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Irkutsk and Kemerovo: warning signs for regions at war

Andras Toth-Czifra on how declining extractive rents, stagnant wages, and unsustainable social obligations signal rising fiscal fragility in Russia's industrial periphery



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According to Rosstat's industrial production figures, apart from the poorly industrialized North Caucasus, it is the Siberian Federal District that has experienced the biggest industrial decline this year. Two industrialized regions, Irkutsk and Kemerovo stand out for not only having faced growing problems in their local economies this year (and, in Kemerovo's case, last year), but for the already palpable impact that these problems have had on their budgets and the local

population, creating political risks. At the end of the third quarter of 2025, both regions were among those with the highest budgetary deficits (with a deficit reaching 24.6 percent of the region's own revenues in Irkutsk and a whopping 34 percent in Kemerovo), and they were in the process of adopting 2026 budgets with significant cuts.

Looking at data on the execution of this year's budgets, it is easy to see the link. Both regions saw a precipitous fall in their corporate income tax receipts relative to last year. In the first ten months of the year receipts from this tax were 28.3 percent lower in the Irkutsk and 29.5 percent lower in the Kemerovo Region than in the same period a year prior, contributing to an overall nominal revenue drop of 3.6 and 10.3 percent respectively — the only two Siberian regions to record lower nominal revenues than in 2024, and for Kemerovo this was the second lean year in a row.

Corporate income tax receipts fell this year in most Russian regions, suggesting a worsening economic climate as well as, in all likelihood, a degree of tax optimization after tax hikes introduced last year that benefited the federal budget. Of Russia's 83 regions, Kemerovo and Irkutsk saw the 8th and 9th largest fall in these revenues, respectively. However, they also saw the 6th and 2nd smallest growth in personal income tax receipts — the other most important revenue source for regional budgets — at 3.6 and 0.9 percent respectively, far below the rate of inflation. Even though the pace of nominal salary growth — and that of the associated tax receipts — has been slowing across Russia for months, these figures place the two industrial regions squarely among the outliers.

Meanwhile, expenditures have kept outpacing incomes. After revenues in 2024 fell short of expectations by close to 60 billion rubles the Kemerovo Region made major cuts in its 2025 budget — expenditures on the regional economy were 13 percent below 2024 levels -, but overall expenditures were still only 7.8 percent lower than last year's, while in the Irkutsk Region they were 8.2 percent higher. The culprit is a significant rise in social spending: almost 10 percent in Kemerovo, more than 15 percent in Irkutsk. When speaking about their region's fiscal struggles, both governors hinted at a major driver of this spike when stressing that social spending, especially for the «participants of the special military operation», was not in danger.

A combination of troubles

Kemerovo's troubles are primarily connected to the ongoing crisis of the Russian coal industry, of which the region, encompassing most of Russia's more than thirty coal-dependent single-industry towns, is the most important center. After a bumper year of windfall profits in 2022, the crisis that hit the coal industry and the region started in 2024 and has been ongoing ever since. The crisis itself was triggered by a constellation of negative factors, some of them self-induced: the war against Ukraine and the ensuing sanctions cut Russia off of European coal markets; the resulting overdependence on exports to China made Kemerovo's export-oriented coal companies — that have priority access to railway networks — increasingly unprofitable due to long-standing logistical bottlenecks and falling prices; the slowdown of domestic sectors such as metallurgy and construction in 2025 have also made things worse.

The combined net profit of the ten largest coal companies in the region collapsed from 200.3 billion rubles in 2022 to just 13.3 billion rubles in 2024, resulting in a fivefold reduction in their corporate tax payments. Of the biggest coal producers Kuzbassrazrezugol experienced a drop in profit from 121.7 to 12.5 billion rubles over two years. Yuzhny Kuzbass, a smaller, but still significant producer went from a 12-billion-ruble profit in 2022 to an almost 20-billion-ruble loss in 2024. As of November, 75 percent of the region's coal enterprises were operating at a loss, with 18 companies having already suspended their operations and 30 more in a «red zone». Making

fiscal prospects even worse, in November the EVRAZ metallurgical plant in Novokuznetsk announced that it would move its tax residency to the Sverdlovsk Region for tax optimization reasons. Several major companies and their associated enterprises furloughed workers or reduced their wages. Wage arrears became a substantial problem in 2025, with over 509 million rubles owed by bankrupt coal companies. These developments, in turn, have weighed heavily on personal income tax payments.

The Russian government has, as the Independent Union of Miners noted, refused to adopt a plan for the fundamental restructuring of the coal sector, focusing instead of spreading losses and supporting exports. A federal support plan adopted in May and extended in December centered on tax deferrals, credit breaks and subsidized tariffs, and required coal companies to apply to the federal government for individual aid. Its total planned size at 178 billion rubles fell short of the 300–500 billion rubles of losses estimated for 2025. It did not address the region's fiscal shortfall — offering, instead, a high-interest loan from VTB and bond issuance — and did not settle the issue of wage support. While Kemerovo and the coal industry have a powerful lobbyist in the federal government in energy minister Sergey Tsivilyov, himself a coal entrepreneur, former governor and the husband of Vladimir Putin's cousin, in matters like this the president has tended to heed the advice of technocrats, cautious not to create a precedent of the government lavishing money on an ailing industry and tempt others to request similar aid.

Irkutsk's economy, centered on raw material extraction and power generation has not fared well this year, either, in line with the wider decline of extractive sectors across the country. However, the region also saw an exodus of enterprises with more than 900 taxpayers re-registering to other regions in 2024 due to Irkutsk's high regional taxes compared to other nearby regions, such as Buryatia, a trend continuing in 2025. Indeed, the regional government itself ascribed the lower-than-expected growth in personal income taxes to «a large investor» withholding dividends and moving their tax residency to another region.

Like most Russian regions, Irkutsk has very little reserves to cover current expenditures. As of September 1, it had a mere 900 million rubles remaining, sufficient to cover only one to two days of expenses. As the region has tried to plug at least some of the holes on its budget with high-interest commercial loans, it has increased its debt servicing costs. Irkutsk's debt servicing costs increased elevenfold in the first half of the year. The regional government continued taking out high-interest debt in November, and while regional debt is still at a manageable level, the legislature had to reallocate expenditures to service debt.

It is not only roads — several other «non-essential» expenditures are being cut. Budget sequestration in October caused a scandal, with the region's Association of Municipalities and the regional Prosecution both opposing the governor's «non-standard solutions» in a rare pushback against the governor, arguing that public employees such as teachers may not receive their full salaries due to a lack of funds. Forest firefighters balked at reduced salaries and layoffs. Governor Igor Kobzev announced the creation of a crisis management commission and the region formed a small reserve of one billion rubles to ensure salary payments in the public sector. The region's 2026 budget, adopted in November, cuts expenditures on infrastructure construction and renewal, education, health care and even a drone manufacturing program. The regional construction ministry warned of a «major conservation of construction projects» in 2026, prioritizing only those with federal funding.

Irkutsk's fortunes are not looking up, either. Commodity prices are forecasted to remain low in 2026. The planned Angara-Yenisei deep processing cluster for rare and rare-earth metals will take several years to launch in earnest. In November Rusal, a major non-ferrous metal producer, announced that it would temporarily halt production at its silicon plant in the region, starting

January 1, due to global overproduction and rising imports into Russia at dumping prices, all while a decline in domestic consumer sectors like metal alloys, electronics, and construction means depressed demand. This will put further pressure on the region's finances. Economic activity is further held back by insufficient power generation capacity: the region, once a net energy exporter, now faces a deficit of 1 GW, which industry experts say will grow further. This has been exacerbated by unreliable grid maintenance. The problem cannot be solved easily and quickly: new power generating capacity takes time to build; banning cryptocurrency mining comes at a cost as miners leave to other regions, and revamping the region's tariff system to crack down on overconsumption has led to public dissatisfaction.

Unclear perspectives

As noted above, budgets are facing leaner times in most Russian regions next year, even in those where — like in Irkutsk — higher spending on defense production and the war in general had led to higher incomes. Social spending obligations will remain high in the foreseeable future and in many regions spending on renovations and investments are also growing. Due to their significance for political stability, these are untouchable priorities in regional budgets, just as spending on the military and the occupied territories is untouchable in the federal budget. At the same time, while the federal budget has been able to raise further income by improving tax collection and raising taxes without worrying about capital flight, regions have little control over their income, most of which consists of income taxes and transfers that they do not themselves set. Attempts to shore up budgets by collecting more taxes makes, at best, a modest difference and, as the examples of Kemerovo and Irkutsk show, can lead to taxpayers simply re-registering in another region. In the absence of reliable federal transfers, regions without reserves — or major assets to sell — are often forced to rely on taking out debt or cutting expenditures. Irkutsk's growing debt burden is not specific to the region, either. Over the past decade the federal Finance Ministry drastically reduced debt servicing costs for regions by replacing commercial loans with cheap budgetary loans, however, as money became tighter on the federal level, several regions and municipalities have again started to take out loans from the market (often to repay federal loans).

What makes the situation especially bad in these two Siberian regions is the combination of losses from two major revenue sources and structural issues that are difficult to resolve under wartime conditions from the regions' own resources, but which risk creating social problems and political risks otherwise. In 2023–24 the trickle-down effects of war spending have mostly compensated regional treasuries for the losses sustained due to sanctions and the refocusing of the federal budget; but this is no longer the case. Furthermore, given the uncertain timeline of the war, there is currently no sense of when the circumstances exacerbating these regional economic crises will change. If the expectation is that in the near future Kemerovo mines will again have access to European markets, or that the federal government will have windfall revenue to invest into turning Irkutsk into a technological hub, then it is easier not to address structural issues. But what if this is not going to happen? For now, it appears that the federal government is satisfied with providing occasional transfers to regions only when and where there are acute problems, otherwise opting to make regional budgets and large companies (e.g. Russian Railways, which is pushing back heavily against subsidizing the coal industry) swallow the losses.

In this sense, the economic and fiscal problems of the Irkutsk and the Kemerovo Region serve as early warning of what may soon come to other regions that rely on vulnerable industries. Barring a major turnaround in the war in Ukraine or in Russia's economic situation, as much as this acts against the logic of Russia's crisis management system, more federal money will likely

be needed to keep problematic regions and struggling industries afloat.

