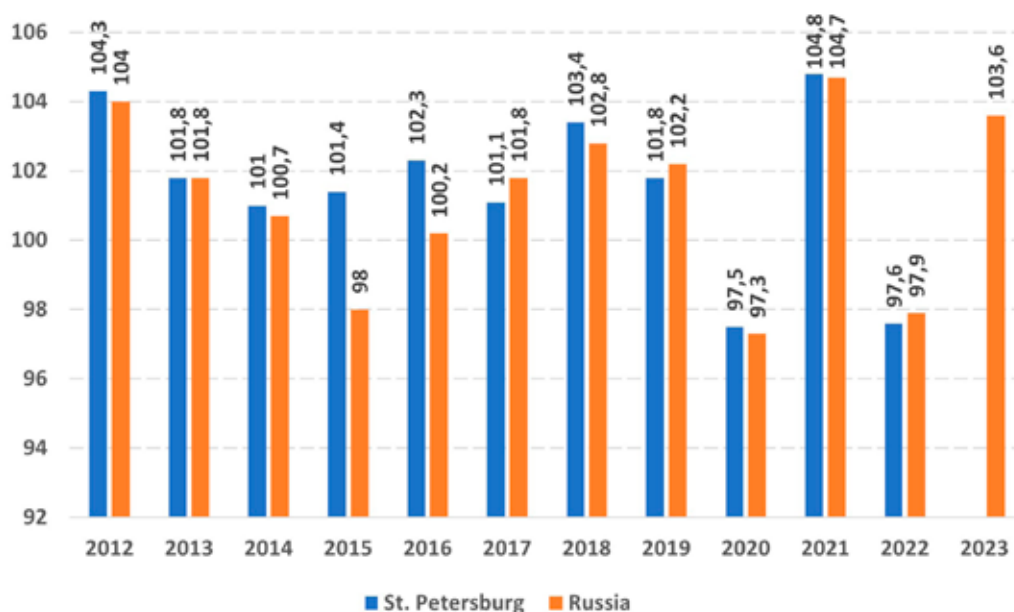
In 2023 Russia's GDP grew by 3.6%, year-on-year (Rosstat 2024). For year 2023, these figures are preliminary estimates. So, St. Petersburg's economy is generally following this trend. However, the structure of the St. Petersburg economy has its own peculiarities which create differences from overall Russia's economic performance.

The general overview of St. Petersburg's GRP change together with the corresponding indicator (GDP) for Russia as a whole is presented in Chart 1 below.

¹ By April 1, 2024, the latest available GRP/GDP data – except for the GRP's structure - for St. Petersburg is for year 2022 (by Petrostat), for Finland is for year 2022 (by Statista).

² For 2022 only GRP change (year-on-year) is available; the GRP structure's latest available data is for 2021.

Chart 1. St. Petersburg's GRP and Russia's GDP, in percent to previous year



Source: Results of Socio-Economic Development of St. Petersburg in January-November of 2022, Government of St. Petersburg, 2023; web address: https://www.gov.spb.ru/static/writable/ckeditor/uploads/2023/01/13/02/СПРАВКА_ЧП_январь-ноябрь_2022.pdf

From this chart it is quite visible that Russian economy is stagnating since 2013: its overall average 10-year GDP annual change is nearly 0.5%. St. Petersburg's GRP is following the national GDP dynamics year-on-year. Moreover, the St. Petersburg economy in 2012-2022 was demonstrating better results than the national economy in general. Despite the fact, that St. Petersburg's GRP results for 2023 are not available yet, it could be concluded that the region's results would be below the national average – if basing on annual results of its industries which are already published and covered in this report. Stagnating economy has its own distinct traits that make its reaction to external shocks less visible. However, one can distinguish three external shocks which influenced the dynamics of GDP in general, and St. Petersburg's GRP in particular: *Oil price crisis* in 2014-2016, *COVID-related shock* in 2020-2021, and *Sanction shock* in 2022-2023 (Chart 1).

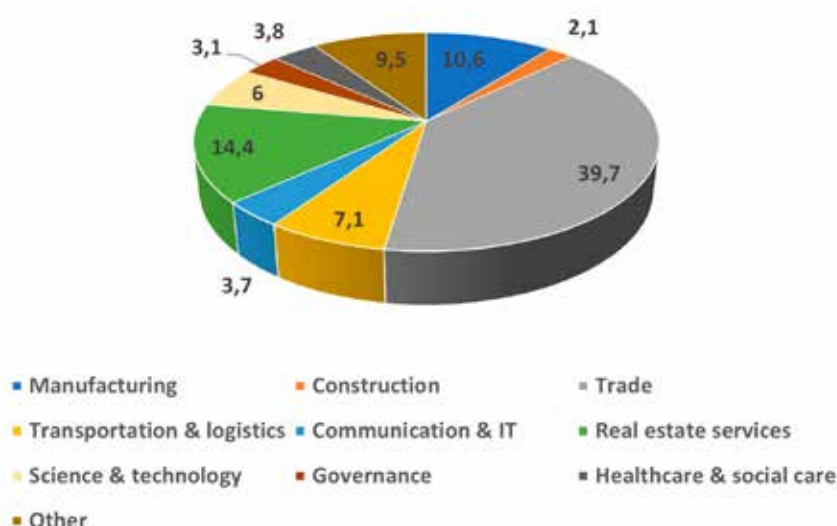
This distinct feature of Russian economy might explain its resistivity towards external shocks. A more profound insight in the case of *Sanction shock* is offered in a special paragraph of this report.

1.2 Structure of the regional economy

The author of this report has been investigating the St. Petersburg economy since 1999, so during the whole period of 1999-2023 the structure of the region's economy has undergone substantial changes. Prior to economic reforms of the 1990s, St. Petersburg was an industrial city with a huge manufacturing sector dominating the structure of its economy. Most of these industrial enterprises were a part of the Russia's military-industrial complex. Even the educational system was mostly serving the needs of industrial enterprises, educating engineers and other types of industry-based professions. This paradigm was inherited from the region's Soviet past. During the market reforms new sectors started to grow ahead, and most of those were service sectors: retail and wholesale trade, real estate services, banking, tourism. And since the early 2000s this highly urbanized region with high labor costs started to turn into a services-based megapolis. Old industrial enterprises were relocated from St. Petersburg to other regions of Russia, where land was cheaper and labor costs were much lower. Owners of these enterprises sold their land plots to developers, who created new residential estate in these locations. This relocation was largely supported by regional authorities, who encouraged the industrial property owners to shift their premises and infrastructure away from the city, thus creating a more service-based economy and cleaner environment.

As a result, the structure of the St. Petersburg economy by year 2021 changed significantly. The distribution of GRP by sector of economy is presented in a chart below.

Chart 2. Structure of St. Petersburg's economy in 2021



Source: Gross Regional Product of St. Petersburg and Leningrad Region in 2020-2021, Petrostat, 2023; web address: <https://78.rosstat.gov.ru/storage/mediabank/VRP19-20.pdf>

The biggest shares in the St. Petersburg economy belong to trade (39.7%), real estate sector and related services (14.4%), industrial sector or manufacturing (10.6%), transportation and logistics (7.1%) and science and technology sector (6.0%). The contribution of industrial sector to gross regional output is comparatively small compared to its corresponding share in total Russia's GDP: 14.4% for the same year (year 2021).

However, this share of trade is a purely statistical phenomenon and does not mean that retail and wholesale trade dominate the regional economy. This share reflects the input of three export holdings: Gazprom, Gazprom Neft and Sovcomflot, which relocated their headquarters from Moscow to St. Petersburg a decade ago, and thus formally had become St. Petersburg's residents. At the same time, their actual activities are split between the capital, Moscow, and oil-extracting regions of Russia. As for Sovcomflot, its major activity is presently focused on trade between Russia's Far Eastern ports and export destinations in East and South Asia.

Impact of these oil, gas and transport giants on the "inner" regional economy is visible mostly in sphere of taxation and in upper segment of regional real estate sector, as many of their top managers had to relocate from Moscow and oil extracting regions of Russia to St. Petersburg.

At the same time, external trade has always played a significant role in St. Petersburg's economy. Regional exports were excessively high due to the influence of aforementioned oil and gas companies, registered in the city. But a huge part of "inner" regional economy was also deeply involved in export and import activities. However, since April 21, 2022, Federal Customs Service of Russia (FCS) has *temporarily* stopped publishing the data related to external trade. Thus, for years 2022-2023 foreign trade statistics (both on export and on import side) became unavailable for St. Petersburg. Petrostat has excluded the whole foreign trade statistics paragraph from its annual publications respectively, as the initial data was obtained from the FCS. So, it is hard to investigate the development of the region's trade sector, as a large part of it remains non-observable by now.

The structure of St. Petersburg economy, however, in 2022-2023 has undergone significant changes. Despite the fact, that these changes are still not finally reflected in available GRP-related aggregated data, these changes, however, are visible in profound analysis of the two key sectors of regional economy: manufacturing and construction/real estate sectors.

2. Manufacturing as a growth driver

It was mentioned above, that historically (before the 1990s) St. Petersburg was an industrial city with manufacturing enterprises dominating the landscape and the whole city life. For example, the first metro line in St. Petersburg (Leningrad before 1991) was built in 1955. This first metro line connected Kirovski Zavod (one of the biggest machine-building enterprises of Leningrad) and Finljandski Vokzal, the railway station near another huge *Arsenal* industrial area in the northern part of the city. Transport infrastructure and urban planning were heavily dependent on these industrial zones, surrounding the historical center of the city. During the economic reforms of the 1990s, many of these industrial enterprises were closed, as most of these industrial giants appeared to be economically ineffective in new market environment. Moreover, almost all these enterprises were linked to Soviet military-industrial complex which contracted significantly in the 1990s. Since the early 2000s relocation of industrial enterprises from St. Petersburg to another regions of Russia was driven by new incentives: need for cheaper labor force and willingness to sell the land plots, occupied by these enterprises, to fast growing real estate developers. By 2024 the majority of industrial zones in St. Petersburg were re-developed into newly constructed residential areas with inclusions of business centers and trade venues.

However, in 2022-2023 in Russia industrial sector and agriculture became the most intensively growing sectors, reacting to fall of imports and huge budget stimulus. As St. Petersburg is an urban region and has no agricultural sector, it is necessary to take a closer look at the region's industrial enterprises.

In 2022, output of the St. Petersburg industrial enterprises grew by 3.9% compared to the corresponding indicator of a previous year. For 2023, the regional industrial sector's index showed a 9.9% increase year-on-year.

According to methodology used by the regional statistical service, namely by Petrostat, industrial output includes production of manufacturing enterprises, minerals extraction and supply of water, gas and electricity. In the case of St. Petersburg, manufacturing takes more than 90% in this output. And if we take manufacturing alone, except extraction and utilities supply, its increase in 2023 is even more impressive: 11.4% year-on-year. Thus, one can conclude that in 2022-2023 manufacturing sector of St. Petersburg's economy was rapidly increasing its output. However, the deeper insight of the structure of this output shows a very contradictory picture (Table 1).

Table 1. Change of industrial output in 2023 compared to 2022, year-on -year

Sub-sector of manufacturing sector	% change
Automobile production	-90.7
Textile manufacturing	-5.7
Furniture production	-2.2
Non-metallic mineral goods production	-1.4
Fuel production	1.6
Beverage production	3.4
Machines repair and mounting	4.4
Printing industry	6.0
Rubber and plastic items production	6.3
Tobacco industry	6.5
Timber industry (with exception of furniture)	8.6
Other transport equipment production	8.6
Pulp & paper industry	9.0
Food industry	10.1
Electric equipment production	19.9
Chemical production	21.1
Pharmaceutical industry	21.8
Leather goods production	25.8
Metallurgy	26.3
Other metallic goods manufacturing	32.0
Production of computers & optical equipment	32.9
Manufacture of wearing apparel	35.9

Source: Socio-economic development of St. Petersburg and Leningrad region in January-December of 2023. Petrostat, St. Petersburg, 2024.

In 2022-2023, the outlook of St. Petersburg's manufacturing sector changed dramatically. The biggest "looser" of these changes is absolutely clear: it is an automobile cluster of regional economy which was steadily created in St. Petersburg since 1999. By the beginning of 2024 all the automobile plants in the region (namely that of Nissan, Toyota and Hyundai) have stopped their production. Governmental plans to re-launch automobile production failed, as these attempts met significant restrictions: absence of technologies and component base.

On the other hand, nine of manufacturing sub-industries significantly increased their output – more than by 10% year-on-year. These successfully developing industries grew due to 2 main drivers:

- Import substitution after largest foreign suppliers left Russia in 2022; and
- Huge government-financed orders for engineering products in military-related sectors of manufacturing.

This process – according to recent reports of Ministry of Economic Development of Russia – has continued and even accelerated in the first quarter of 2024 (RG, 2024). In January 2024, the national GDP grew by 4.6% compared to January 2023, whereas in February 2024 the corresponding figure increased by 7.7%, year-on-year. The reason for this GDP growth was an accelerating boom in manufacturing industry in Russia: in February 2024 (the latest presently available data) the manufacturing sector of Russia's economy raised its output by 13.5%, year-on-year. For St. Petersburg region corresponding statistics arrives later, but one can presume that St. Petersburg's manufacturing industries develop with the similar speed.

If we try to distinguish some most rapidly growing sub-industries from the list of branches presented in Table 1, it is easy to see that most of these branches belong to three basic "traditional" industries: machine building, food & pharmaceutical production and light industry. Classifying these branches in this "old-school" way brings us to the two abovementioned reasons of this unexpected economic uprising, namely import-substitution in food and pharmaceutical industries and government orders for machine building and light industry. For machine building (or mechanical engineering) these two types of stimuli reinforced each other. This conclusion might be reflected by the reported figures for machine building in Russian economy at nation-wide level: +28.3% in January and +33.0% in February, 2024, year-on-year. Particularly active this growth was in transport machine building, with +38.6% increase in February 2024 year-on-year, and with +32.2% growth in the same month if compared with pre-war February 2021.

For the St. Petersburg economy, all the above-mentioned phenomena have a dual impact. First impact is negative and puts an end to automobile production, formerly "a visit card" of local investment landscape. The second impact is positive and derives regional manufacturing from long-term oblivion back to primary economy drivers.

Consequently, the share of manufacturing sector in St. Petersburg's GRP might increase substantially in 2024. In addition to larger share of manufacturing in total GRP, the sector's input in GRP's growth might become predominant. This trend is already reflected by regional labor market where industrial enterprises offer salaries much bigger than those offered by trade, catering and construction companies.

Nevertheless, this new trend in regional economy is heavily dependent on government financing in form of subsidized loans, direct state investment and government purchases for military-related and other needs. The state budget – in its turn – has already become deficit, and sources to raise funds for the budget appear to be limited. At the same time, domestic non-governmental demand even for import-substitutes is a function of real disposable incomes which stagnate since 2013 with minor exceptions. Thus, this increase of St. Petersburg's manufacturing sector is impressive but unsustainable.

3. Construction and real estate sectors: within the crisis

Construction and real estate sectors of St. Petersburg's economy form a second largest sector of regional economy: it makes a 16.5% contribution to the gross regional product (Chart 2).

In the past decade construction and real estate sectors passed a significant evolution in the sphere of urban development. In the 1990s and the early 2000s, construction companies were focused at intra-block development: they utilized still empty plots inside the residential blocks constructed during the Soviet era with the already existing urban infrastructure, including networks for water, electricity and gas supply, and other transport and social infrastructure. Since the late 2000s construction holdings in St. Petersburg

shifted to a different mode of development, namely to so-called *Complex Territorial Development*. This means that regional developers build entire residential districts with urban infrastructure, including schools, clinics and intra-block roads. In some cases, their projects included creation of brand-new residential areas in close suburbs of St. Petersburg on former agricultural fields of rural cooperatives, which were utilizing these areas before. Some of these new residential districts replaced old manufacturing enterprises in St. Petersburg's so-called "*industrial belt*" created around the city center during the Soviet era. This new complex approach enabled the construction holdings to expand their activities and their role in regional economy. The largest construction holdings (e.g., LSR or Setl Group) have built vertically-integrated companies providing whole-cycle services starting from extraction of sand and producing concrete and ending with long-term management of constructed buildings (which include residential and non-residential construction). This renaissance of regional developers after the 1990s, when the amount of newly constructed buildings in St. Petersburg was close to zero, took place in cooperation with foreign suppliers of elevators, engineering networks and construction materials and equipment of all types (primarily with Otis, Henkel, Iveco and others). Competition with foreign construction companies present at the regional market (YIT, Skanska and others) has also contributed to this growth. LSR, the largest regional developer, became the biggest construction holding in Russia, leaving behind its rivals from Moscow and other regions of Russia.

This positive trend in regional construction sector continued in 2022-2023 as well, with a slight 2.0% reduction in 2022, but an impressive 7.7% growth in 2023, year-on-year.

This success story of regional developers was based on two basic drivers: high consumer demand for residential apartments and economies on labor costs. Real estate in St. Petersburg was assessed as a good private investment affordable for an average middle-class household. Indeed, the price of one square meter of residential space in 2014 was USD 2400, same as in the beginning of 2024 (USD 2400). In contrast to constantly devaluating national currency (ruble) and permanently fluctuating Russian stock market, this investment gave these households a chance to save value and to utilize these apartments for living needs. Despite construction business in Russia in general and in St. Petersburg in particular is a labor-intensive activity, the developers managed to reduce costs substantially by hiring low-qualified labor force from Central Asian countries as "*Gastarbeiter*" workers. This was very often linked with violation of rights of these workers and with their illegal status in Russia.

Real estate prices in St. Petersburg were growing throughout all the period of observation (since 1999 in rubles), but were surprisingly stable – if measured in US dollars – since 2014. In other words, the residential property prices increased in correlation with the devaluation of national currency, but within certain periods with a one-year lag.

However, the basic driver of regional demand for residential space started to fade in 2015-2019, as the consumer's real disposable incomes remained generally stagnant. To boost this fading demand Russia's government in 2020 introduced subsidized mortgage rates, as the normal mortgage programs based on commercial lending rates were unaffordable for the majority of potential buyers³. These programs offering mortgage rates, from 2% to 8%, which were significantly lower than the basic (or "*key*") rate set by the Bank of Russia, or Russia's central bank. These lowered rates were subsidized by the federal budget. By end of 2023, the share of subsidized mortgages in the total volume of mortgages in Russia lifted up to 80% (Interfax, 2023). As for the St. Petersburg market, many regional real estate experts assessed the share of real estate purchasers using mortgage as almost 90% by the end of 2023, and almost 80% of those used state-subsidized mortgages to buy apartments or houses.

Despite its temporarily positive impact on construction sector in St. Petersburg and other cities of Russia, the result was an almost 30% real estate ruble price jump, which devaluated its intended benefits for the consumers enjoying comparatively affordable mortgage rate. The aforementioned subsidized mortgage programs failed to solve the two main problems of demand in construction and real estate sectors in Russia in general and in St. Petersburg in particular: constantly deteriorating consumer incomes and comparatively high costs of borrowing money in Russian economy. Thus, to prevent creation of a typical market bubble in the real estate sector, Bank of Russia makes continuous efforts to lower the share of subsidized mortgage programs down to a maximum share of 25% in total volume of mortgages. The

3 Consumer loans in Russia are offered at a rate calculated as the basic rate set by the Bank of Russia for a certain period plus 3-7% of a bank margin. In April 2024, the Bank of Russia's basic rate is set at 16%, so consumer loans start with 19% rate as a minimum.

already introduced measures included reduction of maximal mortgage size (for St. Petersburg and Moscow it has halved from 12 to 6 million rubles), increase of a down payment on mortgage from 15% to 30%, and various additional restrictions imposed on potential buyers. For instance, in January-February 2024 almost every second buyer looking for a mortgage in St. Petersburg has got a loan refusal. As a result, sales of real estate in St. Petersburg in January-February 2024 declined, according to various expert estimates, by 45-60%, year-on year.

So, one can conclude that since the end of 2023 and at least until April of 2024 the real estate market of St. Petersburg is within the typical mortgage crisis which already has raised concerns about the future of regional construction complex. Presently there is no reliable and/or official statistics reflecting the digital parameters of this crisis, as many of local construction holdings hide actual figures of sales drop. Hopefully, this information might become available by Summer 2024.

Another problem emerging in this sector is outflow of low-qualified migrant workers from Central Asia, both legal and illegal, from construction and utilities sectors of regional economy. According to official data for 2023, the number of migrant workers in St. Petersburg decreased by 12 thousand people, which is less than 5% of all migrants registered in the region (Vedomosti, 2024). However, labor migration is partly inside the non-observed zone of the economy and the actual outflow of the migrants might be bigger.

Despite the amount of above-mentioned problems in this key sector of St. Petersburg's economy, the first basic problem for the sector is 10-year stagnation of real disposable incomes in the region in particular and in Russia in general. And the second – the newly emerging problem – is the lack of budgetary support for national mortgage system, reflecting the growing budget deficit and tightening of the monetary policy.

4. Impact of the sanctions

International economic sanctions, imposed on Russia right after the launch of military conflict in Ukraine, had a significant impact on the economy of St. Petersburg region. Initial economic shock, perceived in 2022, was later substituted by a number of new trends in regional economy. These trends of adaptation to new environment obviously lead to creation of a new economic structure, or restructuring of regional economy into a new existence paradigm.

As it is visible from the above-given description, the impact of the sanctions was very controversial and created both problems and stimuli for various industries. To sum it up let us distinguish the most important consequences of sanctions for the regional economy in the list below.

- 1. Financial isolation.** After the majority of Russian banks were included in the sanction list their ability to attract loans from international financial market has disappeared. St. Petersburg's banks and huge nation-wide banking holdings (Sber, VTB, Alfa Group) lost access to cheap long-term financing. The immediate impact of financial isolation on regional economy was quite limited, as this international financing played a minor role in regional economy before 2022. Russia was considered to be a high-risk market (and it proved right) and a high *country risk* was always the barrier for access to "cheap" financial resources abroad. But the obvious consequence of this type of sanctions is almost total dependence of economy on state-run banks which are fully controlled by the government and the central bank.
- 2. Relocation of capitals to Russia from abroad.** One of the immediate impacts of the sanctions was an inflow of financial resources belonging to Russian residents (businessmen, middle-class investors and others) from foreign countries back to Russia. Sanctioned personalities, first of all the richest businessmen or Russian origin, relocated their assets back to Russia in order to avoid freezing of confiscation of their property. In addition to that, sanctions prevented newly generated incomes from fleeing outside of Russia. The problem of capital outflow (or *capital leak*) was one of the biggest concerns for Russia's government since 1990s; so, the sanctions helped to solve it. This phenomenon is, of course, more a nation-level issue, but its consequences were observed inside St. Petersburg's region as well (for example, in high-value segment of regional real estate sector). Despite that a part of these in-coming assets was utilized for private consumption, the large part of these resources was used for investing in St. Petersburg's economy and in Russia's economy in general.

3. **Escape of foreign investors from St. Petersburg.** This was one of the major consequences for the regional economy as depicted in Table 1. A huge and innovative automobile cluster – one of the biggest in Eastern Europe – has disappeared. This fact also influenced a large number of small and medium businesses in the region which co-operated with automobile plants before 2022.
4. **Tightening of the Bank of Russia's monetary policy to prevent devaluation of ruble and inflation.** This consequence influenced dramatically the real estate and construction sectors of the St. Petersburg economy, making mortgages and consumer loans less accessible and threatening the further development of construction sector and real estate market.
5. **Import-substitution.** Sharp reduction of imports and foreign trade in general raised demand for local manufacturers of similar goods and boosted their production. Nevertheless, regional enterprises rapidly met limitations for further expansion: lack of necessary components, high costs for borrowing money needed for expansion, lack of qualified specialists. On demand side this led to higher prices for consumers and higher inflation in general.
6. **Budgetary stimulus.** Many manufacturing enterprises linked with military-industrial complex raised their production significantly, and this increase was driven by government orders financed from the state budget. This process had a positive stimulating effect for many manufacturing industries, especially for machine building and light industry. However, this stimulus totally depends on the budget and created limited spillover effect on regional consumer demand.

There are, of course, many other consequences of international sanctions, but the abovementioned phenomena are maximally important of St. Petersburg's economy.

As to sum up the up-to-date⁴ effect of sanctions imposed on Russia, one can conclude that they generally failed. It is obvious that their impact would be accelerating in long-term, but this very effect was initially expected *in momentum*, as all conflicts themselves have a short-term or mid-term nature. However, political changes approaching in the US and in the EU (e.g., elections of US President or elections to the European Parliament) might lead to emergence of decision-makers with more profound understanding of Russian economy. Thus, the threat of really effective sanctions being imposed on Russia and, consequently, on St. Petersburg's economy in particular, remains. In addition to that the existing Russia's economic model is internally weak and the long period of economic stagnation, depicted in this report, proves this thesis.

5. Conclusions

It might be concluded, that allocation of resources towards *militarization* and *re-industrialization* is becoming the basic trend in the economy in Russia in general and St. Petersburg in particular. This new trend led to increase of unprecedented nature in regional and national manufacturing sector, with some sub-industries increasing their output with double digit growth rate, year-on-year. This new development pattern has already altered the general economic landscape of St. Petersburg and of Russia as a whole. As a result, Russia's GDP continued to grow, and one might expect the region's GRP to follow this trend. Moreover, the IMF is still expecting Russian economy to grow in the nearest future.

On another hand, the demand sector – already in stagnation for a 10-year period – has received an additional shock in 2022-2023. Scarcity of financial resources used by Russia's authorities to boost consumption by, e.g., subsidizing the national mortgage system, has already resulted in the crisis of St. Petersburg's real estate sector. The private consumption might continue to stagnate. Another important risk is still linked with the sanctions: with the long-term effect of the existing sanction pressure and with the possibility of imposing some new economic measures on Russia's economy. Some areas of economic observation are hidden (the foreign trade statistics – as an example), and there might be numerous unexpected changes in the economy.

In general, the future structure of St. Petersburg's economy might move in the direction of Soviet-type state-driven economy with high role of manufacturing and lower role of the services sector. Its significant crisis caused by technological backwardness, outdated infrastructure and weak internal demand is inevitable in long-term.

4 By April 2024, at least.

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