

Global Economic Policy Lab

The Economics of Attrition: Fiscal Capacity and External Support in the Russia–Ukraine War

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Overview:

The Fiscal Foundations of the Russia-Ukraine War

Modern wars between states are tests of economic endurance. Once hostilities extend beyond their initial phase, outcomes depend less on tactical success than on a state's capacity to mobilize and sustain financial resources over time. Military power, in prolonged conflicts, becomes inseparable from fiscal resilience. Canonical works in economic history attribute Great Britain's ability to wage successful wars to its sound fiscal foundations ([Tilly 1993](#); [North and Weingast 1989](#)). From the first wars of the modern era to contemporary conflicts of attrition, the ability to fund war efforts has repeatedly shaped strategic outcomes.

The war between Russia and Ukraine increasingly conforms to this historical pattern. Now in its third year, the conflict triggered by Russia's invasion resembles a prolonged contest in which economic capacity and fiscal structure may prove at least as decisive as battlefield developments. Yet the two parties operate under markedly different financial constraints. Ukraine's war effort is underwritten by large-scale external support from allied governments and international institutions, delivered through grants, concessional loans and direct budgetary assistance. Russia, by contrast, faces extensive sanctions, limited access to global capital markets and must finance the war largely from domestic resources.

This divergence raises a central question: can Russia sustain financial resources on a scale comparable to Ukraine's externally supported war effort? We argue that it cannot. While Russia's defence spending has risen materially since 2022, it remains [constrained by the productive capacity of its domestic economy](#). Ukraine, by contrast, is able to sustain defence spending far in excess of peacetime norms—[exceeding 30 per cent of GDP](#)—because a substantial share of the fiscal burden is borne by foreign partners.

Finance is not all that matters, of course. Manpower is equally important. Much of the public discussion focuses on Russia's far greater population and asks whether Ukraine can withstand Russia's assault, given that its pre-war population is less than one quarter of Russia's. Put simply, if the conflict is reduced to a contest of casualties, Ukraine would need to maintain a very favourable "kill ratio" to offset its demographic disadvantage. While Ukrainian forces have, at least for now, managed to impose much higher losses on Russian troops, such ratios are difficult to verify independently and may change over time. Nevertheless, manpower alone does not negate the central role of war finance in shaping long-run sustainability.

For Russia, funding the war requires tapping export revenue, domestic taxation, local borrowing, monetary expansion, or asset drawdowns. Each source extracts resources from households and firms and risks inflation, higher interest rates, or declining living standards. As military spending rises, these pressures intensify. It is important to note that Russia does continue to earn significant foreign currency revenues,

[primarily from oil and gas exports](#). However, sanctions and financial restrictions severely constrain what Russia can do with that foreign currency. [Much of Russia's trade now comes from central Asian countries](#). Even when foreign currency is earned, though, Russian producers and workers must still be paid in roubles, and foreign currency that is spent on procuring the means of war is money that does not go to the profits of the companies that earn it. This means that, in fiscal terms, Russia's war effort remains anchored to its domestic economic system.

Ukraine's situation is fundamentally different. While Ukraine also finances part of the war domestically, a very large share of its wartime budget is [funded by foreign partners and international institutions](#), in particular the European Union. These inflows come in the form of grants, concessional loans, and direct budgetary support. Therefore, Ukraine's war spending is partially independent from its domestic economy. Foreign financing injects new purchasing power into the Ukrainian state without requiring a proportional extraction of resources from Ukrainian households and firms. This allows Ukraine to sustain levels of defense spending that would not be economically feasible during a non-war period with no external support. As the European Union continues to grapple with the question of whether to use Russian foreign reserves as collateral for war loans to Ukraine, it is timely to compare the financial basis of the war.

The central question is whether Russia can muster financial resources on a scale and under conditions comparable to Ukraine in the medium to long term. Based on our comparative analysis using Russian data that is not fully accessible from Western public sources, we argue that it cannot. Russia's access to external borrowing is sharply limited by sanctions, counterparty risk, and political isolation. Ukraine, by contrast, benefits from a broad coalition of official creditors and donors whose motivations are strategic as much as financial. In a prolonged war of attrition, it is likely to tilt the balance over time in Ukraine's favour, provided that external support remains forthcoming.

Section 1:

War Financing: An Overview

Sustaining a major war requires more than military planning; it requires durable financing mechanisms. Historically, governments have relied on a familiar set of tools: taxation, borrowing, monetary expansion and asset sales. Each can mobilise resources but also carries distinct economic and political costs. A common constraint underlies them all: the size and productivity of the domestic economy.

Taxation is the most direct and non-debt-creating source of war finance. By increasing taxes, states transfer real purchasing power from the private sector to the government. However, taxation is politically costly and economically contractionary beyond the stimulus of "wartime Keynesianism." Sharp increases in wartime taxes

reduce household consumption and business investment, slowing overall economic activity. Hence, taxation alone rarely suffices to finance prolonged major wars. Domestic borrowing involves issuing government bonds to households, firms, and financial institutions. This allows the state to postpone the immediate economic cost of war. Borrowing absorbs domestic savings, pushes up interest rates, and can crowd out private lending. As debt accumulates, interest obligations rise, constraining future budgets and limiting room for other public spending. Monetary financing provides immediate liquidity (in fact, historically, many sovereigns created central banks for this very purposes ([Gavin 2026](#)) but risks inflation and destabilised expectations if used excessively. Asset sales generate one-off revenue at the cost of liquidating national wealth.

For states reliant on domestic financing, high and rising military spending typically generates inflation, weaker investment and financial strain. These constraints explain the divergent fiscal experiences of Russia and Ukraine: one finances its war largely from within; the other draws heavily on external support.

Section 2:

Methodology

Our study analyzes fiscal and macroeconomic data for Russia and Ukraine from 2018 to 2025 to construct a comparable picture of each country's war-financing model. The objective is not precise forecasting, but to construct a coherent and comparable picture of each country's financing model: how much they spend, where the money comes from, and how these choices affect their broader fiscal position.

We draw primarily on official data from four sources: the International Monetary Fund (IMF), the World Bank, the Ministry of Finance of the Russian Federation, and the Ministry of Finance of Ukraine. We convert all nominal values into USD using annual average exchange rates from the Federal Reserve. Where appropriate, results are also expressed as a share of GDP, ensuring comparability across economies of different size.

Defence spending figures are taken from official budgets; where full-year data are unavailable, partial-year figures and institutional forecasts are used, with appropriate caution. Other data are drawn primarily from the IMF, World Bank, and the finance ministries of Russia and Ukraine. Nominal values are converted to US dollars using annual average exchange rates, with results also expressed as shares of GDP.

Section 3: Comparing Defence Spending as Shares of GDP

As Figure 1 shows, Ukraine's defence spending rises from approximately 2.7 per cent of GDP in 2019 to more than 30 per cent by 2024–25. Such levels are rare outside periods of total mobilization. What distinguishes Ukraine is not only the scale of spending but its financing: external support rises in parallel, exceeding 25 per cent of GDP. This is not coincidental. Foreign financing effectively enlarges the Ukrainian state's fiscal capacity beyond what the domestic economy alone could provide in wartime. Because these inflows do not require equivalent, immediate sacrifices from Ukrainian households and firms, the country can maintain exceptionally high levels of defence spending without triggering the kind of macroeconomic strains typically associated with such rapid increases in military outlays.

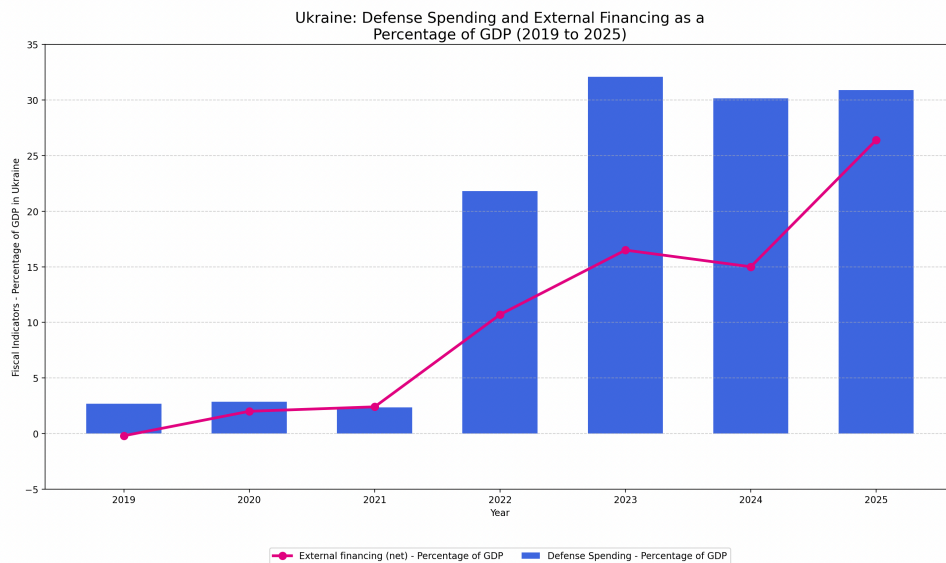


Figure 1: Ukraine's Defence Spending and External Financing, Percentage of GDP (2019 to 2025). Source: [International Monetary Fund](#), [OpenBudget](#), GEPL calculations.

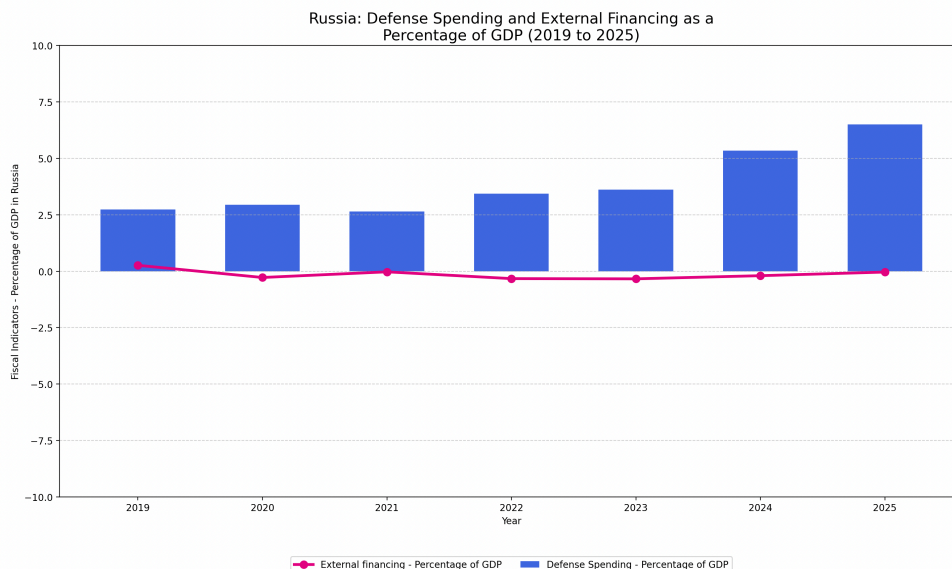


Figure 2: Russia's Defence Spending and External Financing, Percentage of GDP (2019 to 2025). Source: [Ministry of Finance of the Russian Federation](#), [World Bank](#), GEPL calculations.

Russia's trajectory, shown in Figure 2, is markedly different. Defence spending increases from around 2.7 per cent of GDP pre-war to roughly 6.5 per cent by 2025—substantial, but far below Ukraine's wartime levels. External financing is negligible or negative throughout the period, reflecting sanctions and financial isolation. Although Russia continues to earn foreign currency from exports, particularly energy, these revenues do not constitute an elastic source of war finance. Export surpluses decline after 2022 as margins compress and imports recover via circumvention channels. Moreover, export earnings must ultimately be converted into roubles to pay domestic inputs, anchoring the war effort to the domestic economy.

Trade data for Ukraine and Russia in Tables 1 and 2 place clear limits on this argument. export revenues do not relax Russia's domestic fiscal constraint in the way that official external financing does for Ukraine.

| | Exports | Imports | Net Exports |
|-------------|---------|---------|-------------|
| 2019 | 424 | 246 | 178 |
| 2020 | 334 | 226 | 108 |
| 2021 | 493 | 280 | 213 |
| 2022 | 537 | 196 | 341 |
| 2023 | 394 | 208 | 186 |
| 2024 | 476 | 383 | 93 |
| 2025 | 437 | 366 | 71 |

Table 1 – Russia: Exports, Imports, and Net Exports (USD bn). Source: [Observatory of Economic Complexity](#), [Central Bank of the Russian Federation](#).

| | Exports | Imports | Net Exports (|
|------|---------|---------|---------------|
| 2019 | 50.1 | 60.8 | -10.7 |
| 2020 | 49.2 | 53.7 | -4.5 |
| 2021 | 65.9 | 70 | -4.1 |
| 2022 | 44.4 | 55.2 | -10.8 |
| 2023 | 36.2 | 63.6 | -27.4 |
| 2024 | 41.7 | 70.1 | -28.4 |
| 2025 | 39.6 | 78.9 | -39.3 |

Table 2 – Ukraine: Exports, Imports, and Net Exports (USD bn), Source: [United Nations Commodity Trade Statistics Database](#); [Trading Economics](#).

Russia does indeed have a trade surplus, but it declines steadily after 2022, decreasing from approximately USD 341 billion to about USD 71 billion by 2025, as export margins compress and imports recover through sanctions circumvention. Export revenues therefore do not constitute an expanding source of war finance which could be deployed elastically to fund a war effort.

Ukraine’s persistent trade deficits, by contrast, reflect reliance on external transfers rather than export-based self-financing. Its trade deficit, illustrated in Table 2, is sustainable because, unlike Russia, Ukraine finances itself through grants and concessional borrowing rather than by drawing resources from the domestic economy.

Hence, export revenues do not negate Russia’s domestic fiscal constraint; they remain volatile, finite, and structurally distinct from the external financing that underpins Ukraine’s war effort.

Section 4: Financing Structure and Public Debt

Shut out of international financial markets, Russia finances its deficits almost entirely through domestic borrowing, as shown in Figure 3. Public debt remains modest in headline terms, approaching 20 per cent of GDP by 2025, but its structure amplifies economic strain. Debt is rouble-denominated, held domestically and increasingly rolled over at higher interest rates. Rising real yields on OFZ bonds indicate growing competition between government borrowing and private sector activity. In short, Russia’s debt burden is not destabilizing in absolute terms, but the structure of its financing magnifies the domestic economic costs of the war.

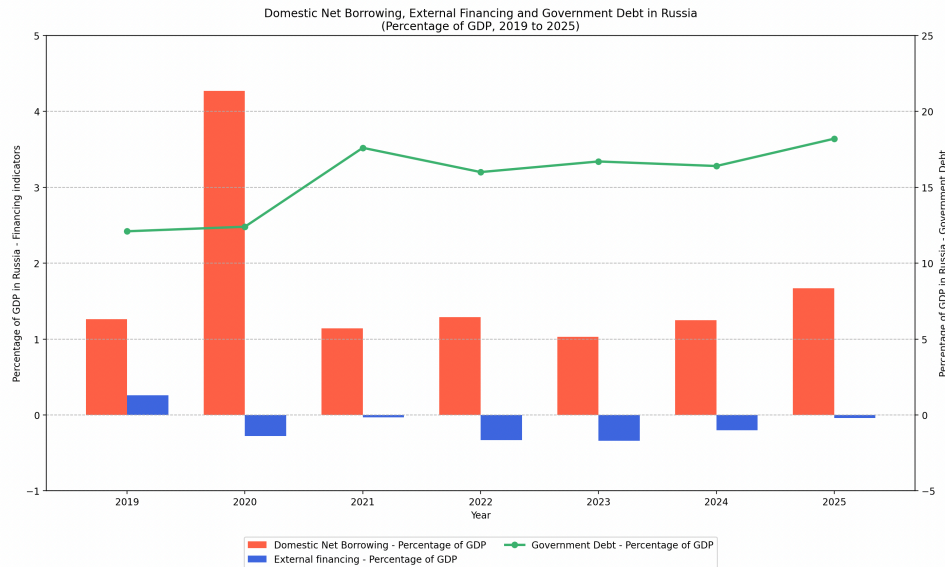


Figure 3: External and Domestic Financing and Public Debt in Russia, Percentage of GDP (2019 to 2025), Source: [Ministry of Finance of the Russian Federation; Trading Economics](#).

Ukraine’s debt dynamics are superficially more alarming, with public debt approaching or exceeding 100 per cent of GDP. However, the composition matters. Much of Ukraine’s debt consists of concessional loans with long maturities, low interest rates and extended grace periods, alongside outright grants. As a result, near-term debt-service costs remain manageable. External financing reduces the need for inflationary money creation or domestic austerity, shielding the wartime economy from the full fiscal burden. The result is a counterintuitive but important conclusion: Ukraine can sustain a much higher debt-to-GDP ratio than Russia because the economic cost of its debt is, at least in the near term, far lower.

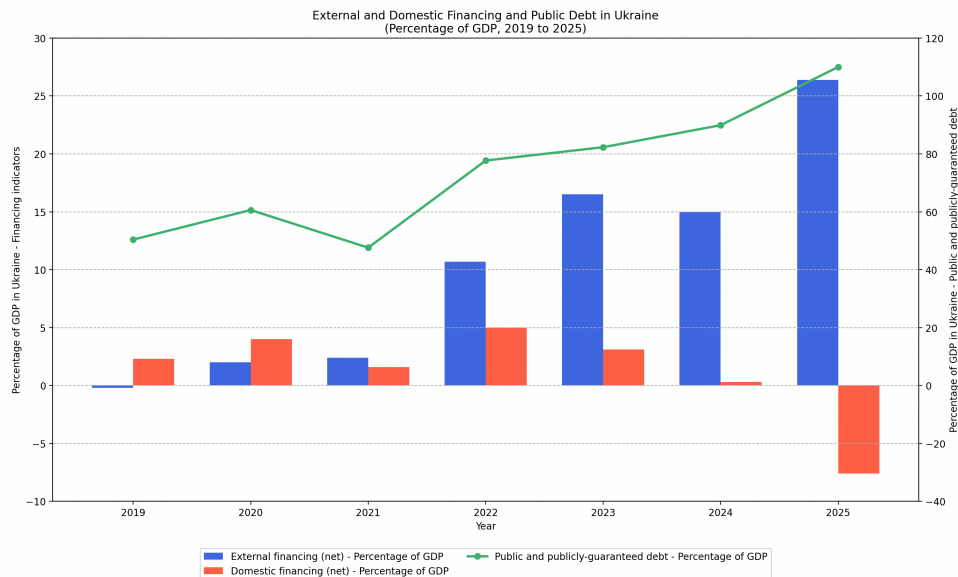


Figure 4: Figure 3 – External and Domestic Financing and Public Debt in Ukraine, Percentage of GDP (2019 to 2025), [International Monetary Fund](#), GEPL calculations.

Section 5: Sources of Funding

Russia's war financing relies on a closed domestic system centred on the [OFZ bond market, with bonds held by commercial banks, state-owned enterprises, pension funds, and domestic households](#). With external markets largely inaccessible, the state recycles domestic savings, tightening credit conditions and increasing balance-sheet interdependence between the government and financial institutions. Rising real yields reflect the growing cost of sustaining this model.

| | OFZ 10y (nominal, %) | CPI (annual, %) | Real yield (%) |
|-------------|-------------------------|-----------------|----------------|
| 2019 | 6.41 | 3 | 3.41 |
| 2020 | 6.27 | 4.9 | 1.37 |
| 2021 | 8.44 | 8.39 | 0.05 |
| 2022 | 10.31 | 11.94 | -1.63 |
| 2023 | 12.44 | 7.42 | 5.02 |
| 2024 | 15.22 | 9.52 | 5.7 |
| 2025 | 14.12 | 6.6 | 7.52 |

Table 3 : Russia: OFZ 10-Year Nominal Yields, CPI, and Real Yields (%), Source: [Central Bank of the Russian Federation](#).

This constraint is reflected by Table 3, which displays Russia's OFZ yields over time. While nominal yields have risen from roughly 6-7% in 2019-2020 to above 14% by 2024-2025, real yields adjusted for inflation have surged from near zero in 2021 to over 7% by 2025. Negative real yields in 2022 briefly lowered the effective cost of debt but were a temporary anomaly, occurring during a period of elevated inflation (CPI of 11.94%).

Ukraine's financing, on the other hand, is dominated by external official creditors. In 2025, its [principal creditors](#) are the European Union, via macro-financial assistance packages; the International Monetary Fund, through multi-year lending programs; the World Bank and other multilaterals; and bilateral donors issuing concessional loans or outright grants. Notably, the United States has not directly contributed any financial support to Ukraine since the Trump Administration has taken office. This creditor landscape fundamentally transforms Ukraine's wartime fiscal capacity.. Foreign inflows inject purchasing power without requiring equivalent, immediate cuts in household consumption or domestic investment. Many loans carry long maturities, below-market interest rates, or multi-year grace periods. Grants do not need to be repaid at all. As a result, even very high levels of public debt impose relatively low near-term servicing costs.

Conclusions and Implications

As our analysis shows, Russia's creditors are domestic and finite; Ukraine's are external and strategically motivated. Russia's war effort directly competes with civilian consumption and private investment. Ukraine's is buffered by foreign support. This distinction shapes resilience, trade-offs and time horizons. Ukraine can sustain high-intensity warfare without exhausting its domestic economy to the same degree as Russia. Russia's fiscal system operates as a closed loop: additional military spending forces reallocations within a constrained economic base. Ukraine's fiscal capacity, by contrast, can expand with continued external support.

As the war drags on, fiscal asymmetries are likely to widen. Ukraine can maintain elevated spending as long as external support persists. Russia faces accumulating economic strain with each additional year of conflict. In financial terms, the contest increasingly pits Russia against the combined economic weight of Ukraine's backers.

Several limitations apply: data for 2025 rely partly on forecasts; exchange-rate volatility complicates comparisons; and Russian post-2022 spending data are increasingly classified. Most importantly, the geopolitical environment of a US Administration apparently bent on forcing a conclusion of the war at Ukraine's expense and the squabbling of its European partners are more likely to be decisive. Nonetheless, the structural conclusion is robust: Ukraine's war financing is externally elastic; Russia's is domestically constrained. In a prolonged war of attrition, that difference would likely to prove consequential.

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