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POLICY BRIEF SERIES

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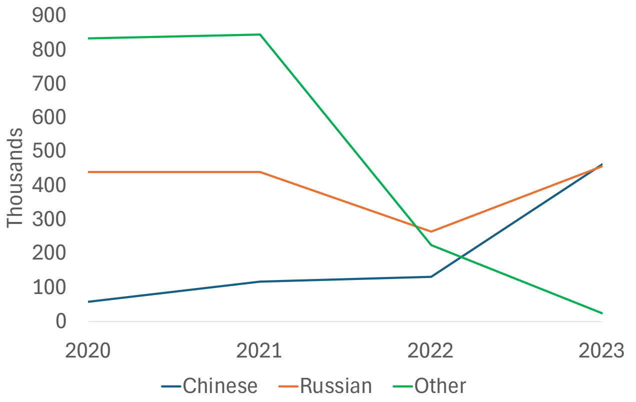
Russia's Car Fleet Dynamics – and Why They Matter

Russia's car imports have evolved dramatically since its full-scale invasion of Ukraine in February 2022. The invasion and subsequent sanctions have led to a shift away from mainly western car imports to domestically produced cars, and especially Chinese cars – both entailing quality concerns. Despite state sponsored loans reliefs, the heightened inflation pressures in Russia and increased financial burden on households is catching up to the car market – in the first quarter of 2025, the sales of new cars decreased by 25 percent compared to 2024. This policy brief uses the developments in the Russian primary car market as a lens to examine the spending power of Russian households and highlight the limitations of state interventions under sanctions and inflationary pressure.

From Western Dominance to Domestic Car Sales

Prior to February 2022, imports of American, European, South Korean and Japanese (hereafter called western) cars stood for about 60 percent of all new car sales in Russia. Domestic production took up most of the remaining 40 percent market share (SITE, 2024). In 2023, the number of western car sales was almost zero as most of these automotive firms exited the Russian market following the country's war on Ukraine. Collaborations between European and Russian automotive companies, such as between Renault and Autovaz, as well as production of western cars in Russia, were also largely abolished. The mass exodus severely impacted the production levels in the Russian automotive industry; in 2021 around 1 350 000 cars were produced in Russia, dropping to around 450 000 in 2022, and increasing to only about 750 000 cars in 2024. However, the sales of new Russian cars fell in the immediate months following the invasion and subsequent sanctions but managed to bounce back to initial levels in 2023 (Figure 1).

Figure 1. New car sales in Russia



Source: Association of European Businesses. Note: Detailed data for 2024 and 2025 is unavailable.

The Chinese Import Surge

While the sale of Russian cars rebounded following the invasion, the key market player post-2022 is China. As illustrated in Figure 1, in 2023, the sales of newly produced Chinese cars in Russia were eight times the 2020 figures.

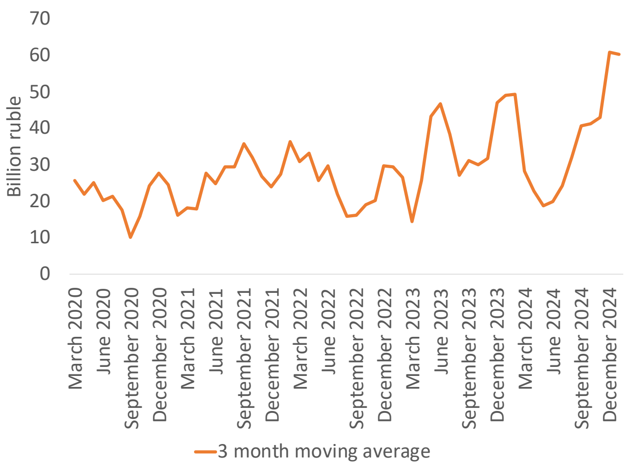
Although the imports of Chinese cars made up for a large part of the massive withdrawals of western cars post-invasion, new issues have arisen. Chinese cars are considered unfit for Russian weather conditions, and spare parts are also considered to be of low quality. Additionally, Chinese cars are reported to survive shorter total mileages (about half, compared to many western brands), and to have poor electronic and ergonomic systems. Still, prices for a Chinese car are generally higher than for a Russian car, mostly due to taxes and import tariffs. To dampen the recent Chinese expansion on the car market (in 2025 accounting for 63 percent of the market), Russia in March 2025, hiked the import tax on Chinese cars from nearly $6000 to $7500. Furthermore, the price of Chinese cars is expected to increase in 2025, following a depreciation of the ruble against the yuan.

High Prices, Large Loans

Not only Chinese cars have met criticism when it comes to quality and price. In summer 2022, Autovaz declared that the 22 model of the classic Lada Granta would be void of air bags, an ABS braking system and a brake assist system, due to a scarcity of imported components. A subset of the model has since been equipped with a driver-seat air bag. Despite such major shortcomings, prices for new Russian-made cars have increased by 67 percent since the onset of the war. These price increases are mirrored on the secondary market where the price for a used foreign car have increased by 60 percent since 2022.

Another feature of the Russia automotive market concerns the large increase in automobile loans granted to businesses and entrepreneurs over the last four years (Figure 2).

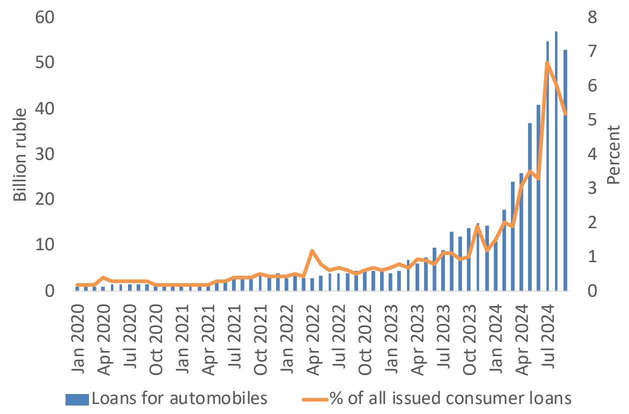
Figure 2. Volume of companies' automobile loans



Source: Rosstat.

While the near doubling in the loan value for companies' car loans seems large, its growth is small compared to that for individuals. Since the onset of the war, the volume of private car loans has grown more than fivefold. This increase is arguably spurred by the preferential loans scheme for the purchase of new cars, introduced mid-July 2022 and granted to Russians with at least one child under 18, new car owners, people employed within health and education, military personnel and their close relatives, and disabled people. The so-called loan (projected to be in place up until 2027) applies to car purchases in Russia of a maximum 2 million ruble and discounts the price by 20 percent (25 percent for cars sold in the Far East Region). Under this scheme, car loans constituted almost 6 percent of all consumer loans in mid-2024, a sixfold increase in just a year (see Figure 3). This trend has not waned off since 2024. In December 2023, 70 percent of all cars bought in Russia were financed by borrowed funds. The size of an average car loan also grew substantially, around 20 percent, between 2022 and 2023. At the same time, the share of risky borrowers increased. In October 2024, 60 percent of the borrowers had a Debt Service-To-Income (DSTI) Ratio of over 50 percent, indicating that a large segment of car buyers will potentially be unable to repay the debt (CBR, 2024).

Figure 3. Private automobile loans



Source: CBR (2024). Note: Figure based on approximation from CBR figure.

Household Strains and Financial Risks

Over the last five years gasoline prices have gone up by about 17 percent (standard petrol), alongside substantial price increases for nearly all major consumption goods in Russia – driven by the rampant inflation. In fact, the price of the Russian consumer basket nearly doubled between February 2022 and August 2024. Progressive income taxes have been introduced for about 3.2 percent of the working population – increasing taxation from 13 percent up to 22 percent. Furthermore, in July 2024, the subsidized mortgages for newly built apartments were scrapped such that all buyers now face a 16-20 percent rate (SITE, 2025). While real wages did increase by 8 to 9 percent in 2023 and 2024, real pensions did not. Furthermore, reported inflation figures are likely severely understated, with actual inflation being around 20, rather than the reported 9.5 percent. If so, the actual real wage growth would be about 0 percent (SITE, 2025).

This undermines the spending power of Russian households, which is now being reflected on the primary car market. There has been a sharp drop in car sales – 25 percent in the first quarter in 2025, and car prices are also on the decline. This, combined with the growing reliance on credit, signals that many consumers are no longer able to make large purchases despite the state driven support scheme – pointing to major affordability issues. Given that the preferential loans scheme will be in place only up until 2027 and that Chinese cars will likely become more expensive, demand may dwindle even further in the years to come. In such situation, the government could be forced to expand their preferential scheme to artificially keep up demand levels, taking on greater financial risks and associated costs. They may also increasingly close off the inflow of Chinese cars, which leave consumers with no options outside of domestically produced cars.

The falling demand for cars may also be considered an indicator of household's beliefs about the economic conditions to come. That is, the demand for cars could be a signal of consumers understanding that the economy is, or will shortly be in a recession (Attanasio, Larkin, Ravn and Padula, 2022). While the Russian war time economy is not currently displaying recession signs, its persistent issues with rampant inflation, rapidly growing household mortgages and changes in the credit to GDP ratio signals its financial stability is at risk. As discussed in the report "Financing the Russian War Economy", these are key indicators correlated with banking crises (SITE, 2025). If declining demand for cars is a sign of consumers perceiving the economy as increasingly fragile, this perception could amplify existing vulnerabilities.

Conclusion

The automotive sector offers comparatively timely data, making it a useful window for assessing the financial situation of Russian households. In the current automotive landscape in Russia, buying a new car is becoming increasingly expensive. This has forced not only private buyers but also businesses to increasingly take up loans to cover the payment of a new car – often despite reduced quality and limited choice. The demand for new cars is partly driven by state intervention – particularly the preferential loan scheme. This not only places a growing financial burden on the state but also carries rising risks of borrowers defaulting. At the same time, the current trends in the sector illustrate the growing limitations of both import substitution and state-backed credit schemes as tools for maintaining consumer demand. The recent drop in new car sales, despite state support, may reflect a growing reluctance among households to make large purchases, exposing how Russian household's purchasing power are eroding in the Russian wartime economy. Importantly, this drop may point not only to affordability issues but also to a broader perception that the financial system is increasingly unstable.

Overall, the dynamics in the automotive sector suggests that the Russian economy is not doing as well as officially claimed, adding support for the effectiveness of sanctions and company withdrawals from the Russian market.

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