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Russia

OUTLOOK 2026

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Executive summary

As Russia approaches the symbolic milestone of 1,418 days of war in Ukraine on January 12, 2026—the length of the Soviet Union's involvement in World War II—military progress remains limited, but the Armed Forces of Russia (AFR) retains the upper hand as the Armed Forces of Ukraine (AFU) is in slow retreat.

In 2025, Russian forces captured less than 1% of Ukrainian territory, but at the same time Ukraine faces a slow moving collapse of its defence thanks to the shortage of [men, money and materiel](#). Moscow may not be making rapid advances but with the economy now on a full [war footing](#) it continues to enjoy a growing material advantage and ramp up military production. Military spending now accounts for 7% of GDP and the Kremlin has enough funds to continue the war for at least another two years if needs be, despite a sharp economic slowdown.

Domestically, Russia's economy showed early resilience due to high state spending and tight monetary policy. Real incomes rose in 2023–2024, but by late 2024 that model was exhausted.

Inflation surged at the end of 2024, peaking at 10%, and the Central Bank of Russia (CBR) responded with aggressive rate hikes, raising the prime rate to 21%. A policy shift in mid-2024 led to credit tightening, causing GDP growth to slow to under 1% by year-end. The slowdown was engineered and successful in that inflation began to ease, ending 2025 at under 6%, enabling the CBR to cut rates by 500bp over the course of the year.

However, economic pressures mounted. Small businesses reported a 40% drop in turnover, while corporate debt risks grew as interest payments consumed most profits. The budget deficit widened sharply to an estimated 2.6% of GDP in 2025, missing the target of 0.5%. Growth dropped close to zero in the second half of 2025 and it now seems highly likely that the Russian economy will go into recession in 2026 before resuming meagre growth in 2027 – depending on what happens with the war in Ukraine.

Despite this, Russia retains substantial reserves, including RUB11.4tn (\$124bn) in the National Welfare Fund and access to RUB20tn in banking sector liquidity. In addition, hard currency reserves, a third of which is monetary gold, surged to over \$700bn on the back of record prices for gold.

Looking ahead, Russia aims to shift toward more balanced growth in 2026. Russian President Vladimir Putin has revamped the [National Projects 2.2](#) in December 2025 to make the economy “more efficient” and boost social spending in an effort to improve the quality of life. Inflation easing and modest GDP growth of 1–2% are expected in 2026.

Military expenditure is set to decline slightly under the new 2026–2029 budget but remains extremely high and will continue even if the war ends as the Kremlin begins to rebuild its stocks that have been depleted by four years of war.

The government is advancing economic reforms, including improved tax collection and productivity-focused policies. Politically, support for the war remains stable but public fatigue is growing.

On the international stage, Russia welcomed the Trump administration's revised US National Security Strategy, which upgraded Russia's status and pledged to halt Nato expansion. This stance alarmed European leaders, who voiced concern over declining transatlantic cooperation.

Military rankings published by *Business Insider* in November 2025 placed Russia second globally. Analysts say Russian military capacity now far

exceeds Europe's, which remains at least a decade behind in key capabilities such as hypersonic missiles and advanced aircraft.

Despite economic strain, Russia's financial position remains stable enough to sustain the conflict for several more years if needed. Peace talks are under way, but Moscow retains leverage amid Ukrainian economic collapse and Russian battlefield advances.

1.0 Politics

The fourth year of Russia's invasion of Ukraine brings the conflict closer to a symbolic milestone: on January 12, 2026, it will have been 1,418 days since the war began — the exact length of the Great Patriotic War (World War II in Soviet historiography). The comparison makes it difficult to ignore how much more limited Putin's military gains have been than those of his Soviet predecessors.

Over the course of 2025, Russian forces seized less than 1% of Ukraine's territory, and at the current pace, it would take over a year just to reach the administrative border of Donetsk region. Nevertheless, Russia's forces are making steady gains and Ukraine has been put entirely on the defence with no hope of victory. At the time of writing, peace talks were underway and the expectations that the war will end in 2026 are high.

Population under pressure in 2025

The first year of the war was chaotic with the CBR hiking rates by a whopping 1000bp as the ruble's value collapsed. However, the swift action by the Central Bank of Russia (CBR) quickly restored stability and as the war got under way a military Keynesianism boost of heavy state spending kicked in at the end of the first year coupled with a [chronic labour shortage](#) caused by the war that sent real disposable incomes soaring.

Both 2023 and 2024 were some of the most prosperous years in Russia's three decades of independence, according to locals. A new [war middle class](#) was created as, like for Americans, the war was happening somewhere else and was not visible inside Russia. The only effect of the war was to send inflation up which started rising relentlessly from the end of the first quarter of 2023.

But the war bump was exhausted by the end of 2024 as the central bank matched the rising and persistent inflation with rate hikes. The prime rate reached a crushing 21% with inflation at a persistent 10%, largely unaffected by the tight monetary policy. Unable to reduce inflation as the Kremlin continues to pump up prices with ever more military spending, in the middle of 2024 CBR governor Elvia Nabiullina began an [unorthodox experiment](#), stamping on all credit she could to artificially [cool the economy](#) that took effect at the start of 2025.

While GDP growth fell to under 1% in each of the progressive quarters, inflation began [falling faster than expected](#) across the whole country to end the year at around 7% that also allowed the regulator to put in [500bp of rate cuts](#).

However, the crash landing of the economy has cut into the prosperity Russians were enjoying. Although headline inflation is down and real incomes are nominally still rising, inflation is particularly high, well above the headline figure, in categories like food that hurt the consumer most. For example, the [Borscht index](#), which follows the cost of the ubiquitous soup, has fallen. One average monthly salary was enough to prepare 179 servings of soup in 2021,

but that had fallen to 174 by November 2025, so the consumer appears better off only on paper.

The slowdown has affected small business badly with *bne IntelliNews* interlocutors in Moscow reporting that SMEs have seen turnover fall by around 40%. At the big corporate level the high interest rates have eaten into profits and a [debt crisis](#) is slowly building as interest payments eat up four out of every five rubles of profit. However, as Nabiullina pointed out in November, the non-performing loan (NPL) rate remains at the typical 4% of loan book so no one is in trouble yet. Nevertheless, she ordered banks to recapitalize in anticipation of trouble in 2026.

In a speech at Russia's annual "Russia Calling" investment conference, Nabiullina warned that Russia faces economic [stagnation](#) in 2026 unless more reforms are pushed through to reinvigorate the economy. The prime interest rate was 16.5% as 2025 drew to an end, but German Gref, CEO of Sberbank, warned that unless rates were reduced to 12% in 2026 the economy could not rebound. Despite the success of Nabiullina's experiment, the prospects of more rate cuts were reduced by a two-point hike in VAT rates that come into effect on January 1, 2026 to raise more money to plug swelling [budget deficit](#) that will increase inflationary pressure – although the choice of hiking VAT rates was the least inflationary option available, according to Russian Finance Minister Anton Siluanov.

Military spending has been relentless in 2025 and accounts for 7% of GDP – the highest amongst major powers. Slowing growth and falling oil prices, as an oil glut builds, cause the government to badly miss its budget deficit target: the prediction at the start of 2025 was for 0.5% of GDP, but as December started it was already at 1.9% and is likely to be circa 2,6% for the full year, as 20% of all annual expenditure comes every December.

The deficit overshoot is painful, but not a disaster. While the National Welfare Fund (NWF) has been run down, but it still held RUB11.4 trillion (\$124bn) and RUB6.2 trillion (\$67bn) in the liquid part – enough to cover the projected deficit twice over. Plus there is another circa RUB20 trillion of liquidity in the banking sector that can be tapped via the Russian Finance Ministry's OFZ treasury bills. And Russia's taxes remain some of the lowest in Europe. Putin could keep the war up for at least three years with much problem, when it comes to financing it.

Russian economy war stress

Is Russia close to collapse? One of the European Commission (EC) executive assumptions for wanting to extend the war in Ukraine by two years is they seem to believe Russia's economy is [close to collapse](#) and that just a few more sanctions will tip it over the edge.

It is true that as 2025 comes to an end the Russian economy is hurting with high inflation (6.6%), high interest rates (15%), and in particular a ballooning budget deficit (1.9% of GDP). However, the macroeconomic team has most of these problems in hand. Inflation has been falling all year allowing the CBR to put in [500bp of rate cuts](#) over the year and a 2 percentage point hike in VAT to 22% will help reduce the deficit.

Given Russia is fighting a war, what is remarkable is just how unstressed the economy is. After the US entered WWII in 1942 it ran a deficit of 14% that year, rising to 27% the next year and maintained a deficit of around 22% for the next two years. The US introduced a raft of tax hikes and launched a war bond programme to tap the population's savings to fund the gap. The only thing Russia has done is [hike VAT](#) rates by 200bp to 22% from January and doubled its domestic bond issues. The Ministry of Finance (MinFin) has plenty of ammo in its arsenal to pay for a prolonged war if it needs to.

More balanced growth in 2026

In 2026, the emphasis will shift towards a more balanced growth model. Falling inflation will take some of the pressure off the budget and growth is expected to improve from the 0.5%-1% estimated for 2025 to 1%-2% in 2026.

The new three-year 2026-2029 budget saw the first small cuts in military spending as the Kremlin intends to continue reforms that have been going on during the war to cut corruption and improve tax collection efficiency. For example, a new IT tax system has seen the tax take increase by 20%, which the tax burden only increased by 2% (with an addition 2-points when the VAT hike takes effect in January 2026). Putin is conscious of the need to rebalance the economy which he laid out in his "[guns and butter](#)" speech in 2024.

Putin laid out the plans for reform in an upgraded [National Projects 2.2](#) in December 2025 at the same "Russia Calling" conference, which had a heavy emphasis on dealing with the demographics problems and improving Russia's labour productivity – the economy's main ill.

Politically, the situation remains stable, despite the growing cost-of-living problems, and there are no major political events on the calendar. [Patriotism is at an all-time high](#) although the population has become more war-weary; according to the latest polls most Russian believe that Russia has already [achieved its major war goals](#) and would be happy to see the war end.

At the time of writing, the first serious talks to end the war in Ukraine were underway, but with the Armed Forces of Russia (AFR) making rapid progress on the battlefield and Ukraine facing a [macroeconomic collapse](#) in the 1Q26, the war looks very likely to end in 2026. Putin is already in a position to claim a victory and halt hostilities with little political backlash.

If the war does end, the Kremlin is unlikely to dismantle its war machine as it needs to restock in preparation for a potential war with Nato. It will take a decade to [rebuild Russia's military](#) capabilities, which already vastly [outgun Europe's military capabilities](#), and the threat of an attack on Europe will be important for the uncomfortable relationship Moscow is going to have with Brussels going forwards. Because of the future tensions, Putin is more motivated to reach a negotiated peace deal than most assume.

Geopolitics

The Kremlin has reacted positively to the updated United States National Security Strategy ([NSS](#)), published in December by the Trump administration. Senior Russian officials said that the document opens the door to a much improved relationship with the US. The NSS downgrades Russia from enemy

to mere rival and makes it “Europe’s problem.” US president Donald Trump remains focused on eventually doing business with Russia.

The NSS significantly promotes Russia from “rival” to a regional hegemon, as a member of the “[Core 5](#)” country (or “C5” including, US, China, Russia, India, Japan) that Trump believes should run the world in place of the G7.

Vladimir Putin’s press secretary, Dmitry Peskov, said that Trump’s strategic vision “largely aligns with Russia’s,” and described this as “a modest guarantee that we can constructively continue working together to find a peaceful settlement in Ukraine, at the very least.”

The Kremlin also welcomed the NSS downgrading of Nato and the promise to end its expansion – an indirect reference to banning Ukraine’s membership in the alliance -- framing it as a shift “against confrontation and toward dialogue.”

Europe was horrified by the NSS which not only signalled the US withdrawal from its security set up, but also promised ongoing interference in domestic politics to promote “friendly” (MAGA aligned) parties that will promote the far-right across the Continent. German Foreign Minister Johann Wadepuhl was scornful of “unsolicited and outsider advice” concerning freedom of speech and democratic standards in Europe. Polish Prime Minister Donald Tusk cautioned that “Europe is your closest ally, not your biggest problem,” and reminded Washington that the EU and the US “share common enemies.”

Support for the war

Respondents who would welcome an end to the war in Ukraine, troop withdrawal, prioritize social spending over military, and do not express clear support for the “special military operation” for almost two years has [hovered steadily](#) at around 20%. However, politically active war opponents are a small sliver of a much larger anti-war field whose majority make up only 4% of the population, according to a [paper](#) in *Riddle* in December.

Military might

Europe is both unwilling and unable to pay for the war in Ukraine, although on the face of it the EU has a large defence industry. Washington this year is expected to spend \$980bn on defence, the EU and Britain \$525bn – and Russia some \$154bn, according to the Stockholm International Peace Research Institute.

However, if you look at these numbers in PPP terms then Russian military spending should be increased by 2.5-times the nominal value and military spending can be as much as five-times more in real terms.

On November 14, The Business Insider (BI) published its annual ranking of global military power, placing Russia second. The ranking did not include nuclear weapons. The country also ranked first in several types of vehicles and weapons. Moscow possesses self-propelled and towed artillery, multiple launch rocket systems, and a fleet of mine countermeasures.

The EU has committed to a €800bn [ReArm](#) programme over four years as well as hiking defence spending from 2% of GDP to 5% by 2032, however, while defence spending has already increased, the decades of underinvestment

since the end of the Cold War and current budget problems mean Europe will struggle to come up with sufficient funds. Already, Europe has been unable to [offset the end of US military support for Ukraine](#) in 2025.

After four years of war, the Russian economy is already on a full [war footing](#) and its production means it already [outguns Europe's military capabilities](#) by a wide margin. Russian [military production is already in surplus](#) and it has begun restocking. Elevated military production is expected to continue for a decade to [rebuild Russia's military](#) might.

Experts estimate that the EU is at least a decade away from being able to match Russia's military might. And Russia also maintains a strong lead in hypersonic missile and fifth generation fighter jets production – a gap that Europe will struggle to close.

China's military might has likewise [overtaken that of the US](#), according to a US report leaked in December.

2.0 Macro Economy

Russia is feeling external pressure, but the economy is successfully coping with these challenges, Russian President Vladimir Putin said on December 2 at the VTB "Russia Calling!" investment forum.

According to the head of state, over the past three years, the country has significantly increased trade with key partners, including China and India. A key achievement for 2025, he specified, is lower inflation. "While inflation was estimated at double-digit rates in March, it is now below 7% year-on-year. By the end of December, it is expected to be around 6%, which is below government and Central Bank forecasts," the president said. The CBR has a target rate of 4% which will probably be met in 2027.

Russia boasts a record low unemployment rate of 2.2% and stable public finances, Putin added. "Key priorities have been fully funded: social obligations, defense and national security, as well as the achievement of national development goals," he noted. Furthermore, the president stated, the budget for the next three years has been designed to mitigate the impact of external risks and increase the share of non-oil and gas revenues.

Finance Minister Anton Siluanov explained the recent decision to increase VAT from 20% to 22% in 2026 by saying the government faced a choice: carefully withdraw funds from the economy or increase borrowing. "Increasing debt puts pressure on inflation, which means higher rates for the economy, and economic growth will be slower in the medium term than if we withdraw funds through taxes," the Finance Minister stated. He believes that increasing VAT is the least painful option, since under a tight monetary policy, the tax changes

will be imperceptible.

The forum's macroeconomic session also traditionally discussed the impact of the key rate on inflation and economic growth prospects. Central Bank Governor Elvira Nabiullina recommended not limiting business interests to the key rate and interest payments alone. "They are indeed significant, but we shouldn't downplay the role of low inflation," Nabiullina explained. She argued that businesses need to see the benefits of low inflation, low cost growth, and low interest rates.

One of the main topics of the session, amid the ruble's rapid strengthening, was new factors influencing the exchange rate. Deputy Chief of Staff of the Presidential Executive Office, Maxim Oreshkin, explained that significant changes have occurred in the foreign exchange market in recent years. "We have a fiscal rule in place. Oil prices are falling, but this no longer has such a significant impact in terms of flows into the foreign exchange market. Non-oil and gas exports, after a significant decline in 2022, are showing positive trends, so foreign exchange flows into the market are increasing," Oreshkin listed. Furthermore, he noted that a new export item has emerged that is not yet well quantified: cryptocurrency mining.

Oreshkin also believes that decisions restricting imports are affecting the ruble exchange rate. "Any decision has indirect effects. The decision to increase the recycling fee caused a significant drop in our car imports, and the volume of foreign currency demand for this purpose decreased. This means a stronger ruble relative to the baseline scenario," Oreshkin continued. He added that the process of economic cleanup and the fight against gray imports are also contributing to the reduced demand for foreign currency and the strengthening of the ruble exchange rate.

Minister of Economic Development Maxim Reshetnikov called the volume of exports a huge challenge: many government-financed projects, including the Amur Gas Chemical Complex, are export-oriented. The volume of additional external supplies through these projects is estimated at \$50-70bn per year. According to Reshetnikov, since there is no potential for capital outflow, decisions must be made regarding imports. "Many industries have announced import substitution strategies, and this poses certain barriers, and we clearly need to maintain this strategy for a certain period and limit imports," the minister noted. According to Reshetnikov, this means that certain products and goods will have to be temporarily excluded from exports.

Growth strategies

Russian economic growth has slowed in 2025, Putin announced during his

speech at the forum. GDP grew by 1% in the first nine months of 2025, including 0.6% in the third quarter. Forecasts call for annual growth of between 0.5% and 1%. Putin noted that a "soft contraction" is expected, but imbalances have emerged in the economy, including a decline in output in several sectors. The government and the Central Bank must ensure a transition to a balanced growth model, maintain low unemployment and inflation, and simultaneously initiate structural changes in the economy, taking into account the policy of "whitening" the economy and strengthening the competitive environment.

The authorities have already formulated a program of changes in three documents: a national business model, a structural change plan, and a plan to "clean up" the economy, Reshetnikov listed at a macroeconomic session. According to him, the new measures will shift the focus from interpreting monthly economic statistics, which fluctuate widely, to a strategic approach and development.

In his speech, Putin called for greater investment momentum. Investment has grown at a rapid pace over the past three years: 6.7% in 2022, 9.8% in 2023, and 7.4% in 2024. In 2025, according to the president, this growth rate is more modest. This is due to the decline in corporate profits in several sectors, while the cost of bank loans has increased.

The president sees a solution in strengthening the role of the stock market as a source of investment funds. The government has been instructed to develop a program for initial and secondary public offerings of state-owned companies, and ministries have been tasked with outlining sectoral plans for listing large issuers on the stock market, while providing incentives for businesses that list their shares.

To stimulate foreign investment in the Russian economy, Putin proposed creating a unified investment support ecosystem based on VEB.RF, allowing entrepreneurs to receive professional advice.

Finally, the president highlighted another source of long-term capital: more and more citizens are participating in the long-term savings program, with over 8 million agreements worth RUB560bn already signed.

Medium-term macroeconomic forecast

The Bank of Russia released its latest [medium-term macroeconomic forecast](#) in October, projecting a gradual slowdown in inflation, moderate GDP growth, and a stabilisation of external balances through 2028.

Inflation: Headline inflation is forecast to fall from 8.5% in 2024 to 4.0% by

2026, stabilising at that level through 2028. The average key policy rate is expected to remain elevated at 18.0–19.0% in 2025, before gradually declining to 7.0–7.5% by 2028. The central bank cited these projections as consistent with its inflation-targeting mandate to bring prices down to 4% over the long-term, following a period of price volatility and monetary tightening caused by war spending.

Growth: The Russian economy is expected to expand by 0.5–1.0% in 2025, after a stronger-than-expected 4.5% growth in 2024. Output is forecast to remain subdued in 2026, before recovering to 1.5–2.5% growth annually by 2027 and 2028. Private consumption is expected to recover slowly, with household spending growing just 0.0–1.0% in 2025 after expanding by 5.2% this year.

Investment: Investment activity is expected to remain weak in the near term. Gross capital formation is forecast to stagnate in 2025 and 2026 before recovering to 3.0–4.0% growth in 2027–2028. The central bank projects fixed capital investment to grow modestly by 1.0–2.0% in 2025.

Trade: External trade is expected to support the recovery. Export volumes are projected to grow by 1.0–3.0% in 2025 and by up to 4.0% by 2026, while imports, which surged by 15.4% in 2024, are forecast to flatten in 2025 and gradually accelerate in later years.

Current account: The Bank of Russia also forecast a sharp narrowing of the current account surplus, which is expected to fall from \$63bn in 2024 to \$38bn in 2025, and further to \$23bn by 2028. The trade surplus is projected to decline from \$139bn to \$96bn over the same period, as import growth resumes and global commodity prices stabilise.

Reserves: Meanwhile, foreign currency reserves are projected to remain stable after a drawdown of \$35bn in 2024, with no change expected in 2025 and only modest increases from 2026 onwards.

Lending: The banking sector's credit exposure to the economy is expected to grow by 7–11% in 2025, with lending to households — including mortgage loans — projected to expand by 9–13%.

Monetary policy: The Bank noted that while financial conditions remain tight, monetary policy will gradually ease as inflation moderates and fiscal risks stabilise. However, uncertainty remains elevated due to geopolitical tensions, sanctions, and structural constraints in trade and investment.

MAIN PARAMETERS OF THE BANK OF RUSSIA'S FORECAST UNDER THE BASELINE SCENARIO

(growth % compared to the previous year, unless otherwise stated)

Indicator (% y/y/)	2024 (actual)	2025	2026	2027	2028
Inflation, in %, December of the previous year	8.5	6.5–7.0	4	4	4
Inflation, on average for the year, in %	9.4	8.0–8.3	5.3–5.6	4	4
Key rate, on average for the year, in % per annum	15.5	18.0–19.0	13.0–14.0	7.5–8.5	7.0–7.5
Gross domestic product	4.5	0.5–1.0	0.0–1.0	1.5–2.5	1.5–2.5
– Q4 of the previous year	4.5	(0.5)–0.5	0.0–1.0	1.5–2.5	1.5–2.5
Final consumption expenditure – households	4.4	0.5–1.5	0.5–1.5	1.5–2.5	1.5–2.5
– households	5.2	0.0–1.0	0.5–1.5	1.5–2.5	1.5–2.5
– government	2.7	1.0–2.0	1.0–2.0	1.0–2.0	1.0–2.0
Gross capital formation	0.5	(0.5)–0.5	0.0–1.5	3.0–4.0	3.0–4.0
– fixed capital	3.9	1.0–2.0	1.0–2.5	3.0–4.0	3.0–4.0
Export	1.3	1.0–3.0	2.0–4.0	1.0–3.0	1.0–3.0
Import	15.4	0.0–2.0	0.0–3.0	3.0–5.0	3.0–5.0
Money supply in national definition	17.4	7–10	5–8	5–8	5–8
Requirements of the banking system to the economy in rubles and foreign currency*	15.8	7–11	5–9	5–9	5–9
– to organisations	15.3	6–10	5–9	5–9	5–9
– to population, including mortgage housing loans	16.8	9–13	6–10	6–10	6–10

Source: CBR

BALANCE OF PAYMENTS INDICATORS OF RUSSIA IN THE BASELINE SCENARIO

(US\$ billion unless otherwise noted)

Indicator (USD bn)	2024 (actual)	2025	2026	2027	2028
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Current account balance	63	38	27	24	23
Trade (Export minus Import) balance	139	112	100	97	96
Export	416	406	414	421	429
Import	276	294	314	325	333
Services balance	-43	-45	-46	-46	-47
Export	82	87	92	97	102
Import	125	132	138	144	150
Balance of primary and secondary income	-33	-29	-27	-27	-26
Balance of current and capital accounts	63	38	27	24	23
Financial account: operations with financial assets excluding reserve assets Net errors and omissions	-9	-32	-29	-24	-22
– non-financial corporations	-6	-12	-11	-9	-8
– banks	-3	-4	-4	-3	-3
– general government	0	-16	-14	-12	-11
Net errors and omissions	-19	-6	-4	-4	-4
Change in reserve assets	-35	0	-6	-5	-3
source: CBR					

• 2.1 GDP

Russia's economy is set to close 2025 with marginal growth and mounting structural challenges, amid persistent fiscal strain, elevated inflation, and signs of weakening industrial activity. While official projections present a narrative of resilience and stabilisation, independent analyses point to deeper imbalances that could define the outlook for 2026.

In the third quarter of 2025, two-thirds of economic growth was driven not by the production of goods or services, but by the expansion of the state apparatus and the security forces (an increase of 0.4 percentage points out of 0.6). The financial sector contributed 0.25 percentage points, and manufacturing 0.2 percentage points. However, several key sectors—mining, wholesale trade, and transportation—made a negative contribution.

As for 20206, the Ministry of Economy doesn't expect growth above 1.3%, the Bank of Russia expects growth in the range of 0.5-1.5%, and Sberbank CEO German Gref expects moderate growth of no more than 1%.

As of its most recent guidance, the Central Bank of Russia (CBR) forecasts GDP growth in 2026 to be in the range of 1.0% to 2.0%, according to the CBR's October 2025 Monetary Policy Report, which outlines the bank's medium-term macroeconomic outlook.

The forecast assumes:

- Continued fiscal stimulus at reduced levels
- Moderating inflationary pressures
- Stabilisation of external trade conditions, especially for oil exports
- A gradual recovery in domestic demand

However, the CBR also warned that geopolitical uncertainty, persistent sanctions, and structural labour shortages pose risks to this baseline scenario.

Growth in 2025 was slow and slowing. According to official estimates, Russia's GDP will grow between 0.5% and 1% in 2025. "Overall, this is the expected result... we expect such a soft landing," President Vladimir Putin said in December, referring to the effects of earlier interest rate hikes and fiscal adjustments.

GDP growth slowed to 0.6% in the third quarter, missing government forecasts. The budget deficit forecast for 0.5% at the start of 2025 has also been badly missed: the Ministry of Finance expects the full-year budget deficit to reach 2.6% of GDP, up from 1.9% in October.

Finance Minister Anton Siluanov said in early December that the government is aiming to return the economy to more sustainable growth in 2026. "We are doing everything we can to ensure the economy can get going again within a short time," he said.

Headwinds will slow growth in 2026 too. However, independent research paints a more precarious picture. Economists suggest Russia's inflation may be significantly underreported. While official inflation rates range from 7.4% to 11.9% over 2022–2024, analysts estimate true inflation has averaged between 20% and 25% annually. If correct, this would imply that real GDP and household income growth over the past three years has been grossly overstated.

The report also highlights widening inequality, noting that wartime spending has disproportionately benefited a minority of the population. While official data claims real household incomes rose by 24.8% from 2021–2024, the study estimates that for most Russians, incomes have declined between 16% and 42% — particularly among pensioners and workers in education, healthcare, and social services.

The fiscal outlook has also deteriorated. The annualised budget deficit is expected to reach RUB7–8 trillion by the end of 2025, equivalent to around 18% of total expenditures.

With Western sanctions continuing to limit access to capital markets and complicating efforts to monetise gold reserves, Moscow has increasingly drawn on its National Welfare Fund (NWF) to cover shortfalls. Of the \$148bn held in the fund at the outset of the war, \$113bn has reportedly been spent, roughly in line with the increase in military expenditure since 2022.

Sanctions are also beginning to weigh more heavily on the country's export revenues. New restrictions on Russian oil and refined products, combined with enforcement efforts targeting the shadow fleet and major producers, are expected to further reduce the Kremlin's capacity to finance both the war and domestic spending in 2026.

Although some analysts continue to forecast moderate growth next year, the Moscow-based Center for Strategic Studies warned on November 18 that there is “almost no chance of avoiding a recession,” with industrial output shrinking in more than half of the economy.

The government's ability to reverse these trends in 2026 will likely depend on oil prices, the stability of parallel export routes to Asia, and whether inflation can be contained without triggering further contraction. Without new sources of financing or a shift in fiscal policy, the Russian economy faces a year of tightening constraints and slowing momentum.

• **2.2 Industrial Production & PMI**

Industrial growth in Russia stalled in 2025, as enterprises reported weakening demand, rising borrowing costs, and an increasingly uncertain outlook, according to the latest State and Expectations of Industrialists [report](#) by the Centre for Macroeconomic Analysis and Short-Term Forecasting (TsMAKP).

In the first seven months of 2025, approximately 73% of the main industrial categories, including metallurgy and chemicals, showed declines or near-zero growth. From January to September 2025, the industrial production index grew by only 0.7%, compared to the Ministry of Economic Development's annual forecast of 1.5%. Even one of the most war-related industries, the production of finished metal products, which was expected to grow by 26.4% in 2023 and 31.6% in 2024, declined by 1.6% year-on-year in September.

The report notes that “the balance of demand assessments deteriorated significantly, reaching one of the lowest levels since mid-2022,” reflecting a marked cooling in domestic orders across key manufacturing sectors. While some firms still reported stable or growing sales, the overall tone of responses pointed to worsening conditions.

Financial constraints were a central concern. According to TsMAKP, “credit availability continues to decline, especially for small and medium-sized enterprises, while the cost of capital remains prohibitively high.” Interest rates on commercial loans, often exceeding 17%, have constrained investment plans and working capital availability, particularly in energy-intensive and export-dependent industries.

In parallel, inventories began to accumulate again at the end of 2025. “The balance of stock estimates suggests a growing risk of overstocking, particularly in intermediate and capital goods sectors,” the analysts wrote, warning that continued weak demand could push firms to cut production in early 2026.

Investment sentiment has also cooled. “The share of enterprises planning to increase investment fell back to early 2023 levels, erasing recent recovery gains,” the report stated, attributing the decline to geopolitical risks, uncertain tax policy, and the lack of affordable financing.

For the whole year, while defence-related manufacturing and extractives held up due to wartime demand, civilian industries — particularly automotive, machinery, and light manufacturing — continued to contract. As of November, industrial output had stagnated year-on-year, with over half of all industrial sectors reporting a decline.

2025: Russia’s industrial sector struggled to sustain momentum in 2025. According to Rosstat data through October: Overall industrial production increased by 0.3% y/y, a significant slowdown compared to the 3.5% growth in 2024. Monthly output contracted by 0.6% in October compared to the previous month, signalling a weakening trend into year-end. The Centre for Strategic Studies reported in November that more than half of Russia’s industrial subsectors experienced a decline in production during the year.

Sectoral breakdown:

- **Defence-industrial complex:**
Military production continued to expand, with unofficial estimates suggesting **growth of 10–12%** in defence manufacturing, driven by sustained state orders linked to the war in Ukraine. However, these figures are classified, and precise data is limited.
- **Oil and gas extraction:**
Despite sanctions and redirection to Asian markets, **oil production remained broadly stable**, growing **0.8% year-on-year**, while **gas output fell by 2.4%**, affected by weak demand in Europe and logistical limits on rerouting.
- **Metallurgy:**
Steel production declined by **4.1%**, and **aluminium output** was down **2.7%**, due to falling global demand, export restrictions, and limited capital investment.
- **Automotive manufacturing:**
One of the hardest-hit sectors, car production fell by **17.2%** year-on-year, as Western brands exited the market and localisation efforts failed to offset the loss of imported components. Domestic demand also weakened due to real income declines.
- **Machinery and equipment:**
Output contracted by **6.5%**, reflecting reduced investment by industrial firms and high borrowing costs after the Central Bank raised rates sharply in mid-2025.
- **Chemicals and fertilisers:**
Production was mixed: **fertiliser output** dropped by **3.2%**, while **basic chemicals** remained flat. Export restrictions and weak demand from Europe limited growth prospects.
- **Light industry (textiles, clothing, consumer goods):**
Output fell by **8.6%**, reflecting collapsing consumer demand, inflation, and the disappearance of foreign brands from the domestic retail landscape.

2026: The outlook for Russian industry in 2026 remains fragile and highly dependent on external and fiscal conditions. The Ministry of Economic Development currently forecasts industrial growth of 1–1.5%, but analysts remain sceptical, pointing to several persistent constraints:

- **Sanctions and import dependency:** Many sectors continue to rely heavily on foreign equipment and components, particularly in machine building, aviation, and electronics. Sanctions have severely restricted

access to Western technologies, and parallel imports remain limited in scope.

- **Waning state investment:** As budget pressures mount and the National Welfare Fund is depleted, state support for industrial modernisation is expected to decline, particularly outside the defence sector.
- **Labour shortages:** With a shrinking workforce and continued mobilisation, labour constraints are tightening across sectors, particularly in skilled trades and engineering.
- **Weak consumer demand:** Real household incomes are expected to stagnate or decline further in 2026, undermining domestic demand for industrial goods.

While some defence-related production will likely remain elevated, and oil and gas exports may stabilise due to redirection to Asia, most other sectors face a year of stagnation or contraction. Industrial recovery will require not only macroeconomic stability but also structural reforms and re-integration with global supply chains — none of which appear imminent.

Russia's Production Manufacturing Index (PMI) ended 2025 flat. Russia's private sector ended 2025 with flat output, as a deeper contraction in manufacturing offset modest growth in the services economy. According to S&P Global, the Russia Manufacturing PMI fell back into contraction territory, while the Services PMI rose slightly, lifting overall business activity just enough to hold the Composite PMI steady at 50.0 in December — unchanged from the neutral mark and marginally down from 50.1 in November.

The data point to a sharpened divergence between Russia's manufacturing and services sectors. While services firms reported stronger demand and higher new business, manufacturers saw output contract further. Nonetheless, overall new orders rose for the first time since May 2025, driven by the service economy, even as both sectors shed jobs and firms faced rising cost pressures.

Manufacturing: Output falls again as orders shrink

The S&P Global Russia Manufacturing PMI fell to 48.1 in December, down from 49.3 in November, marking the third consecutive monthly decline and the sharpest drop in factory output since August. S&P Global noted that "weaker client demand and the completion of contracts" led to a steeper decline in production volumes.

New orders in manufacturing contracted further, though at a slower rate than in

the previous month. Export demand also remained subdued, reflecting external headwinds and geopolitical constraints. Notably, manufacturers reported a faster increase in input costs, driven largely by raw material prices and supply chain frictions. This contributed to a renewed uptick in output charges, despite signs of slack capacity, as firms sought to protect margins.

Employment in the manufacturing sector declined for the eighth month in a row, with firms citing efforts to reduce costs and align staffing with current workloads.

Services: Business activity improves amid stronger demand

The Russia Services PMI, by contrast, rose to 51.7 in December, up from 51.2 in November, marking the third consecutive month of expansion. Growth in output was supported by a modest rebound in new orders, as domestic demand conditions improved. This was the strongest upturn in services activity since August, according to S&P Global.

Despite the improved demand picture, service providers also reported a reduction in headcount, attributing it to cost-cutting and cautious sentiment heading into 2026. However, capacity pressures were evident, with the accumulation of backlogs accelerating.

Input cost inflation in the service sector eased notably, contrasting with rising costs in manufacturing. This helped bring down overall private sector inflation, as output charges rose more slowly than in previous months.

Composite Index: Private sector ends year with zero growth

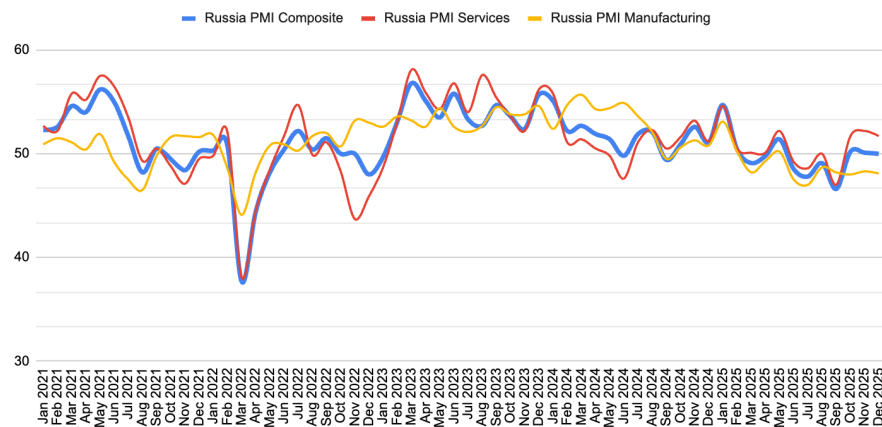
The Composite PMI Output Index held steady at 50.0 in December, signalling no overall change in business activity across the Russian private sector. This masked a two-speed economy, with services growth barely offsetting the deeper manufacturing contraction.

The expansion in new orders — the first since May — was modest overall, but offered a tentative sign of stabilising demand. Nevertheless, the continued reduction in staffing levels across both sectors and persistent cost pressures suggest that business confidence remains fragile entering the new year.

“While the services economy shows resilience, manufacturing remains a key drag,” said S&P Global. “The contrasting sector performances highlight the uneven nature of the recovery.”

Russia PMI

source: S&P Global



• 2.3 Inflation

Russia is expected to close 2025 with headline inflation around 6%, down from a persistent 10% at the end of 2024 and slightly below official forecasts, which the government has hailed as a major economic achievement.

But this win came at a heavy cost. Unable to stop the Kremlin from continuously increasing military spending, CBR governor Elvia Nabiullina launched an [unorthodox experiment](#) of crashing economic growth by stamping on all non-military crediting and other means, to bring down inflation pressure. It worked. But it has come at the cost of Russia's growth collapsing in 2025 and now teetering on the edge of recession in 2026, and even faces the danger of slipping into [stagnation](#) suggested in December.

Moreover, Nabiullina's methods may have been exhausted as rising inflation expectations among households suggest persistent public concern over price stability. As of November, expected inflation had climbed to 13.3%, reflecting volatility in food, services, and import-dependent goods. A VAT hike of 200bp in January will also push prices up again. While the CBR forecasts a return to 4–5% inflation in 2026, upside risks remain, especially if fiscal pressures or supply chain disruptions continue, amongst other problems.

Inflation in 2025: Below target, but expectations rising

According to President Vladimir Putin, inflation in Russia is expected to finish

the year at approximately 6%, below earlier government and CBR forecasts of 6.5–7%. “We expect this trend to continue,” Putin said in early December, framing the decline as a policy success amid wider macroeconomic challenges.

The central bank’s mid-year forecast had projected 6.5–7% inflation for 2025, reflecting the impact of earlier interest rate hikes and subdued domestic demand. While the headline figure appears encouraging, underlying dynamics tell a more complex story.

The 13.3% inflation expectations of the population in November, according to an inFOM survey conducted for the CBR, is up from 12.6% in both September and October, and near the August peak of 13.5%. Expectations had hit 14% in January 2025 — the highest level of the year — before falling mid-year, only to climb again in the autumn.

The divergence between official inflation and public expectations is a function of the ongoing volatility in everyday consumer prices, especially for food, housing, transport, and imported goods, which remain sensitive to exchange rate fluctuations and wartime distortions.

Inflation outlook for 2026: 4–5% forecast, but risks persist

The Central Bank has revised its 2026 inflation forecast to 4–5%, up from the earlier target of 4%, but even this was starting to look optimistic as the year came to an end.

The projection assumes continued monetary tightening, stabilisation in the ruble exchange rate, and an absence of further external shocks.

However, upside risks to the forecast remain significant. These include:

- **Fiscal pressure:** A growing budget deficit (expected at RUB7–8 trillion in 2025, more than double the forecast at the start of 2025) could fuel inflation if monetised or offset by increased borrowing or spending.
- **Exchange rate volatility:** Sanctions and limited hard currency reserves continue to exert pressure on the ruble, raising import costs.
- **Public expectations:** Persistently high inflation expectations risk becoming self-fulfilling, undermining the CBR’s inflation-targeting credibility.
- **Labour and supply constraints:** Mobilisation, outmigration, and logistics challenges may limit supply-side flexibility, especially in the food and services sectors.

While headline inflation may moderate in early 2026, underlying pressures suggest it will be difficult for the CBR to guide inflation decisively back to its long-term 4% target without further tightening or structural reforms.

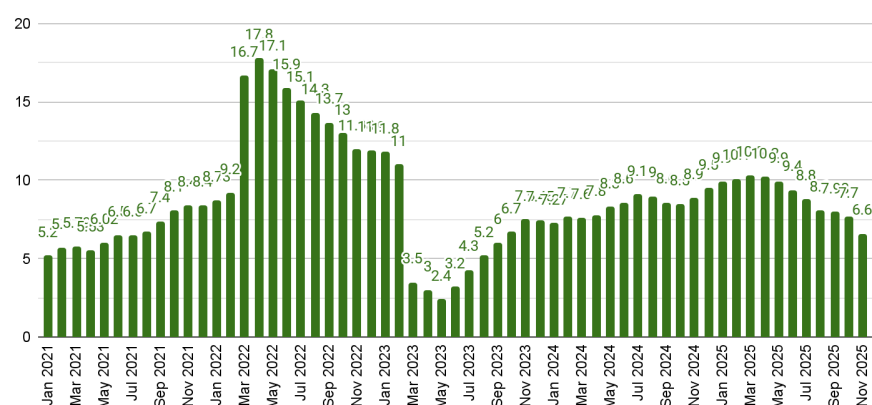
Russia faces two inflationary shocks in 2026. The first will come immediately after the New Year holidays: the new VAT rate will go into effect, increasing from 20% to 22%. The increase will add 0.6-1 percentage point to inflation, according to estimates from the Central Bank and the Ministry of Finance.

The second is a 1.7% indexation of regulated tariffs from January 1 (technically, again due to the VAT increase). Sberbank estimates the total contribution of the VAT increase to inflation at 2 percentage points. Manufacturers have already warned retailers about price increases.

A dip is expected in the summer, followed by a second surge in inflation in October 2026, when the scheduled 9.6% indexation of utility tariffs takes place. In total, tariffs will increase by 11.3% over the year. It is noteworthy that tariffs in Russia are usually increased on July 1, but State Duma elections will take place in early September 2026. To avoid upsetting the electorate, the tariff increase has been postponed until October.

Russia inflation y/y

source: CBR



• 2.4 Monetary Policy

The Russian Central Bank cut its key rate by 50 basis points to 16% on December 20, continuing a policy that has seen the rate drop from 21% to

16% in 2025. The decision was expected, but Elvira Nabiullina, the head of the Bank, added that further rate cuts in 2026 would not be automatic and the Bank would keep an eye on economic developments.

The Central Bank has faced growing pressure from the government and the business sector to drop its key rate faster. While the 2025 rate cuts were quicker than the Bank's original expectations, they were slower than what the Finance Ministry used to calculate Russia's 2025 federal budget.

The Bank of Russia began easing monetary policy in the second half of 2025, following aggressive rate hikes earlier in the cycle to control inflation and support the ruble.

A barrier to more rate cuts in 2026 is persistently high inflation expectations. In December, household inflation expectations for the year ahead rose to 13.7%, returning to levels seen at the beginning of this year. Meanwhile, observed inflation remains at 14.5%.

The key interest rates were cut four times by a total of 500bp over the course of the year, ending the year at 16%, down from a peak of 21%. The Central Bank forecasts a further gradual easing in 2026, with the key rate expected to average 13–15% over the year, although some say this is still not enough to restart growth. High inflation expectations, fiscal risks, and ongoing sanctions-related pressures are likely to limit the scope for more aggressive rate cuts. The CBR put in its fifth and final 50bp cut in December.

“Proinflationary risks still prevail over disinflationary ones in the mid-term horizon,” the CBR said in a statement accompanying its decision in December. “Further decisions on the key rate will be made depending on the sustainability of the inflation slowdown and the dynamics of inflation expectations.”

Macroeconomic data supported continued easing, including headline inflation, which fell to 6.6% year-on-year in November, its lowest level in two years. GDP growth also slowed to 0.6% year-on-year in the third quarter, down from 5.5% in Q2, reflecting weaker domestic demand and tight financial conditions.

Analysts remain wary of the impact of the VAT hike by 200bp in January and think easing may slow.

“We think the impact of the VAT hike and continued supply constraints in the economy will keep inflation higher than the CBR's forecast of 4.0–5.0% in 2026,” said Nicholas Farr, Emerging Europe Economist. “Further monetary easing seems likely, but it will be gradual and we expect the policy rate to end next year at 13%.” That is more hawkish than the market consensus, which

anticipates rates to fall to 11.5% by the end of 2026.

The CBR's next rate-setting meeting is scheduled for February, and economists expect further rate cuts in the first half of the year, although potential pauses remain likely if inflation expectations fail to ease.

Outlook for 2026: Gradual easing, constrained by inflation risks

Nabiullina's strategy worked well as in the second half of 2025 inflation started [falling faster than expected](#) across the entire country. Whether she can maintain that trend in 2026 remains an open question as the falls could stall, or even reverses to price growth again.

The CBR forecasts the key interest rate will average between 13–15% in 2026, slightly higher than the 12–13% range projected earlier in the year.

The upward revision reflects concerns over:

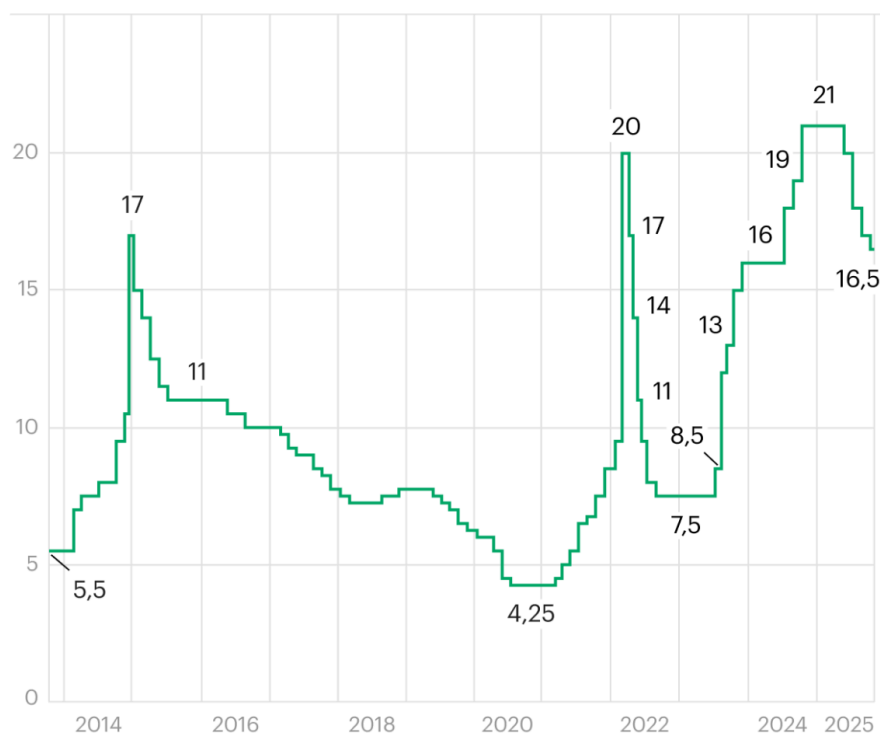
- **Elevated inflation expectations**, which could fuel future price increases
- **Fiscal risks**, with a projected RUB7–8tn deficit in 2025 and possible monetisation
- **Geopolitical uncertainty**, sanctions, and continued ruble volatility
- **Supply-side constraints**, particularly in labour and imports
-

The Bank of Russia has reiterated that it remains committed to an inflation-targeting framework, aiming to return inflation to its 4% target over the medium term.

While further cuts are expected in 2026, any easing will likely be gradual and data-dependent, with the CBR seeking to balance inflation control against the need to support investment and economic recovery.

Как меняется ключевая ставка ЦБ

14 октября 2013 года – 24 октября 2025 года, %



Источник: Банк России

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• 2.5 FX

The Russian ruble surged 44% against the dollar in 2025, becoming the world's best performing currency, being only beaten by gold (72%) and silver (159%) prices amongst the major traded commodities, *The Bell* reported on December 24.

The appreciation, which took the exchange rate from RUB103 to RUB79 per dollar in less than twelve months, has occurred in defiance of conventional economic indicators, amid international sanctions, falling oil revenues and continued war in Ukraine.

According to the Central Bank, the ruble has been steadily strengthening since the beginning of 2025. In less than nine months, the exchange rate has weakened by almost 20% – from RUB103.4 at the beginning of the year to RUB83.35 per dollar on September 24. The last time the dollar exceeded RUB100 rubles was on January 21 (RUB101.9 per dollar), and exceeded RUB90 rubles on February 20 (RUB90.4 rubles).

At the heart of the ruble's rally lies a confluence of domestic policy, suppressed imports, and Russia's on the battlefield bringing the end of the almost four-year long war into sight.

The historically high key interest rate — averaging 19% over the year and cut to 16% in December — also played a central role in curbing demand for foreign currency while encouraging ruble-denominated savings. “This is one of the highest rates among developing economies,” The Bell noted, citing data from the Central Bank of Russia.

Imports declined by 2.4% in the first ten months of the year in 2025, compared to the same period in 2024, further easing demand for foreign exchange. Although exports dropped more sharply — down 4.2% y/y largely due to falling oil prices — Russia maintained a positive trade balance. The ruble's use in international transactions also rose sharply, with 54.6% of imports now paid in rubles, up from 30.4% at the start of the year. In December, Russian President Vladimir Putin said that almost all Russia's foreign trade with China and the [Eurasian Economic Union](#) (EEU) is now settled in national currencies and not dollars.

Exporters sold \$85.7bn in foreign exchange revenues during the same ten-month period, down from \$121.5bn a year earlier. Nonetheless, the lower demand for foreign currency helped sustain the ruble's strength in a restricted market.

Speculation over a shift in US foreign policy under President Donald Trump, who released a new aggressive National Security Strategy ([NSS](#)) in December, has also contributed to the ruble's appreciation. “Geopolitical factors played in favour of the Russian currency,” said Natalia Orlova, Chief Economist at Alfa-Bank, citing market optimism about Russia's potential reintegration into the global economy.

Analysts at Alfa-Bank also pointed to robust domestic demand for quasi-currency bonds — debt instruments tied to foreign currencies but settled in rubles — as another factor supporting the exchange rate. Issuance of such bonds reached RUB1.7 trillion (\$18.4bn) in ruble equivalent this year, according to the Central Bank of Russia.

The downside to a strong ruble is that it negatively impacts the federal budget revenues. Oil revenues in the budget are denominated in dollars, but expenditure is in rubles, so a stronger ruble reduces the number of rubles available for spending. The Finance Ministry has not commented publicly on whether any adjustments to the fiscal rule are under consideration.

The strength of the ruble remains an important factor in Russia's economy which is export orientated thanks to its raw material production. In 2024, exports of goods and services accounted for 21.9% of GDP. The sectors most vulnerable to ruble appreciation are oil and gas, forestry and wood processing, and transport engineering. Federal oil and gas revenues fell by 22% compared to 2024 on FX effects alone.

But a stronger ruble has helped slow inflation by making imported goods and services cheaper for Russian consumers, according to CBR. Inflation has been one of the major economic headaches for the CBR, but inflation [fell faster than expected](#) in 2025 and by late November had dropped from over 10% at the start of the year below 7%, which has allowed [500bp of rate cuts](#) in 2025 – probably the most important macroeconomic management action of the year.

It is highly unlikely that 2026 will be as favourable for the ruble as 2025, *The Bell* said in a commentary. Oil prices tumbled in the last months of 2025, with the price of Brent dropping below \$60 a barrel and the price of the Russian Urals blend falling below \$40 on deep discounts offered following the Trump administration harsh new [oil sanctions](#). At the same time, a record surplus in global oil supply is forecast for 2026 due to OPEC production increases. The International Energy Agency forecasts an average Brent crude price of \$52 per barrel for the coming year that will cut into the current account surplus.

“In this configuration, I would call the ruble overvalued. It's not a classic bubble, but the margin of safety in terms of fundamental flows is no longer very strong. Some momentum for appreciation is still possible, but the balance of risks is shifting toward a weaker ruble over the coming months,” Vladimir Chernov of Freedom Finance Global told *The Bell*. Chernov expects the dollar to trade in the range of RUB77–82 by year-end.

Factors weighing on the ruble in 2026:

- **Weak oil and gas revenues:** Brent near or below \$60 per barrel would reduce foreign exchange earnings and worsen the current account balance; a global oil surplus limits price recovery

prospects.

- **Central Bank rate cuts:** Planned reduction of key interest rate to 13–15% will make ruble assets less attractive, increasing demand for foreign currency.
- **Reduced foreign currency sales from the National Wealth Fund:** Lower oil price thresholds and a more balanced budget will limit currency interventions, per Central Bank Governor Elvira Nabiullina.
- **Growth in imports and domestic demand:** Rising business purchases of equipment and consumer goods may boost demand for foreign currency and widen the import-export gap.
- **Possible new sanctions:** Lack of progress in Ukraine ceasefire talks may lead to further sanctions, fuelling investor risk aversion and demand for safe-haven currencies.

On September 24, the Russian Ministry of Economic Development revised its ruble exchange rate forecast. The average annual value for 2025 is expected to be RUB86.1 per dollar, compared to RUB94.3 per dollar in the April version.

For 2026, the forecast has improved to RUB92.2 per dollar, up from RUB100.2 per dollar.

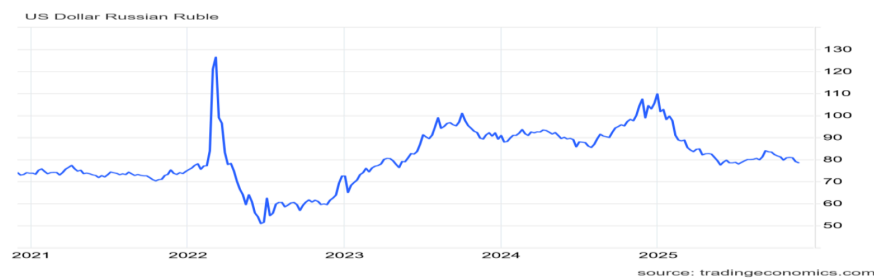
In 2027, the ministry predicts the ruble will weaken to RUB95.8 per dollar.

In 2028, to RUB100.1 per dollar. Previously, the forecasts were RUB103.5 and RUB106 per dollar, respectively.

By December the CBR continued to dismantle capital controls for individuals that were first introduced in March 2022, with a monthly transfer cap of \$5,000. The limit was subsequently raised in phases: to \$10,000, then to \$50,000 in May 2022, and finally to \$1mn in June of that year.

The Central Bank of Russia lifted the remaining limits on foreign currency transfers abroad for Russian citizens and non-resident individuals from countries deemed friendly, citing stabilisation in the domestic currency market, effective on December 8.

Ruble-US Dollar Exchange Rate - 5 Years



Source: TradingEconomics, Central Bank of Russia

The digital ruble is delayed until September 2026. The Central Bank (CBR) has postponed the start of the mass implementation of the digital ruble until September 2026. But, according to Governor Nabiullina, the decision is not due to technological difficulties – she said that technologically everything is more or less clear.

Russia added to FATF money laundering black list

Without waiting for Russia to be added to the global blacklist of the Financial Action Task Force (FATF), the EU added it to its own list of countries with a high risk of money laundering and terrorist financing. This does not entail the same severe consequences as being added to the FATF blacklist, but in practice it will lead to stricter oversight and scrutiny of all financial transactions in Europe that are in any way connected to Russia.

In practice, however, this decision will not harm the Kremlin, nor the segment of Russian business fueling the war. For the Russian economy, which has been operating under unprecedented sanctions for three years now and has reoriented itself toward Asia, it will be a drop in the ocean. Instead, it will impact an entirely different group of people: Russian passport holders in Europe, and small and medium-sized companies that are simply attempting to conduct legal business.

The FATF, the main international organization dedicated to combating money laundering, was established by the G7 in 1989. The group develops recommendations to combat money laundering and monitors compliance in various countries. Russia became a full member of the FATF in 2003, but due to its invasion of Ukraine, the organization suspended Russia's membership in February 2023.

In addition to developing recommendations, the FATF maintains "black" and "gray" lists of jurisdictions. Inclusion on the blacklist is a nuclear strike in the

world of international finance. Its members (currently Iran, Myanmar, and North Korea) are effectively cut off from the international banking system and can conduct any financial transactions only through intermediaries. The FATF believes that countries on the blacklist intentionally fail to comply with anti-money laundering regulations and do not provide inspection bodies and investigators with access to their banking records.

Ukraine, which has not yet joined the organization, has been unsuccessfully campaigning for Russia to be included on the FATF blacklist starting in 2023. Ukraine's main argument is that Russia cooperates with two countries on the list (Iran and North Korea) and finances private military companies and terrorist groups with public funds.

In addition to the blacklist, the FATF maintains a "gray" list, which contains many more jurisdictions and is updated much more frequently. This list includes countries that theoretically agree with the recommendations and are willing to adapt their laws and practices to them, but have not yet done so. Therefore, all financial transactions with clients from these countries are subject to enhanced scrutiny by the internal departments of banks and financial institutions.

The FATF consistently refuses to include Russia on either the "black" or "grey" lists, as it formally does not meet their criteria.

• 2.6 Income & Labour

Labour market conditions remained tight in 2025, and not supportive of productivity gains. TsMAKP found that “labour shortages persist, but without translating into significant wage pressures or productivity improvements,” suggesting [stagnation](#) rather than overheating.

Growth is being held back by structural factors—primarily a tight labour market, the situation in which is unlikely to improve in the coming years, and sanctions, which will not be fully lifted even if the war against Ukraine ends.

According to Ministry of Internal Affairs statistics, there are currently 3.5–4mn legal labour migrants in Russia, compared to approximately 4.5mn before the COVID-19 pandemic, and up to 7mn in 2012–2013. The nearly 50% decline in this number is primarily due to the growth of alternative employment opportunities for citizens of Central Asian countries: they are going to work in the EU, the Persian Gulf countries, Turkey, and South Korea. The Russian economy, lacking prospects for rapid growth, offers increasingly unattractive

conditions, while rising xenophobia in society and the persecution of Central Asians following the Crocus City Hall terrorist attack further reduce Russia's attractiveness as a labour market.

Looking ahead to 2026, the outlook among industrialists has become increasingly pessimistic. "Expectations have deteriorated in all key areas — from production and demand to financial conditions and investment," the report concluded. While some firms remain resilient, broad-based improvement appears unlikely without easing financial pressure or a rebound in domestic consumption.

Unemployment remained near historic lows throughout the year. According to Minister of Labour and Social Protection Anton Kotyakov, the number of unemployed persons in Russia is now roughly equal to the number of job vacancies nationwide, signalling a technically full-employment environment. However, low productivity gains and rising cost-of-living pressures continued to affect real incomes.

According to Rosstat, the average unemployment rate based on International Labour Organization methodology stood at **3.1%** for the year, only slightly above the historic low of 3% recorded in 2024. The number of officially registered unemployed remained below **2.3 million**, while job vacancies across the country consistently exceeded available labour supply.

Cost of living pressures intensified across Russia in 2025, driven by rising prices for housing, food, and essential services. Inflation averaged **8.4%** for the year, with sharper increases in urban centres.

While **nominal incomes** rose in 2025, real wage growth was constrained by inflation. Real disposable incomes remained under pressure, particularly in urban centres where housing costs spiked.

Nominal wages in Russia continued to rise in 2025, supported by minimum wage adjustments and persistent labour shortages, though gains were uneven across sectors and regions. According to Rosstat, the average monthly nominal wage reached RUB72,500 (\$775) by the end of the year, up from RUB64,600 (\$740) in 2024, marking a nominal increase of approximately 12.2% year-on-year.

According to Rosstat, **real wages increased by 3.4%** year-on-year, a deceleration from the 5.3% growth recorded in 2024. The slowdown reflected mounting cost pressures, including sharp increases in housing, utilities and food prices.

According to Rosstat, **real disposable income rose by just 1.2%** year-on-year, reflecting the impact of inflation, high housing costs, and limited private sector wage indexation. The modest increase followed a contraction in 2024 and marked a continued recovery, though real incomes remain below

pre-2022 levels.

Wage growth was strongest in defence-related manufacturing, logistics, and construction, while public sector wages remained largely flat outside the federally mandated increases. On January 1, around 5 million workers received wage hikes following a rise in the national minimum wage, which increased by 18.5% to RUB22,600 (\$240) per month. Despite this upward trend, nominal wage growth continued to lag behind housing and services inflation in major cities, contributing to a decline in real disposable income for many urban households.

In Moscow, **property prices** in the city centre rose 53.9% since January, reaching an average of €9,343 per square metre by December. The average rent-to-income ratio in the capital climbed to 78%, leaving many households facing affordability challenges.

The national **poverty rate** declined to 6.5% in the third quarter, according to Rosstat data published on December 10. The official poverty line was set at RUB16,980 per month. President Vladimir Putin reaffirmed the government's target of reducing poverty to below 7% by 2030 and to less than 5% by 2036. "We are consistently moving towards the target," he stated during an economic policy meeting.

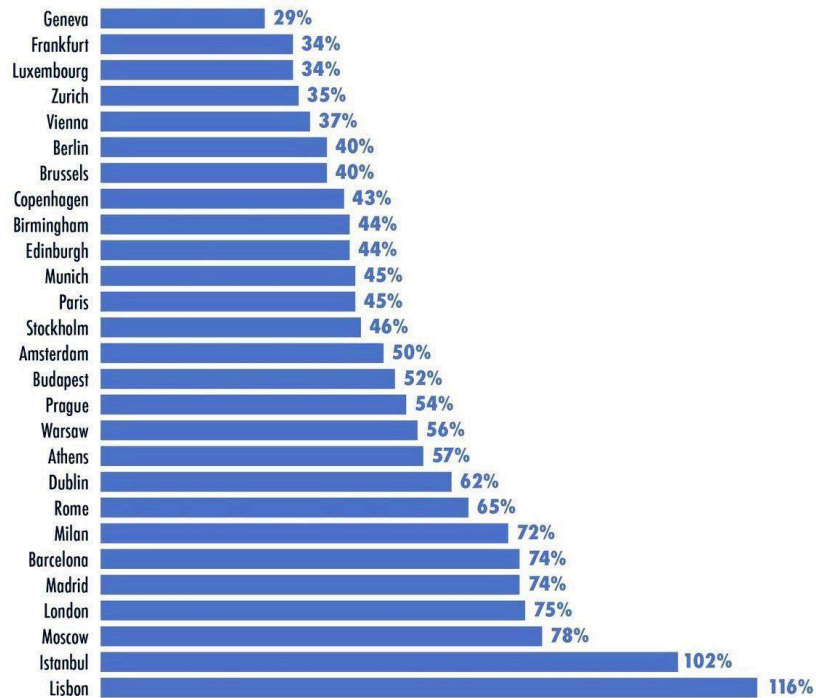
On November 17, the Ministry of Labour confirmed that from January 1, **salaries** will increase for 5 million Russians following an adjustment in the minimum wage, aimed at cushioning vulnerable groups from inflationary pressures.

In response to ongoing labour shortages exacerbated by demographic losses linked to the war in Ukraine, Russia has turned to **large-scale immigration**. First Deputy Prime Minister Denis Manturov announced that the country is prepared to accept "an unlimited number" of labour migrants from India. He specified that the manufacturing sector alone requires 800,000 additional workers, while trade, construction and services collectively face a shortfall of approximately 1.5 million people.

Looking ahead to 2026, the employment outlook is clouded by weak domestic demand and deteriorating business sentiment. "Expectations have deteriorated in all key areas — from production and demand to financial conditions and investment," TsMAKP reported, suggesting limited prospects for broad-based labour market improvement in the absence of a macroeconomic rebound.

Rent-to-salary ratios across European cities

Percentage of average net salary spent on rent for a one-bedroom apartment in the city centre, 2025



Source: Deutsche Bank Research Institute (numbeo.com & Deutsche Bank)

Relevant rents in Moscow are amongst the highest in the world eating up three quarters of the average incomes. However, that is mitigated by the fact that Russia has achieved a 92.6% home-ownership rate, making it one of the highest worldwide so high rents don't the bulk of the population.

When the Soviet Union collapsed, the authorities simply transferred the ownership of apartments to those that were registered there – one of the largest wealth transfers in history – inuring the population from the move to a free market.

This store of wealth, the lack of mortgages or monthly rent payments, has protected the vast majority of Russians from the worst pain of the [multiple crises the country has been through ever since](#).

Here are the European capitals where home prices rose the fastest in 2025:

Moscow, Russia: +53.92% to €9,343 per m2.

Bern, Switzerland: +46.75% to €18,691 per m2

Budapest, Hungary: +24.37% to €4,596 per m2

Chisinau, Moldova: +23.90% to €2,155 per m2

Sofia, Bulgaria: +15.92% to €3,531 per m2

Madrid, Spain: +15.61% to €7,412 per m2

Bucharest, Romania: +15.39% to €3,291 per m2

Copenhagen, Denmark: +14.72% to €8,672 per m2

Podgorica, Montenegro: +14.34% to €2,531 per m2

Tirana, Albania: +12.95% to €3,260 per m2

Here are the European capitals with the most expensive homes in 2025:

Bern, Switzerland: €18,691 per m2

London, United Kingdom: €16,663 per m2

Paris, France: €11,905 per m2

Stockholm, Sweden: €10,170 per m2

Moscow, Russia: €9,343 per m2

Vienna, Austria: €9,245 per m2

Amsterdam, Netherlands: €9,101 per m2

Oslo, Norway: €8,824 per m2

Copenhagen, Denmark: €8,672 per m2

Helsinki, Finland: €7,986 per m2

• 2.6 Corporate Dynamics

Russian companies reported a decline in profitability and a rise in financial stress across key sectors in the first nine months of 2025, according to Rosstat. The outlook for 2026 is for gradual improvement, but that will be tightly linked to the CBR's ability to cut interest rates and will also depend on Russia's external trade position and the price of oil.

Net corporate profit fell by 7.7% year-on-year, while losses surged by nearly 25%, with a growing number of firms reporting payment delays and falling demand.

Investment growth slowed sharply, and business loan delinquencies reached their highest level in over two years, underscoring broader pressures on the corporate sector amid ongoing economic uncertainty.

Russian companies are under increasing pressure thanks partly to the sky high interest rates that are becoming a growing burden on profits. According to some reports companies are paying as much as four rubles out of five in debt service, leading to talk of a possible [debt crisis](#), although that does not seem to be imminent.

Profits and Losses (January–September 2025)

Company earnings weakened across the board, with lower profits and a sharp rise in losses. The number of unprofitable firms also increased significantly.

- **Net profit:** RUB19.2tn — down 7.7% compared to the same period in 2024
- **Number of profitable organisations:** 44,400
 - Total profit: RUB25.7tn — down 1.2% year-on-year
- **Number of loss-making organisations:** 18,400 — up 11% year-on-year
 - Total losses: RUB6.52tn — up nearly 25%

Note: Data excludes small businesses, credit institutions, state and municipal bodies, and non-credit financial institutions.

Industry-specific Profitability

Several major industries saw a majority of companies operating at a loss, with profitability shrinking across most sectors.

Industries where the majority of organisations posted losses:

- **Coal mining:** 68.1% loss-making, 31.9% profitable
- **Electricity, gas, and steam supply:** 54.7% loss-making, 45.3% profitable
- **Water supply and waste disposal:** 52.9% loss-making, 47.1% profitable
- **Logging:** 45% loss-making
- **Oil production:** 48.1% loss-making
- **Finance and insurance:** 44% loss-making
- **Research and development:** 41.8% loss-making

Industries with increased share of profitable companies (January–September):

- **Fisheries:** +12 percentage points
- **Air and space transport:** +10.8 percentage points
- **Public administration and military security:** +7.4 percentage points
- **Pharmaceutical and materials manufacturing:** +4.9 percentage points
- **Total exceptions:** 10 industries

Non-payments and Demand Issues

Non-payment from counterparties became a widespread problem by Q3, while weak consumer and business demand added to corporate strain.

- By end of Q3 2025:
 - Nearly 40% of companies experienced non-payments from counterparties
 - Up from just over 25% in Q2

- 34% of companies reported a decline in demand for products
 - Up from 30% in Q2 (a rise of 4 percentage points)

Capital Investment

Investment growth slowed sharply in Q2, indicating mounting caution among businesses amid rising financial pressures.

- Fixed capital investment (Q2 2025):
 - Growth slowed to 1.5% year-on-year
 - Down from 8.7% growth in Q1
- Total investment (H1 2025):
 - RUB16.04tn
 - Up 4.3% year-on-year

Loan Delinquencies

Corporate loan delinquency rates hit their highest point in over two years, with nearly a quarter of borrowers in arrears.

- October 2025:
 - 714,000 legal entities and individual entrepreneurs had outstanding loans
 - 171,000 (approx.) were delinquent — nearly 24%
- Delinquency rate:
 - Highest in at least 2.5 years
 - Up 6 percentage points over past 12 months
 - Nearly doubled since start of 2023

AI and Retail doing well

Despite current challenges, sectors such as retail anticipate future gains, with generative AI expected to boost profitability significantly by the end of the decade. The projected profit from generative AI in retail by 2030 will be RUB160bn, according to Rosstat.

• 2.7 National Projects in 2026

Russian President Vladimir Putin is a man with a plan. At the annual meeting of the Council for Strategic Development and National Projects on December 9 he updated the goals for 2026 and promised to “clean up the economy.”

Under-acknowledged, Putin has been focused on economic reform since he took office. As *bne IntelliNews* reported at the time, there are two Putins: the economic one and the political one. As widely reported, the political Putin is authoritarian and tends to poison its critics with radioactive tea and [murder its](#)

[dissidents who are serving long sentences in jail.](#)

The first things the economic Putin did on taking office in 2000 was to completely revise the labour code and introduce the flat tax regime, slashing rates of both income and corporate taxes to stabilise budget revenues. He also began to raise public sector wages by 10% a year for ten years to close the gap between the private and public sector wages or face social unrest. Those reforms kicked off an almost decade long boom that saw Russia's economy more than double in size.

The economic Putin is much more benign. The economic revival plan has come a long way from the original "Gref Plan" where Putin hired the liberal economists German Gref, now CEO of Sberbank, to slash red tape and end the economic chaos of the Yeltsin-era. That evolved into [Plan K](#) in 2016, an economic revitalisation of the economy drawn up by former finance minister and the architect of Russia's reforms Alexey Kudrin that eventually turned into the [National Projects 2.1](#) programme.

The great irony of the war in Ukraine is that it has **forced deep root and branch reforms to improve efficiency and cut corruption**. While the elite still help themselves to billions of dollars of public money, at the lower levels of economic activity the Kremlin is demanding – and getting – much greater efficiencies.

Prime Minister and former investment banker, Mikhail Mishustin, was given the job of heading up the tax service, where he implemented a new **revolutionary IT system that saw the government's tax take grow by 20%** at a time when the tax burden rose by only 2% (and now by another 2-points when a hike in VAT comes into effect.) At the same time, in a hunt for more military spending revenues, Russian Finance Minister Anton Siluanov has been going through budget spending with a fine-tooth comb to cut as much waste as he can. The Russian team in charge of macroeconomic reform and monetary policy is acknowledged to be one of the best in the world – one of the reasons that sanctions have been so ineffective.

The National Projects is now back in focus as [Russia's economic problems](#) are bad and [getting worse](#) as the military Keynesianism boost from the war is exhausted. Putin reviewed the implementation of national development goals and outlined six key policy priorities for 2026. His speech focused on demographic challenges, economic performance, labour productivity, and technological leadership.

After two years of strong growth in 2023 and 2024, Putin said at the annual "Russia Calling" investment conference that growth this year will come in at 0.5%-1% and CBR governor Elvia Nabiullina added this week that Russia is in [danger of stagnating](#) if more reforms are not made to [boost productivity](#). The government has promised to "clean up the economy" and get Russia Inc growing again.

Policy priorities:

Putin outlined six key policy priorities for 2026, putting [reversing negative demographic trends](#) at the top of the list – a policy that has been [top of his agenda since his first day in office](#). This will involve expanding state support for families and introducing new measures to promote engaged fatherhood, including financial incentives and tax exemptions.

The government will also aim to **restore economic growth to levels comparable with the global average**. Previously, Putin set a goal of outperforming the global average growth rate, but since the war started that goal has been quietly dropped. Structural changes will target high-value sectors, the creation of modern jobs, and increased domestic consumption as the budget tries to transition away from its oil export dependency towards domestic consumption; VAT revenue already accounts for just under 40% of the tax-take compared to oil's 25% share.

Another priority is the **modernisation of Russia's foreign trade**, with a shift toward the export of high-technology products and away from raw materials. Imports will be focused on more [import substitution](#), goods that cannot be locally substituted, while encouraging domestic production in advanced industries.

Efforts to formalise economic activity will be intensified with a **crackdown on the shadow economy**, curbing illegal trade practices, and ensuring increased tax compliance, especially in light of the planned VAT rate increase.

An illustration of this optimization is the tax threshold for VAT exemptions for SMEs has been dramatically reduced, drawing criticism that the Kremlin was increasing the burden on small businesses. In reality, the measure is designed to stamp out the practice of “fragmentation” amongst SMEs which were breaking their businesses in several smaller pieces in order to avoid VAT payments. This is only the latest in a raft of tax reforms designed to boost the efficiency of tax collection.

Improving labour productivity remains a key objective, particularly in underperforming sectors such as trade, housing and utilities, and transportation. The CBR warned that with capacity utilisation running at its maximum of around 80% and the labour market still constrained thanks to the war, the economy is already running at full tilt. Any growth going forward will have to come from productivity gains, not investment. State and municipal institutions will be required to adopt efficiency measures aimed at reducing administrative burden rather than increasing workloads.

Finally, the **acceleration of “technological sovereignty”** will be pursued through the development and widespread adoption of domestic innovations. These include artificial intelligence, automation, and digital platforms, with

national projects focused not only on import substitution but on creating globally competitive Russian technologies.

A comprehensive review of progress in these areas is scheduled for mid-2026, when the Council will convene again to evaluate outcomes and consider additional measures, particularly in the demographic sphere.

Overview of national projects performance:

- 19 national projects are underway with a total of 121 indicators.
- 7 of these indicators are at high risk of non-achievement.
- Targets met in housing relocation, agricultural output, creative industries, energy technologies, waste management, and urban improvement.
- 42% of urban residents reported improved living conditions in 2025, up 5% from the previous year.
- Positive public feedback in transport infrastructure, domestic tourism, vocational and higher education, and e-government services.

Demographic policy:

- Rosstat reported continued decline in birth rates in 2024.
- A new national project, *Family*, was launched to support birth rates.
- As of November 1, 18 regions met or exceeded birth rate targets; 11 exceeded targets for third or subsequent children.
- A new family allowance will begin in 2026 for low-income families with two or more children.
- From January 1, 2026, employer-paid childbirth bonuses of up to RUB1mn (approx. \$10,800) will be exempt from income tax and insurance premiums, up from RUB50,000 (\$540).
- Birth rate indicators have been added to the performance metrics of regional governors.
- Government instructed to replicate successful regional demographic policies nationwide.

Economic and structural targets:

- 2025 GDP growth forecast: ~1%; inflation forecast: ~6%.
- 2026 inflation target: 4–5%, per Central Bank.
- Structural transformation plan to 2030 aims to generate high-tech jobs and boost domestic consumption.
- Fourth policy priority is formalising the national economy, reducing informal employment, and improving tax collection amid VAT rate increase.

Labour productivity:

- Labour productivity grew by an average 0.7% per year from 2021–2024.
- Negative or zero growth recorded in trade (-1.1%), housing/utilities (-0.2%), and transport/storage (-0.1%).

- By 2030, productivity programmes should cover 40% of medium and large non-resource enterprises, and all public sector organisations.
- Government instructed to expand sectoral productivity efforts and reduce administrative workload in health and education.

Technological leadership:

- National projects launched in 2025 focus on AI, automation, and unmanned systems; a bioeconomy project will be added in 2026.
- Projects must go beyond import substitution to create competitive domestic technologies.
- Productivity and economic reforms to be supported by technological innovation across all sectors.
- Technological policy oversight assigned to deputy prime ministers and ministers.

• 2.8 Sanctions

The number of foreign business exits has fallen. In 3Q25, the number of foreign business exits from Russia fell by 2.7 times, with only five such transactions taking place during this period. Over the past nine months, 15 such transactions have been completed, the lowest since 2022.

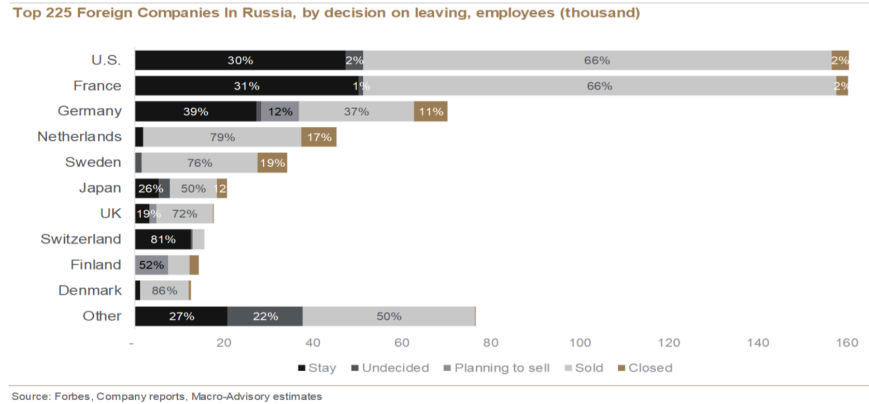
“In July–September 2025, only five such transactions out of 88 [all mergers and acquisitions that took place on the market] were recorded, and their total value was US\$137 mln – this is only 1.9 percent of the total transaction volume for the period,” according to an M&A report.

Citibank sells to Renaissance. President Putin issued an executive order authorizing Renaissance Capital to acquire Citibank. The Russian subsidiary was winding down its operations back in 2022, but difficulties were encountered in finding a willing buyer, and the lending business was only finally divested in March of this year.

Raiffeisen is still considering an exit. Raiffeisen Bank International (RBI) continues to seek a buyer for its Russian subsidiary, CEO Johann Strobl told reporters. “If the list [of potential buyers] had ended, we would have said so. We’re not giving up,” Strobl said. In early October, Reuters reported on another collapsed Raiffeisenbank sale. According to the report, Russian authorities are blocking the deal, fearing that a sale to a Russian buyer could lead to Western sanctions against the bank.

UniCredit wants to avoid the nationalization of its Russian unit. UniCredit is trying to comply with international sanctions in relation to its Russian unit while also avoiding moves that could prompt Moscow to seize the business,

CEO Andrea Orcel said. Speaking at a European Central Bank Forum on bank supervision, Orcel said that trying not to breach Western sanctions on Russia required a "galactic" effort, and that nobody could be certain of complying with them in full.



The EU extends its economic sanctions against Russia, and the US calls for Russian tankers to be seized on December 23. In response to the ongoing conflict in Ukraine, the EU Council [has prolonged](#) its sanctions on Russia for an additional six months, and they will now be in effect until July 31, 2026. These measures span sectors including trade, finance, energy, technology, dual-use goods, industry, transport, and luxury goods. Specific actions include prohibiting the import or transfer of Russian crude oil and certain petroleum products into the EU, excluding select Russian financial institutions from the SWIFT system, and banning the broadcast of Russian state-controlled media within the EU.

US Senator Lindsey Graham has also advocated for the US to implement more assertive policies, such as seizing vessels transporting sanctioned oil, citing the ineffectiveness of current negotiation strategies with the Russian leadership. He further recommends strengthening sanctions on Moscow's allies – such as China and other buyers of discounted Russian oil – and urges the provision of long-range weaponry to Ukraine, which will allow it to target strategic military-industrial assets. Senator Graham anticipates support from President Trump for legislation introducing tariffs on imports from countries that continue to purchase Russian energy resources, designating Russia as a state sponsor of terrorism, and supplying Tomahawk missiles to Ukraine for use against drone and missile manufacturing sites within Russia.

The EU will fund Ukraine for the next two years. The arduous 15-hour negotiations at the [European Council \(EUCO\) summit](#) on December 18 the vote on the Reparation Loan failed and the EU voted to raise €90bn (\$105bn) for Ukraine by collective borrowing separately in 2026-2027 through borrowing by member states, secured by the EU common budget.

The Czech Republic, Hungary, and Slovakia will not participate in this financing.

The decision to freeze Russian assets no longer requires reconfirmation every six months.

EU decision-making bodies will continue to work on acceptable mechanisms for a reparations loan using Russian assets.

Ukraine will not have to repay the loan until Russia pays for the damage. Until then, Russian assets will remain frozen, and the EU reserves the right to use them to repay the loan.

Belgian Prime Minister Bart de Wever's insistence on full, indefinite EU guarantees for Russian assets has remained unshaken. Meanwhile, the debt option was most persistently promoted by Italy and, surprisingly, France.

The Trump administration also lobbied hard against the scheme as it wants access to Russia's frozen money to fund a \$100bn Ukraine [reconstruction fund](#) and a \$200bn US-Russia investment fund. The White House reportedly put extreme pressure on Meloni.

Hungarian Prime Minister Viktor Orbán, incidentally, indirectly confirmed that the threats had worked: the EU, according to him, had calculated that the assets of private European companies in Russia exceed Russia's frozen reserves in the EU.

The amount raised is less than the IMF estimates is needed over the period of \$136bn. The missing amount will be raised by the other non-European G7 members.

The debt carries interest payments that will be borne by EU taxpayers of some €3bn a year. The bonds will never mature unless Russia is defeated militarily and forced to pay reparations – which is highly unlikely.

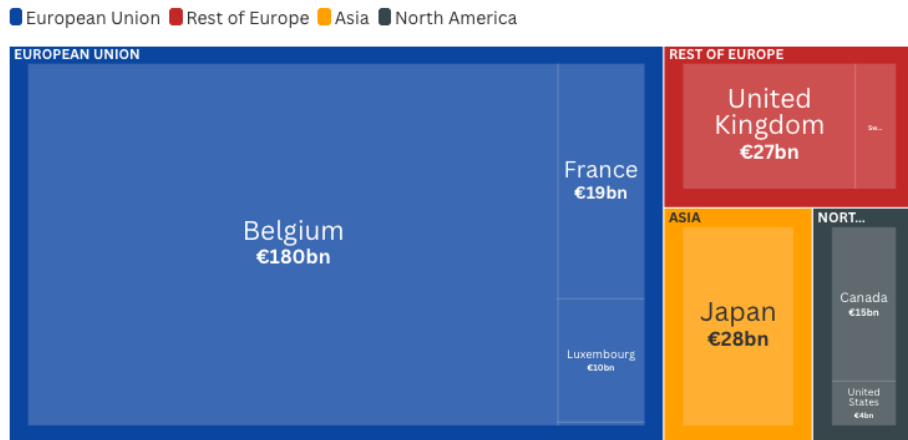
The EU money staves off a potential [macroeconomic collapse](#) for Ukraine in the first quarter of 2026.

More than €289.5bn (\$339.3bn) in Russian assets have been frozen by Western countries since the 2022 invasion of Ukraine, with the EU holding €209bn (\$247bn) of this. Belgium holds the largest share at 180 billion euros (\$210bn).

Country exposure to frozen Russian assets:

Belgium	\$200bn (mostly in Euroclear)
France	\$70bn
Austria	\$15bn
Germany	\$5bn
UK	\$25bn
US	\$5bn
Switzerland	\$8bn
Japan	\$55bn

Source: *bne IntelliNews* from reports



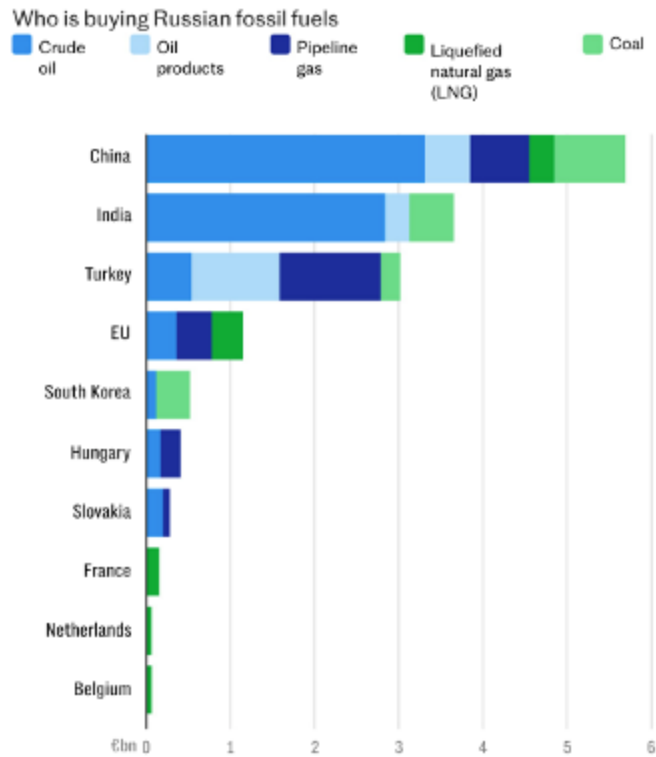
Source: European Parliament | December 18, 2025 • Hover over each box for more information
 The exchange rate used is 1 USD to 0.85 EUR as of December 18

Oil sanctions have failed. US Treasury Secretary Scott Bessant stated in November that the EU's current sanctions approach toward Russia has failed to achieve its intended objectives. The EU has been through nineteen rounds of sanctions and is preparing a twentieth for January but progressive rounds have had progressively less impact.

Bessant criticized certain European countries for indirectly supporting the Russian economy through continued purchases of energy resources, despite official restrictions, sending Russia more money than they send to Ukraine. By some estimates the EU paid Russia €311bn for its energy products since February 2022, while giving €187bn in support for Ukraine.

US sanctions have been more effective after Office of Foreign Assets Control (OFAC) switched from sector-originated sanctions to [strangulation sanctions](#) that target individual banks and companies. The latest example were Trump's new [oil sanctions](#) released in November has depressed Russia's oil exports and forced Russian oil major to try and sell \$22bn worth of foreign assets. The prices for Urals crude supplied to Indian refiners immediately dropped as the [discounts](#) on Russian oil increased as a result of the sanctions. Urals grade is being offered at its largest discount in at least two years of \$7 per barrel less than Dated Brent.

Despite the fact that oil discounts are the highest in two years, they are still well behind the extreme peak of \$30 on a barrel costing \$75 in the first months of the war. Russia has successfully replaced almost its entire European oil trade with Asia and the price of its oil is steadily returning to market prices.



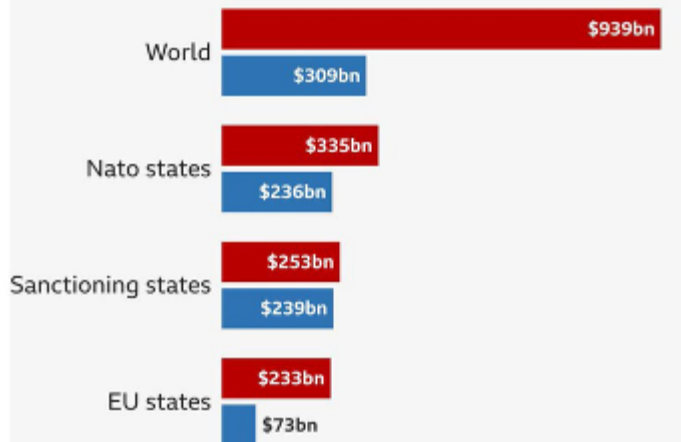
August 2025 | CREA analysis based on Kpler, Marine Traffic, ENTSOG and customs data

EU Russia’s best customer: Sanctions were supposed to rob Russia of the revenues it needs to fund the Ukraine war. However, they have comprehensively failed as Europe sends more money to Moscow to pay for commodities than it sends to Ukraine to support the government.

After the full-scale invasion, European countries and Europe supported Ukraine to the tune of €187bn. Over the same period, Europe imported Russian oil and gas worth €201bn. If you add other imports, the total amount is €311bn, meaning there is negative support for Ukraine of €124bn more money sent to Russia than to Ukraine.

Russian fossil fuel revenue outstrips aid to Ukraine

Amounts received **by Russia in fossil fuel revenue** and **by Ukraine in allocated aid** from Feb 2022 to Feb 2025, by source country grouping



Sources: Centre for Research on Energy and Clean Air (CREA), Kiel Institute for the World Economy
Aid figures are for aid allocated, i.e. delivered or earmarked for delivery

BBC

Business as usual: After the invasion of Ukraine many multinationals with business in Russia promised to leave. Four years and 91% of them are still there, although many of these have suspended services and halted investments.

Foreign companies still present in Russia collectively paid over \$20bn in taxes in 2025, with total payments since the conflict's escalation surpassing \$60bn – approximately half of Russia's proposed military budget for 2025.

Of the foreign companies still operating in Russia, US companies pay the most tax contributions. The next most active are 248 German companies by utilizing legal provisions within the existing restrictions. German companies contributed more than \$500mn in income tax and an estimated \$1.7-\$2bn annually in total payments.

While these operations do not formally breach EU sanctions, these companies' continued presence provides fiscal revenue and may contribute to the maintenance of industrial and technological capabilities in Russia.

• 4.2 Sentiment

President Vladimir Putin continues to enjoy strong approval ratings

nearly four years into Russia's full-scale invasion of Ukraine, according to polling from the Levada Centre, an independent Russian research organisation.

Despite economic pressure, mounting casualties, and a protracted war effort, public support for the Russian president remains consistently high, highlighting the durability of the Kremlin's control over the domestic narrative.

Putin's approval surged in March 2022—just weeks after Russian troops crossed into Ukraine—from 71% in February to 83%, and has since remained above 80% for most of the conflict.

As of December 2025, 85% of respondents said they approved of the president's performance, while just 13% disapproved. The data shows only minor fluctuations over 36 months, indicating stable support throughout what the Kremlin continues to call its "special military operation."

The Russian government, while less popular than Putin himself, has also maintained majority approval ratings. Support for the federal government rose from 53% in early 2022 to a high of 76% in mid-2025, before easing slightly to 70% in December.

Disapproval of the government fell from 44% in early 2022 to just over 20% in late 2025 as the war in Ukraine has had little impact on daily lives inside Russia other than pushing prices up. The figures suggest that a significant portion of the Russian population continues to back the state's actions and overall direction despite the sustained conflict.

Similarly, the share of Russians who believe the country is heading "in the right direction" has also climbed since the start of the war. In January 2022, only 50% of respondents said Russia was on the right path, with 39% saying it was not. That number jumped to 69% in March 2022 in tacit approval of the Ukrainian invasion, and peaked at 75% in early 2024. As of December 2025, 67% still say the country is moving in the right direction.

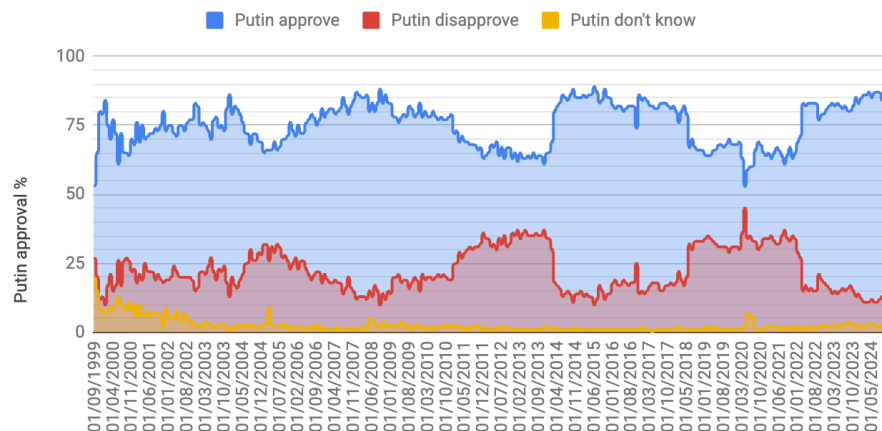
Levada Centre sociologist Denis Volkov attributed the early rally-around-the-flag effect to "a consolidation of society in the face of external

pressure.” He told *The Moscow Times* in 2023 that “Putin’s ratings reflect more than just support for the war — they reflect an emotional rejection of what is seen as Western interference.”

While polling in authoritarian states is subject to pressure and self-censorship, the Levada Centre is widely regarded as one of the few credible independent pollsters operating in Russia. “The numbers are real in terms of expressed sentiment, but the environment in which they are collected matters,” said Andrei Kolesnikov, a senior fellow at the Carnegie Russia Eurasia Centre.

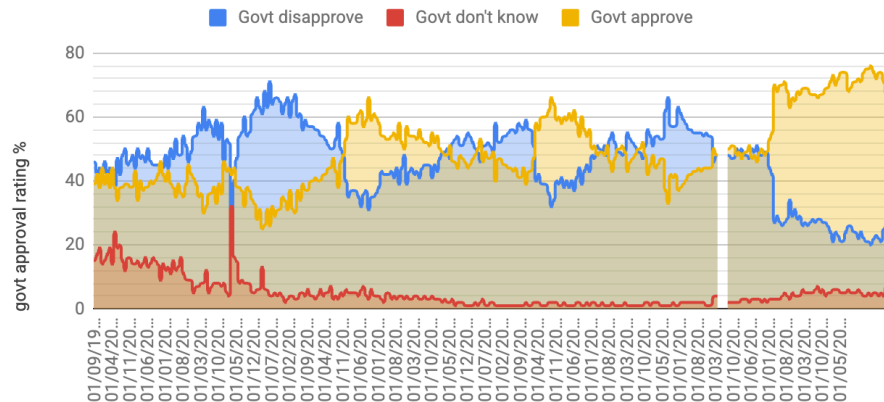
Analysts also point to a lack of visible hardship in large Russian cities as a reason for sustained public support. Although sanctions have crippled key sectors, state spending has helped shield much of the population from economic pain. “The war is largely invisible to the public,” said Tatiana Stanovaya, founder of political consultancy R.Politik. “That insulates the Kremlin from accountability.”

Russia Putin's approval rating %



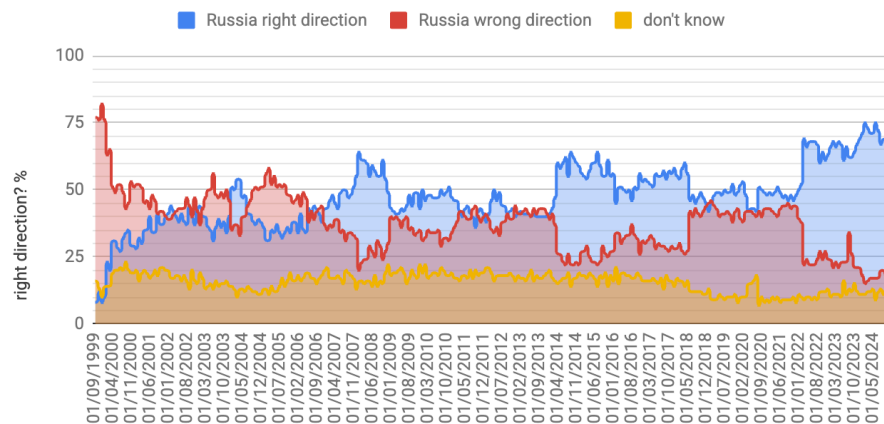
source: Levada Centre

Russia government approval rate %



source: Levada Centre

Russia Country going in right direction?



source: Levada Centre

In an online survey, Russians named "anxiety" as the word for 2025—and there's reason to worry: Vladimir Putin doesn't seem to be thinking about ending the war, repression is intensifying, and a sense of insecurity is growing.

In October 2025, only 7% of Russians rated the impact of the "special military operation" on their daily lives as positive, while 43% said the war was having a negative impact. The economic situation plays an increasingly important role in this pessimism.

Currently, the Russian economy resembles a car stuck in neutral with a roaring engine: military spending creates noise and vibration, the budget consumes fuel, but there's no progress. The only way to shift gears is through political decisions, which the Kremlin is clearly unprepared to make, says Alexandra Prokopenko, a political economy analyst.

There is a classic Soviet expression that sums up how hard life was in the USSR: “Today is worse than yesterday, but at least it is better than tomorrow.”

In the latest poll from the independent pollster, the Levada Centre, Russians might be excused for going back to their old ways as the pressures of the war finally start to cut into their quality of life. Rising prices and slowing growth dominated public sentiment in Russia in 2025, as households prepared for further financial pressure in the new year.

Rising bills are a problem. A Levada poll, cited by *The Bell* on December 24, found that 34% of Russians named inflation, utility bills and tax hikes as the most important developments of the year, ahead of even major geopolitical events such as the Putin–Trump summit in Alaska or a possible peace deal to end the war in Ukraine.

In the same poll, 48% of respondents said 2025 was harder for the country than the year before, and 38% said it was a difficult year for their families. This marks a shift from the 2024 boom year, when the top concern was a Ukrainian military attack on Russia’s Kursk region, followed by the presidential election and the [Crocus City Hall](#) terrorist attack on March 22 that killed over a hundred innocent people.

Life got worse in 2025, according to a separate poll by the Public Opinion Foundation (FOM) in November. It found that 24.9% of Russians said their lives had worsened in recent months — the highest figure since 2022. Only 7.8% reported any improvement, while 65% said their situation was unchanged.

The surveys reveal a deepening inequality: 49% of those who can only afford food said life had become harder, compared with just 13.5% of wealthier respondents who reported any decline. Among the wealthiest group — defined as those who can afford a car — 20% reported an improvement in their financial position.

Expectations for 2026 remain uncertain. While 25.2% hope for improvement, 18.9% expect further deterioration, and one in five respondents said they didn’t know what to expect.

Though Russia’s GDP has grown roughly 4% annually over the past two years, driven by wartime spending, the effect is waning. In the third quarter of 2025, growth slowed to 0.6%, signalling that the stimulative impact of military expenditure is reaching its limit.

For many Russians, however, economic hardship has become the defining feature of post-war daily life, with little indication of a return to peacetime conditions.

Levada Center poll (end of 2025):

- 34%: “Rising prices, housing and utility rates, VAT, and recycling fees”
- 29%: “Putin–Trump summit in Alaska”
- 28%: “Drone attacks on cities and businesses”
- 25%: “Mobile internet problems and blocked messaging apps”
- 48%: Said 2025 was harder for the country than 2024
- 38%: Said 2025 was difficult for themselves and their families

Levada Center (income-related responses):

- 49%: Among those with only enough for food, said life became harder
- 24%: Of the poorest respondents, described 2025 as "bad"
- 72%: Of wealthy respondents, consider the year a success
- 18%: Of wealthy noticed improvements

Public Opinion Foundation (FOM), November 2025:

- 24.9%: Said life had worsened over past 2–3 months
- 7.8%: Reported improvements
- 65%: Said situation remained "virtually unchanged"
- 17.6%: Described situation as "bad"
- 57%: Described situation as "average"
- 45.5%: Of those unable to afford food, reported worsening conditions
- 35%: Of those barely affording clothing, reported worsening
- 13.5%: Of wealthiest group, reported deterioration
- 20%: Of wealthiest, reported improvement

Outlook for 2026:

- 25.2%: Hope for improvement
- 18.9%: Expect worsening
- 20.8%: Unsure what will happen

3.0 External Environment

Russia’s **external trade environment** in 2025 was marked by a further narrowing of trade and current account surpluses, reflecting soft energy export

revenues, increased import demand, and continued restrictions on access to Western markets. According to the Bank of Russia, the current account surplus for the first nine months of the year totalled \$27.6bn, down sharply from \$50.3bn in 2024 and well below the peak of \$233bn recorded in 2022.

Energy exports, which remain the cornerstone of Russia's trade balance, continued to decline in value terms despite stable or rising volumes. The imposition of price caps by the G7 and ongoing sanctions enforcement led to deeper discounts for Russian crude and refined products, particularly in Asian markets. China and India remained the primary destinations for oil shipments, while exports to Europe contracted to a negligible level. Gas exports also faced headwinds due to limited pipeline capacity and reduced demand from key trading partners.

Non-energy exports were mixed. Agricultural and fertiliser shipments remained resilient, while exports of metals and machinery saw weaker performance due to sanctions and supply chain constraints. Import volumes increased as companies and consumers adjusted to parallel import schemes and alternative sourcing from Asia and the Middle East. This helped support domestic production but widened the trade gap in non-energy goods.

Looking ahead to 2026, the external trade outlook remains uncertain. The Bank of Russia has signalled that the current account surplus may narrow further, especially if oil prices remain under pressure or if secondary sanctions are expanded. Trade diversification efforts, including expanded cooperation with BRICS members and the Eurasian Economic Union, are expected to continue, but structural constraints will limit the pace of adjustment.

"External conditions are unlikely to improve meaningfully without broader geopolitical normalisation or a change in sanctions regimes," the Bank of Russia noted in its December bulletin, warning of persistent external financing risks and reduced foreign currency inflows.

• **3.1 Trade dynamics**

Russia has reoriented 87% of its trade in physical terms towards non-Western countries compared to around 40% five to six years ago, Deputy Prime Minister Alexei Overchuk stated on December 24.

Trade between Russia and the European Union plummeted to its lowest level on record, as sanctions, energy decoupling, and sanctions bite. However, those losses have been largely offset by trade with Asia, especial energy

exports, particularly China, India and members of the Shanghai Cooperation Organisation (SCO). The change reflects long-term structural changes in Russia's geopolitical and economic alignment, amid ongoing sanctions, energy decoupling and the fragmentation of global trade flows.

According to *Izvestiya*, **EU-Russia trade turnover in the first half of 2025 fell to €30.9bn**, down **8.3% year-on-year**, marking the lowest level on record. Imports of Russian goods to the EU dropped **10.5%** to €16.1bn, while EU exports to Russia declined **5.7%** to €14.8bn. This continues a multi-year collapse: overall trade has dropped **74%** since 2022, when turnover stood at €257.5bn. In 2024, it had already fallen to €67.7bn.

Germany, once Russia's largest EU trading partner, has reduced imports by 92% since the invasion of Ukraine, though bilateral trade still totalled \$9.5bn in 2025. France and the Netherlands each maintained trade flows exceeding \$6bn, while Hungary emerged as a notable outlier, increasing imports from Russia by 31% to \$6.2bn. Trade volumes with Spain, Italy, Belgium, Czechia and Slovakia continued to fall, reflecting the broader disintegration of the EU-Russia trade relationship. Despite the collapse in volume, the EU remains Russia's **third-largest trading partner**, owing to continued — albeit reduced — imports of Russian energy, raw materials and chemicals under various exemptions.

In contrast, trade with **Asian economies** continued to expand, solidifying a pivot that began in 2022. President Vladimir Putin stated that trade turnover with SCO countries reached \$409bn in 2024, driven by deeper integration with China, India and Central Asia. Bilateral trade with China remained the cornerstone of this shift, surpassing \$200bn annually, according to *Vedomosti* on December 16. This included sustained flows of oil, gas, coal, agricultural products and machinery, with Russia increasingly reliant on Chinese industrial goods and electronics.

India has also stepped up and is entering into a new “no-limits” partnership. Overall trade turnover has risen from about \$40bn two years ago to almost \$70bn in 2025. Prime Minister Narendra Modi and Putin in December promised to increase it to \$100bn in the coming year. However, this trade is very one-sided – almost all exports of oil to India to some \$60bn, while imports from India are around \$5bn, with plans to raise exports of goods and services to Russia to \$10bn, targeting sectors such as pharmaceuticals, engineering products, and IT services.

Together trade with India and China already equal the trade turnover with the EU pre-war.

At the same time, Russia has expanded trade through the Eurasian Economic

Union and the Commonwealth of Independent States, supporting regional supply chains that are less vulnerable to Western sanctions.

According to a December 11 report by *Vedomosti*, Russia ranked **third among G20 countries** by size of foreign trade surplus, despite lower revenue from energy exports. The shift towards Asian markets has cushioned the blow from European disengagement, but analysts caution that much of this trade remains imbalanced and exposed to geopolitical volatility.

The outlook for 2026 points to continued diversification eastward, with the Ministry of Economic Development forecasting further growth in trade volumes with BRICS and SCO members. However, logistical constraints, currency settlement issues, and the risk of secondary sanctions remain key challenges.

Russian exports (€bn)			
Year	Exports Europe	Exports Non-Europe	Notes
2010	204	135	Post-crisis recovery; strong EU demand for energy
2011	230	150	High oil prices; strong EU trade
2012	220	160	EU still dominant trade partner
2013	210	165	Stable flows, early signs of pivot to Asia
2014	162	170	Crimea annexation; first EU sanctions imposed
2015	118	155	Ruble collapse; sanctions bite
2016	120	165	Modest rebound in non-EU trade (China, Turkey)
2017	140	180	Oil price recovery; stronger Asia focus
2018	145	200	Peak before new sanctions; strong China growth
2019	135	190	EU demand stagnates; Asian share rises
2020	95	180	Pandemic impact; oil price crash
2021	110	230	Partial recovery; China becomes key buyer
2022	50	260	Full-scale war in Ukraine; EU bans on oil/coal/gas
2023	35	280	EU embargoes deepen; India, China import more
2024*	~30	~290	Record non-European trade; LNG, oil redirected
2025 (H1)**	~16.1	~32	Based on Vedomosti & customs reports
Source: Rosstat			

Russia's balance of payments indicators in the baseline scenario⁴
(billions of US dollars, if not indicated otherwise)

	2024 (actual)	2025	2026	2027	2028
Current account	63	38	27	32	32
Goods	132	116	104	112	112
Exports	434	414	416	440	454
Imports	302	298	312	327	343
Services	-38	-45	-45	-46	-46
Exports	43	47	47	48	49
Imports	81	92	92	93	94
Primary and secondary income balance	-30	-32	-33	-34	-35
Current and capital accounts balance	63	38	27	32	32
Financial account balance, excluding reserve assets	57	51	41	30	29
Net incurrence of liabilities	9	1	5	6	7
Net acquisition of financial assets, excluding reserve assets	66	52	46	36	36
Net errors and omissions	-10	-11	0	0	0
Change in reserve assets	-4	-24	-14	2	3
Oil price for tax purposes⁵, average for the year, US dollars per barrel	68	58	55	60	60

⁴ Using the methodology of the 6th edition of "Balance of Payments and International Investment Position Manual" (BPM6). In the Financial account "+" stands for net lending, "-" – for net borrowing. Due to rounding, total results may differ from the sum of respective values.
⁵ Russian oil price used for tax purposes and published monthly on the official website of the Ministry of Economic Development of the Russian Federation.
Source: Bank of Russia.

• 3.2 Current Account dynamics

Russia's current account surplus narrowed sharply in 2025, reflecting declining energy revenues, reduced trade with the European Union, and rising import volumes.

According to data from the Central Bank of Russia, the surplus reached \$27.6bn in the first nine months of 2025, down from \$50.3bn in 2024 and well below the post-invasion peak of \$233bn in 2022.

The weakening external position was driven primarily by a collapse in trade with the EU, which has historically been a key contributor to Russia's current account surpluses through energy exports. According to *Izvestiya*, mutual trade turnover with the EU fell to €30.9bn in the first half of 2025, a decline of 8.3% year-on-year. Imports of Russian goods to the bloc fell by 10.5%, while EU exports to Russia dropped 5.7%.

In contrast, Russia maintained a significant trade surplus with Asian partners, helping to support the broader external balance. Trade turnover with China exceeded \$200bn for the second consecutive year, and bilateral trade with India continued to expand.

The current account remained positive overall, though significantly reduced compared to previous years. Analysts note that the surplus continues to mask structural vulnerabilities, including a growing dependence on Asian markets

and currency settlement challenges under sanctions.

Russia's current account balance by region (2021–2025)

Year	Total Current Account	Estimated Balance with EU	Estimated Balance with Asia
2022	+\$233bn	\$90bn surplus	\$100bn surplus
2023	+\$50.3bn	\$15bn surplus	\$60bn surplus
2024	+\$50.3bn	\$10bn surplus	\$70bn surplus
2025	+\$27.6bn (Jan–Sept)	\$3bn surplus (est.)	\$60–65bn surplus (est.)

Source: CBR

Looking ahead to 2026, the Central Bank has warned of further narrowing in the external surplus amid softening global commodity prices and stabilising import flows.

“External demand for Russian exports remains fragile, and the role of non-commodity trade in supporting the current account is limited,” the Bank noted in its December bulletin. Without a rebound in energy prices or a shift in global sanctions policy, further erosion of the current account surplus appears likely.

• **3.3 Trade Scenarios**

The Ministry of Economy's new medium-term forecast until 2028

traditionally consists of two versions: a baseline and a conservative one. Both assume inflation will return to 4% by 2026 and a gradual reduction in the Bank of Russia's key rate.

- The **baseline scenario** for the macro forecast is based on a relatively favorable external environment: Brent crude oil at \$70–72 per barrel, a gradual narrowing of the Urals price discount, and a moderate strengthening of export flows.
- The **conservative version**, however, assumes oil prices at \$55–60 per barrel and increased external sanctions.

- The gap between the scenarios is primarily evident in foreign trade volumes. In the baseline scenario, exports by 2028 are estimated at \$505bn, while in the conservative scenario, they are only \$413bn. Imports, however, grow moderately in both cases—to \$341bn and \$322bn, respectively. The trade balance expands in the baseline scenario, while it contracts in the conservative scenario.

Oil price dynamics will heavily influence the results going forward. In December 2025 the cost of a price of Brent fell to \$60 and the cost of the Russian Urals blend was below \$40 - its lowest price since the war started - which will hit the budget revenues hard.

Moreover, after an OPEC decision to increase production, analysts are predicting a significant oil glut in 2026 that will keep prices low. However, MinFin is anticipating the falling contribution of oil to budget revenues and has been adjusting its planning to take this change into account.

Russia: Urals oil price vs federal budget forecast (2022–2025)

Year	Average Urals Oil Price (USD/barrel)	Budget Forecast Price (USD/barrel)
2022	\$76.09	\$44.20
2023	\$62.40	\$70.10
2024	\$63.20 (estimate)	\$60.00
2025	\$61.50 (Jan–Nov avg, estimate)	\$71.30
2026	\$60–65 (projected)	\$71.30

Sources: Russian Ministry of Finance, Central Bank of Russia, *Vedomosti*, *Interfax*, Bloomberg

• **3.4 Trade with Eurasia is booming**

While political ties with the Eurasian countries are strained as they all attempt to sit on the fence and avoid being dragged into Russia’s war with Ukraine, on the economic front trade with the Former Soviet Union (FSU) states is booming. [Central Asia has been the biggest winner from the war in Ukraine.](#)

Overall Russian turnover with all post-Soviet states rose from \$63bn in 2020 to \$125bn in 2024. Over the same period, trade with China increased from \$107.8bn to \$244.8bn, slightly outpacing growth with post-Soviet countries.

Since the USSR's collapse, Russian economic ties with former republics have never been so strong, promising, and vital for Moscow - economic relations can thrive despite—or entirely detached from—political dynamics. This creates a unique situation: Russia is objectively losing political influence, facing growing competition from other players in both the South Caucasus and Central Asia, yet its economic presence is strengthening.

Russian economic partnerships with Central Asian countries have yet to peak—unlike, apparently, Russian-Chinese ties. In nearly all cases, 2025 trade figures will exceed 2024 levels. No matter how regional countries assure the EU and U.S. of sanctions compliance, economic incentives drive them to find new ways to meet Russian demand. Except for Moldova, all regional states economically benefit from the Ukraine war's consequences.

Armenia: Explosive growth

Bilateral trade surged from \$2.3bn in 2020 to a record \$12bn in 2024 (range: \$11.7–\$12.4bn), before contracting in 2025. Russia's share of Armenia's external trade rose to 39% by end-2024 (up 10+ points). Around 80% of Armenian exports to Russia are now re-exports, largely driven by sanctions evasion and parallel imports linked to the Ukraine war.

Kyrgyzstan: Strong growth

Trade rose from \$2.4bn in 2021 (+47% year-on-year) to \$3.9bn in 2024. Re-exports increased 7–8 times over this period.

Uzbekistan: Comparable to Kyrgyzstan

Turnover grew from \$5.8bn in 2020 to \$11.6bn in 2024. By late 2024, Russia's share of Uzbek trade reached 25.6%, nearly equalling China's 26.4%. Re-exports grew 5–8 times.

Turkmenistan: Unexpected growth

Despite unreliable data, trade grew from \$970mn in 2020 to \$1.6bn in 2024, with \$2.5bn projected for 2025. Growth is based on traditional commodities, not re-exports.

Azerbaijan: Steady rise

Trade climbed from \$2.9bn in 2020 to \$4.8bn in 2024, amid political tensions with Russia's ally Armenia and growing Turkish influence.

Re-exports rose from 10–20% to 25–45%. Azerbaijan plays a key role in rerouting Russian oil exports.

Belarus: High-volume, stable growth

Turnover rose from \$28.5bn in 2020 to \$57.6bn in 2024 (some estimates: \$60bn). Despite sanctions limiting re-exports, Belarus remains vital through industrial goods, agriculture, and fuel supplies—especially after Ukrainian drone strikes on Russian refineries.

Tajikistan: Modest but steady

Trade increased from \$838mn in 2020 to \$1.9bn in 2024. Russia accounts for 22% of Tajik trade, three times China's. Re-exports peaked at 30–40% in 2022 but dropped to 10–20% by 2024 after Dushanbe's pledge to curb sanctions evasion. Around 1.2mn Tajiks work in Russia; remittances made up 17% of GDP in 2024.

Kazakhstan: Moderate, consistent growth

Turnover rose from \$19bn in 2020 to \$28.7bn in 2024, with \$30bn projected for 2025. Despite pledges to prevent sanctions evasion, the open EAEU border with Russia limits enforcement. The EU avoids sanctioning EAEU states, maintaining Kazakhstan as a key route for parallel trade.

Georgia: Small but rising

Trade grew from \$1.2bn in 2020 to \$2.5bn in 2024. Up to 25% of Georgian exports to Russia in some years were re-exports. Trade expansion and warmer ties followed the Georgian Dream party's rise and intensified during the Ukraine war.

Moldova: Decline

Trade dropped from \$826mn in 2022 to \$472mn in 2023 and \$326mn in 2024, with further decline expected in 2025. Russia's attempts to pull Moldova from the EU orbit and control over energy in Transnistria have heightened tensions, reflected in falling trade.

4.0 Budget & Debt

Russia's **public debt expanded** further in 2025 as the government relied heavily on domestic borrowing to finance a wider budget deficit, which is estimated at RUB3.46tn (\$37bn) or 2.0% of GDP due to the war in Ukraine, up

from a forecast of only 0.5% of GDP at the start of the year.

The **budget deficit** has been primarily funded through increased issuance of OFZ (federal loan bonds) to domestic banks and state-owned institutions, with limited access to external capital markets due to Western sanctions. The Ministry of Finance has intensified weekly auctions in the second half of 2025, and the domestic debt market now accounts for the overwhelming majority of state financing.

Total public debt remains relatively low by international standards, at around 21% of GDP, but the composition has shifted almost entirely to ruble-denominated instruments. External sovereign debt has continued to decline, both in absolute terms and as a share of total liabilities, with most outstanding Eurobonds held by non-friendly jurisdictions now considered in technical default due to settlement issues and sanctions-related payment blocks.

Looking ahead to 2026, the government plans to maintain high levels of OFZ issuance to cover ongoing military spending and social commitments. While demand from state-affiliated investors remains strong, growing dependence on domestic funding and a narrow investor base could pose refinancing risks in the event of market volatility or inflation shocks. External borrowing is expected to remain frozen amid geopolitical isolation and limited access to international capital markets.

• **4.1 2025 Federal Budget**

The budget deficit quintupled in 2025. Russia's federal [budget deficit](#) reached RUB4.3 trillion (\$47.6bn), or 2% of GDP, in the first 11 months of 2025, according to the latest government data published last week. The shortfall is expected to grow to RUB5.7 trillion (\$63.1bn), or 2.6% of GDP, by year-end, the Finance Ministry said. That is five times higher than the 0.5% estimate at the start of 2025.

Much depends on the performance of the economy in 2026. Russia's economic problems are bad and [got worse](#) in 2025. Researchers suggest the true fiscal picture may be more difficult than the headline figures suggest. High inflation and borrowing rates also contributed to a 20% growth in tax arrears between 2024 and 2025. Sberbank warned in December that metallurgical companies (among others) were having trouble servicing debt and were counting on monetary easing in 2026. The sector is struggling due to the fizzling out of a construction sector boom and the federal government has

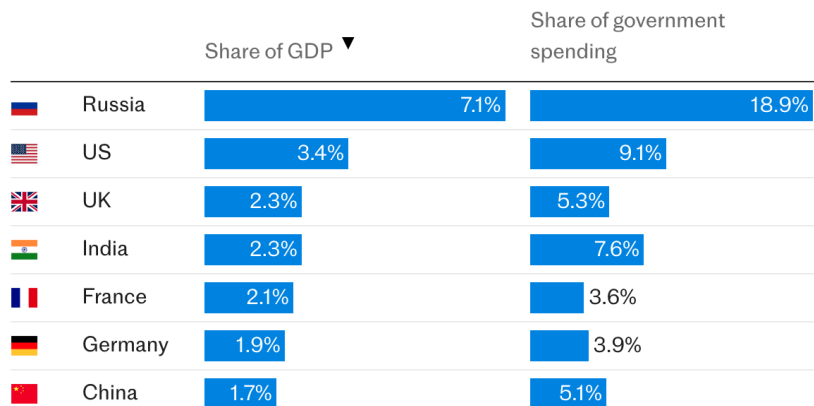
been reportedly considering a sectoral aid package similar to the one received by the coal sector.

“Based on historical data, the real [budget deficit] figure could be closer to 3.5%,” according to Janis Kluge, senior researcher at the German Institute for International and Security Affairs.

Oil and gas revenues, long a pillar of the Russian budget, have fallen sharply. According to the Finance Ministry, hydrocarbons-related income was down 22.4% compared to 2024. The economic slowdown to near no growth has also reduced VAT receipts which account for a bit less than 40% of federal budget reserves. At the same time, federal spending rose by 12.5%, driven in part by continued military expenditures and social payments.

Defence spend comparison

Military expenditure as proportion of total



Source: SIPRI

2025 was a bad year for the budget

Russia’s Finance Ministry has projected a federal budget deficit of RUB5.7tn (\$63.6bn) in 2025, or 2.6% of GDP, based on expected expenditures of RUB42.8tn and revenues of RUB37.1tn. But according to budget execution data and historical trends, that forecast is highly optimistic, says Janis Kluge, a fellow at the Stiftung Wissenschaft und Politik (SWP) in Berlin.

In January-October 2025, Russian budget spending was RUB34.1 trillion rubles, while revenues amounted to RUB29.9 trillion rubles, according to the latest data from Russia’s Finance Ministry. For the full year, the ministry

expects expenditures of RUB42.8 trillion rubles and revenues of RUB37.1 trillion rubles. This results in a deficit of RUB5.7 trillion rubles, said Kluge in a [substack post](#).

"By the end of October, Russia had already spent 80% of the annual budget. That's unusually high," Kluge observes. "If they stick to the planned RUB42.8tn for the year, then September and October spending would fall well outside any historical pattern."

Oil and gas revenues down

Russia's oil and gas revenues fell again in November. The Finance Ministry reported that the budget received RUB530.9bn (\$6.8bn) last month , 34% less than in November 2024.

The mining tax fell by 36%, and export duties by almost 40%. The average price of Russian oil in November was \$44.87 per barrel, the lowest since March 2023. The strengthening means lower revenues in domestic currency, despite relatively stable prices in US dollars. Experts warn that further discounts and low prices could lead to a significant budget shortfall.

The Ministry of Finance initially projected revenues of RUB10.94 trillion (\$140.9bn), which was later revised downward by 21% to RUB8.65 trillion (\$111.4bn).

The budget deficit, initially planned at RUB1.2 trillion (\$15.5bn), may actually reach RUB5.7 trillion (\$73.4bn), or about 3.5% of GDP. Experts warn that traditional end-of-year government spending could further widen the budget gap.

Non-productive spending up

The most significant budget trend is the steady increase in the share of non-productive spending. Military spending (defense and national security spending) increased from 23.9% to 40.3% from 2021 to 2025 and will remain elevated at 38% in 2026. Spending on the national economy is decreasing proportionally—from 17.6% in 2021 to 10.9% in 2025–2026.

As a result of these changes, the budget's investment-stimulating function is weakening—increased budget spending is less effective in promoting economic growth. The share of social spending is also declining—from 38.1% in 2021 to 25.1% in 2026. The share of rigidly fixed obligations in the expenditure structure is growing, reducing the flexibility of budget policy.

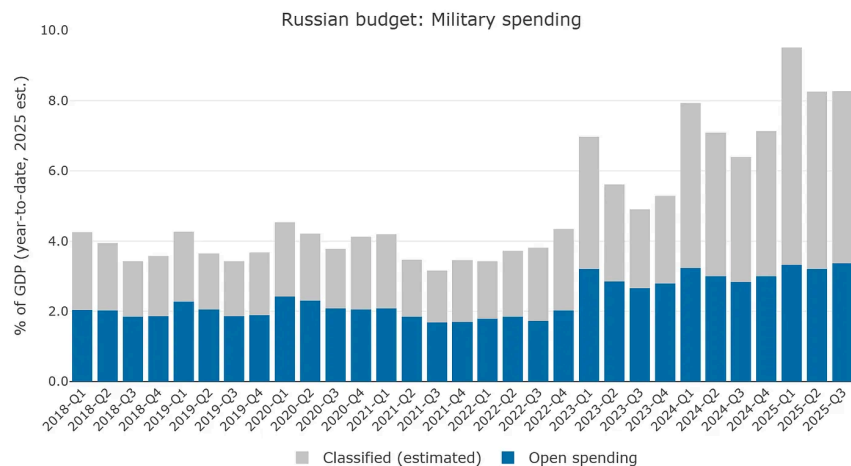
Funding by bonds

The state's growing appetites are financed primarily through borrowing. Since 2021, budget interest expenses have doubled—from 4.4% in 2021 to 8.8% in 2026. Rising debt servicing costs are also compressing budgetary space. In 2026, almost half of the federal budget (47%) will be allocated to two items: security expenditures (38%) and debt servicing (8.8%). There is no room for reallocation in favor of productive spending: revenues do not cover all appetites, and the government cannot assume political responsibility for significant spending cuts—this is beyond the mandate of the technocratic leadership.

Russian military spending is not slowing down

Military spending has continued at its previous (record) pace. In Q3, it increased by over 3.6 trillion rubles relative to Q2. In 2024, military spending in Q3 was only 2.6 trillion, which means that - in nominal terms - spending was 38% higher this year than last year. If you consider that not all of Russian military spending is directly war-related, the “Ukraine war share” rose by even more than 38%, which demonstrates the ever increasing cost of the invasion for Russia.

Relative to GDP, total military spending this year remains above 8% of GDP after Q3 (close to 8.3% of GDP). For the year so far, the total is 11.9 trillion rubles. It is already clear that military spending will exceed the budgeted total for 2025 (15.2 trillion) by a quite significant amount. (I'm always getting complaints for posting time series charts in nominal rubles, so I will start with military spending relative to year-to-date GDP).



From 2011 to 2024, the average execution rates for those months were 66% in September and 74% in October. But in 2025, Russia had already surpassed those benchmarks by several percentage points.

Kluge adds that historical data suggests actual spending is likely to reach at least RUB45.2–RUB45.3tn, overshooting the target by up to RUB2.5tn.

Spending is running hot, driven up by expanding military costs, but the performance of revenues coming in is the same as normal.

There was a slight 0.3% deviation in October, according to Ministry of Finance (MinFin) data, but Kluge argues that the mushrooming spending trajectory will push the deficit to 3.5% of GDP, nearly a full percentage point higher than the official estimate. The risk, he says, lies not just in the overspend but in the political and fiscal implications of quietly exceeding the government's stated targets.

Still, with just over a month to go, there are still some uncertainties both on the upside and downside. December is traditionally the big spending month for the Russian budget as several annual payments are made. At the same time, it is a big month for end-of-year tax collections – typically 20% of the entire year's spend happens in December alone.

Tinkering with the tax code

After the [disastrous budget deficits at the end of 2022](#), which blew out to record levels, MinFin has tried to smooth the curve somewhat by spreading some payments across the year. There are some new tax payments to collect, so the end result is still not clear.

Certain taxes—like the utilisation fee and personal income tax—were raised and are typically settled in the final quarter. These may lift year-end revenues. Conversely, mineral extraction tax and VAT on imports have underperformed, offsetting gains. On the expenditure side, Russia may attempt to limit defence outlays.

"There are signals of a slowdown in sectors related to the arms industry," Kluge notes, but he cautions against reading too much into it. "The appearance of reduced output is likely a result of shrinking civilian production, not a pullback in weapons manufacturing."

Officials in Moscow have previously claimed to have pre-paid for weapons contracts, theoretically dampening year-end spikes. But similar claims were

made in 2023, only for November and December to account for over 25% of the full-year spend. In 2025, for the Finance Ministry's projection to hold, those two months would need to deliver no more than 20%, a threshold Kluge calls "highly unusual".

One remaining lever is to defer expenditures into 2026, effectively shifting part of the fiscal burden forward. Still, the overall picture points to overspending.

"Despite all the disclaimers, the most likely scenario is a significant budget overrun. It will be interesting to see how and when the Finance Ministry begins to communicate this," Kluge says.

• 4.2 2026 Federal Budget

The Federal Budget law for 2026-2028 was adopted in the third reading in the Duma. According to the law:

- The projected GDP volume for 2026 will be 235.067 tln rubles ▪ Inflation will not exceed 4%.
- Revenues in 2026 are projected to be 40.28 tln rubles ▪ expenditures at 44.07 tln rubles
- The budget deficit in 2026 is expected to be 3.78 tln rubles, or 1.6% of GDP ▪ For 2027, federal budget revenues are projected to be 42.91 tln rubles
- expenditures at 46.09 tln rubles
- The deficit in 2027 will be 3.18 tln rubles, or 1.2% of GDP
- In 2028, federal budget revenues are expected to be 45.87 tln rubles
- Expenditures at 49.38 tln rubles.
- The budget deficit in 2028 is expected to be 3.51 tln rubles, or 1.3% of GDP

VAT changes. The Duma adopted the bill on amendments to the Tax Code in the second reading on November 18th. In particular, the amendments to the second reading of the bill provide for a gradual reduction in the income threshold for paying VAT under the simplified patent taxation systems (STS and PSN):

- In 2026, the income threshold will be RUB20mn
- In 2027 — RUB15mn
- From 2028 — RUB10mn

However, the forecast for a RUB1.4 trillion annual increase in revenue from the increased VAT is overly optimistic. It assumes favorable dynamics in key macroeconomic variables and continued growth in collection, which is unlikely given a slowing economy and a shrinking tax base. Second-order effects will also play a negative role. A decline in the purchasing power of businesses and households will trigger a chain reaction: reduced corporate tax revenues, a drop in insurance premiums, and a drop in income tax due to a contraction in the payroll. The net fiscal effect could be much lower than expected.

Family: A new family benefit has been established for needy Russians with two or more children. More than 1.8 tln rubles will be allocated for this benefit and the maternity capital program. The project allocates approximately 1.8 tln rubles for family mortgages. The Ministry of Finance has proposed allocating an additional 230bn rubles for preferential mortgages in 2025. More than two tln rubles have been allocated for programs to improve housing for families with children.

Looking ahead to 2026, Russia has approved a federal budget that projects revenues of RUB40.27tn (\$519bn) and expenditures of RUB44.06tn (\$567bn), resulting in a deficit of RUB3.79tn (\$48bn), or 1.6% of GDP—a one-third reduction from the 2025 shortfall. Military spending remains a top priority, with RUB16tn (\$217bn) allocated to war-related expenditures, including RUB12.3tn (\$166.8bn) for arms procurement alone—nearly 30% of total spending and the highest level since the Soviet era.

Russia's crude oil tax revenue is set to fall to RUB380bn (\$4.72bn) in January 2026, according to Reuters calculations—down 16% from December and 55% lower than January 2025. This would be the lowest monthly total since December 2022, when EU sanctions on Russian oil took full effect.

The drop is driven by:

- A 12% fall in global oil prices from November
- A stronger rouble
- Weaker prices for oil products

The mineral extraction tax (MET) rate for December oil output is estimated at RUB14,266 per tonne, down 19% from November and 54% below December 2024. Oil and gas make up up to 25% of Russia's budget, funding the war in Ukraine, now in its fourth year. The January figure is based on data from December 1–18, extrapolated to month-end. Despite efforts to stabilise

revenues, Russia remains vulnerable to oil price volatility and sanctions-related export discounts.

If the low oil prices persist for all of 2026, Russia stands to lose around RUB5.57tn (\$69bn) in crude oil tax revenue compared to 2025 levels — a 55% annual drop. Given that oil and gas account for up to 25% of Russia's budget, this would represent a major fiscal hit, likely requiring deeper borrowing, spending cuts, or further use of reserves.

If oil tax revenues stay at January 2026's low level for the entire year, Russia's federal budget deficit could nearly triple, rising from the planned RUB3.4tn to around RUB9tn. This would be equivalent to roughly 5–6% of GDP, compared to the forecasted 2%. Unless offset by spending cuts, higher non-oil revenues, or increased borrowing, this would place serious pressure on fiscal stability and reserve spending, particularly as the war in Ukraine continues to demand large-scale financing.

2026 budget details

Public debt is set to rise from RUB38.6tn in 2025 to RUB53.76tn in 2028, a 39.5% increase, though it will remain below the 20% of GDP ceiling set by the government. Finance Minister Anton Siluanov described the plan as “balanced and sustainable”, while Central Bank Governor Elvira Nabiullina supported the preference for tax-based funding over debt, calling VAT hikes “a much less inflationary factor than financing the deficit by increasing public debt.”

Defence expenditures dropping slightly in nominal terms next year but remaining high and growing in the years thereafter. Altogether, the government plans to spend 39.5 trillion over three years under this heading. Possibly more, given that over the past two years budgetary expenditures and fiscal deficit have been repeatedly reviewed upwards during the year.

Health care expenditures [will decrease](#) in real terms, in spite of the potential pressure that returning veterans will put on the Russian health care system, suggesting that the federal government expects regional budgets to assume the bulk of expenditures associated with this.

The regions have also continued to discuss their budgets. In many cases, they reflect very conservative economic predictions and expectations of large deficits, especially in regions whose key industries are facing crises. The Sverdlovsk Region's [planned deficit](#) for 2026 is almost 6% of planned expenditures. The Irkutsk Region is [cutting expenditures](#) on health care and education, two important functions of regional budgets, with the regional

government facing backlash from municipalities and the regional prosecution. The Kemerovo Region [will cut](#) its planned fiscal receipts by 20%.

The tax hikes raise the rate of value added tax from 20% to 22%, from which the government expects RUB1.2 trillion of additional revenues in 2026. Small businesses will have to pay more in taxes but, after [employers complained](#) about the potential negative effects of this, the changes will be gradual: the ceiling for simplified taxation will be lowered from RUB60 to RUB20mn of revenue next year, RUB15mn in 2027, and RUB10mn in 2028.

Additionally, the government expects RUB218bn from a [new tax on electronic devices](#) that will be introduced in September. “Foreign agents” [will be hit](#) with a personal income tax rate of 30%, and bookmakers will face a 7% tax on the difference between bets and payouts. Higher VAT is expected to worsen inflation temporarily, and several cities have seen [protests](#) against higher taxes.

• **4.3 2026-2029 Budget**

As of December 2025, Russia’s draft 2026–2029 federal budget forecasts continued budget deficits throughout the period, though officially at relatively moderate levels. However, many analysts question the credibility of the figures due to opaque war spending and optimistic revenue assumptions.

Putin described the budget deficit for the next three years as moderate. He said the budget has been designed to mitigate external risks and increase the share of non-oil and gas revenues. Russia’s public finances are stable . Social obligations, defense, and development are fully funded.

According to the draft budget submitted by the Russian Ministry of Finance and reported by *Vedomosti* and *RBC*:

- **2026:** RUB 1.595 trillion deficit (**0.9% of GDP**)
- **2027:** RUB 1.624 trillion (**0.8% of GDP**)
- **2028:** RUB 1.638 trillion (**0.7% of GDP**)
- **2029:** RUB 1.648 trillion (**0.6% of GDP**)

By comparison, the **2025 budget deficit** is projected at RUB 1.595 trillion (**2.6% of GDP**), following a 2024 deficit that was officially around **1.8% of GDP**, although many experts believe the real deficit is higher due to off-budget defence spending.

The key assumptions in the new budget include:

- **Urals oil price:** \$60–65 per barrel
- **RUB/USD exchange rate:** 90–92
- **GDP growth:** 2.3–2.5% annually
- **Oil and gas revenues:** Expected to decline as a share of GDP
- **Military and security spending:** Remains elevated at around 30% of total federal spending (over RUB 10 trillion in 2025).

• **4.2 War Economic Stress**

At the start of 2025 the sky high and sticky inflation rate of over 10% was the main macroeconomic problem. By the end of the year inflation was falling fast across the country and CBR governor Elvia Nabiullina's [unorthodox experiment](#) to [cool the economy](#) stated to pay dividends: inflation had fallen to under 6% by the end of December and looked to fall further in 2026.

A ballooning [budget deficit](#) took over as the main economic headache by the end of the year. At the start of 2025 MinFin forecast a deficit of 0.5% for the year end. By the start of December the deficit was already 1.9% and no course to top 3% by the end of the month.

That is a poor result, but not a disaster. The planned VAT hike is expected to bring the deficit down to 1.7% in 2026, but Nabiullina warns that inflation pressures may increase and slow the rate of monetary easing following [500bp of rate cuts](#) in 2025 and that inflation will not hit the target rate of 4% until at least 2027 as a result.

The economy is stressed, but how bad is it? What is remarkable is just how unstressed the economy is.

After the US entered WWII in 1942 it ran a deficit of 14% that year, rising to 27% the next year and maintained a deficit of around 22% for the next two years. To raise money, they introduced a universal income tax for the first time; they introduced income tax withholding from wages for the first time; they massively expanded the tax base; hiked corporate taxes; and issued \$180bn in war bonds to tap the population's savings.

Russia has done none of this. It hasn't needed to, but could do all of it if needed. It still has some of the lowest tax rates in Europe and there is still enough in the National Welfare Fund (NWF), Russia's rainy-day fund, of RUB6.8 trillion to cover the current deficit almost twice over. It is cut off from the international capital markets, but there is ample liquidity in the banking sector that can be tapped with bonds to fund the deficit for at least another five years. And that is all before the CBR resorts to printing money to pay for the war – an option Kyiv is likely to be forced into in 2026.

Year	Deficit (\$)	% of GDP
1942	\$21bn	14.0%
1943	\$55bn	27.0%
1944	\$48bn	23.3%
1945	\$47bn	21.5%

Source: *bne IntelliNews*

Compared to Europe, Russia's economy looks positively healthy. The French deficit was 5.5% of GDP in December, over the 4.4% they are targeting. That busts the EU's excessive deficit threshold of 3%. In France and the UK the problems are so bad, both are close to asking for an IMF bailout.

Russia hasn't even breached the EU's excessive deficit threshold of 3% and although it might pass this level at the end of 2025, it will be temporary. After the VAT rate hike comes into effect, which accounts for 40% of budget revenues (oil accounts for 25%) the deficit is expected to fall and forecast to end 2026 at a manageable 1.7%.

Eight EU member states are already in breach of the EU's 3% excessive deficit rule and some of them very badly in breach. The EU is far more stressed than Russia.

General government budget deficits in breach of 3% excess deficit threshold (2025)		
Country	Deficit (€bn)	Deficit (% of GDP)
France	€154bn	5.5%
Italy	€102bn	4.4%
Spain	€61bn	3.9%
Poland	€38bn	5.1%
Romania	€29bn	6.3%
Hungary	€14bn	5.9%
Slovakia	€10bn	6.0%
Belgium	€33bn	4.8%
Russia*	€33bn	1.9%

Note: Russia is not subject to EU fiscal rules, included here for comparison only.

Source: European Commission Autumn Forecast 2025, Eurostat, national finance ministries, *bn* *IntelliNews*

Nabiullina warned that Russia faces a recession in 2026, or possibly [stagnation](#), in a speech in December without more reforms. But that is the plan. An underreported story is that the war has forced the Kremlin to make root and branch reforms to crack down on corruption and improve tax efficiency dramatically to raise funds to pay for the war. In the last three years the tax take has risen by 20%, while the tax burden has only increased by 2% (and now by 4% with the new VAT rate). Even the two-point VAT increase is modest in the European context considering it will become the main source of funding the war.

Standard VAT rates: Top 10 EU economies + UK and Russia (2025)	
Country	Standard VAT Rate
Germany	19%
France	20%
Italy	22%
Spain	21%
Netherlands	21%
Poland	23%
Sweden	25%
Belgium	21%
Austria	20%
Ireland	23%
United Kingdom	20%
Russia	22% (from 2026; currently 20%)

Sources: European Commission, HMRC (UK), national finance ministries, *Vedomosti*

To continue these reforms Putin ordered a revamp of the [National Projects 2.2](#) in December 2025 (see section 2.7) that will “clean up the economy”. While the elite continue to steal vast amounts of money, the government is demanding and getting a much more efficient system at the lower levels.

One of the failures of the sanction’s regime is that the West massively underestimated the quality of Russia’s economic and financial management team as well as the bounce back effect of sanctions, but massively overestimated the quality of its own management team and ability to pay for the war.

Russia's economy boomed in 2023 and 2024, but after the military Keynesianism boost wore off growth has fallen under 1% in the three quarters of 2025. But growth is expected to recover to 1%-2% in 2026. By contrast almost all of Europe put in growth of under 1% in 2025 and Germany has already been in recession for three years with little prospect of recovering in 2026.

Russia: Federal budget deficit (2021–2026, nominal and % of GDP)		
Year	Federal Budget Deficit (RUB + USD)	Deficit (% of GDP)
2021	RUB830bn (\$11bn)	0.80%
2022	RUB3.43tn (\$47bn)	2.30%
2023	RUB3.08tn (\$41bn)	1.90%
2024	RUB1.29tn (\$17bn)	0.8% (preliminary)
2025	RUB2.74tn (\$37bn)	2.0% (estimated)
2026	RUB2.52tn (\$33bn)	1.7% (forecast)

Source: CBR, MinFin, *Vedomosti*, bne IntelliNews calculations

• **4.2 Shadow Economy Crack Down**

The irony of the war with Ukraine and extreme sanctions regime is it is forcing the deep-seated reforms on Russia that it has ignored for three

decades: to boost revenues the government is focused on improving efficiency and cracking down on tax scams.

Prime Minister Mikhail Mishustin already oversaw a tax IT revolution that improved the revenue taken by 20% at a time when the tax burden was increased by only 2%.

As part of this there was a general crackdown on the “fly by night” tax scams where firms set up shell companies to collect their tax liabilities and bankrupted them the day before taxes were due.

At the same time since the war began Russian Finance Minister Anton Siluanov has been combing through the tax code and cutting, tweaking and bolstering to make tax collection better and more efficient.

In 2026 things will go up to a new level. The increasingly cash strapped government hiked VAT by 200bp in the last version of the 2026-2029 budget. Amongst the measures was a decision to drastically reduce the threshold for SMEs and make more companies liable for tax.

Many reports identified this as desperation by the government to widen the tax burden. In fact, it is a measure to crack down on another tax scam: fragmentation. Small firms were deliberately breaking their businesses into even smaller pieces to bring them under the threshold and so avoid paying any tax at all. The new rules are designed to close that loophole and make tax collection more granular.

Piecemeal to systematic clean up

Until now the initiatives have either been big set pieces, like the new tax system IT system, or piecemeal, like going after the fly by night companies. However, from 2026 the government intends to implement a systemic “clean up” of the entire tax sector aimed at formalising the shadow economy and boosting non-resource tax revenues, *The Bell* reported, citing internal discussions linked to the broader 2030 Plan for Structural Changes in the Russian Economy.

The cleanup programme, which will be separated from the existing structural reform plan at the instruction of President Vladimir Putin, will be tied to explicit fiscal performance indicators. A key performance indicator (KPI) under the plan will be an increase in tax revenue, particularly value-added tax (VAT), with a formal methodology and targets to be finalised by the end of the year.

Measures under consideration include the legalisation of trade and the labour

market, reducing the volume of cash in the economy, regulating digital currencies, combating illegal lending, and the formalisation of trade with Eurasian Economic Union (EAEU) countries.

According to *The Bell*, government officials and experts are working under the assumption that a looming “fiscal famine” is unavoidable.

“With oil and gas revenues shrinking, non-oil and gas revenues have become the budget’s only salvation,” the report stated.

As traditional energy income continues to decline, the Kremlin is turning to domestic tax collection to sustain military spending and public finances.

Russia’s shadow economy, estimated to account for up to 20% of GDP, could in theory generate trillions of rubles in additional tax revenue. However, the government faces a more complex landscape than in the early 2000s, when crackdowns focused on under-the-table salaries. Today, businesses routinely exploit tax loopholes via fragmented operations, under-declared customs valuations, and grey zones in the digital platform economy.

Authorities are now expected to prioritise stricter controls over cash circulation, particularly among small firms operating under the simplified tax system.

“Restrictions on cash payments between companies, monitoring of large withdrawals, and switching even the smallest businesses to online cash registers” are likely, according to Andrey Shubin, Executive Director of Opora Rossii.

Risky business

The goal of the reforms is to make cash expensive and inconvenient, with the state promoting the [digital ruble](#) wherever feasible. But the strategy carries risks.

“Any government that seriously intends to milk business is immediately confronted with the spectre of the Laffer curve,” *The Bell* warned, referring to the economic principle that tax revenue declines beyond a certain threshold as burdens become unsustainable. *RBC* experts cited by the publication noted that some sectors are already operating near this limit.

With economic growth unable to absorb fiscal strain caused by the war in Ukraine, the state is left with few alternatives beyond tax tightening, spending reallocation, and expensive borrowing. “The government would certainly like to balance the war-ravaged public finances through economic growth, but that’s

simply impossible,” The Bell said.

New compliance measures are being introduced almost weekly, with some targeting citizens directly, such as proposed tax deductions on rent, *The Bell* reports. The shift signals a broader effort to widen the tax base amid mounting fiscal pressures.

• 4.2 Debt & Gross International Reserves

Russia's public debt continued to rise in 2025 but remains low by international standards, standing at **RUB31.98tn** by year-end — equivalent to **just under 20% of GDP**, well below levels seen in most G20 economies. The Finance Ministry projects debt will rise further to **RUB53.76tn by 2028**, driven by ongoing military spending and social commitments, though officials insist it will remain within the government's self-imposed **20% of GDP ceiling**.

With access to Western capital markets blocked since 2022, Russia has relied almost entirely on **domestic borrowing via OFZ bonds** to finance its deficit. In 2025, the Ministry of Finance also continued to explore **alternative international borrowing tools**, including issuing **yuan-denominated sovereign bonds** for the first time. Market appetite for such debt remains limited outside of Chinese financial institutions, and settlement remains a challenge due to cross-border sanctions and low liquidity in Russia-friendly financial hubs.

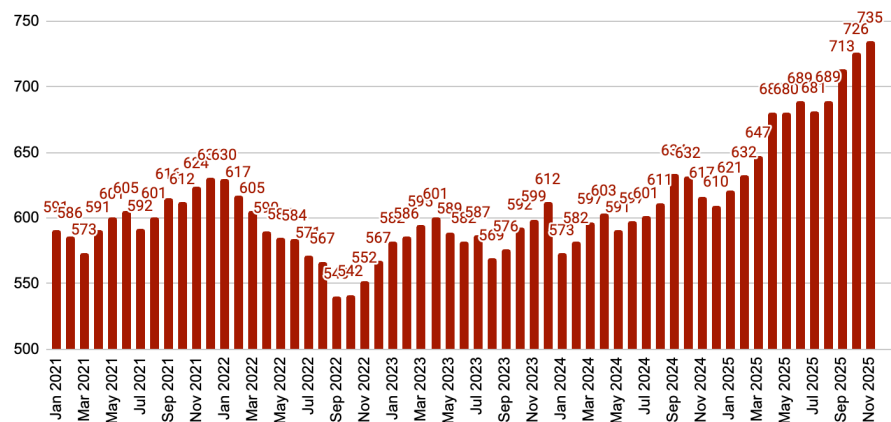
Options for raising international debt remain restricted. Russia is effectively cut off from dollar- and euro-denominated capital markets, and potential issuance in BRICS currencies — such as the Indian rupee — has been floated but not yet implemented. Bilateral loans from strategic partners, particularly China, remain a possible but politically sensitive tool. Analysts suggest that international borrowing will remain marginal in the foreseeable future, with **domestic funding and monetary reserves** doing the heavy lifting.

On the reserves side, Russia's **gross international reserves** reached a **record high of approximately \$700bn** in 2025, though this is largely due to a **sharp rise in the valuation of gold**, not new accumulation. As of December 8, **gold reserves surpassed \$300bn** for the first time, making up **42% of total reserves** — the highest share since 1995. This shift reflects the quadrupling of global gold prices since pre-pandemic levels, rather than active central bank purchases, which have been subdued due to sanctions and reduced availability of foreign sellers.

While headline reserve levels remain high, the **usable portion of reserves is more limited**, with over **\$300bn** still technically frozen in jurisdictions aligned with Western sanctions. Russia continues to shift its reserve composition away from the dollar and euro and towards **gold, yuan, and other non-sanctioned currencies**, but liquidity constraints and convertibility remain a challenge.

Russia gross intl reserves \$bn

source: CBR



5.0 Real Economy

• 5.1 Agriculture

Russia's agricultural sector faced a mixed year in 2025, as **climate-related disruptions** weighed on crop yields, particularly in key grain-producing regions. Unfavourable weather conditions during the spring and summer reduced the overall **grain harvest to approximately 130mn tonnes**, down from the record **158mn tonnes in 2023**, according to estimates from the Ministry of Agriculture and industry analysts. Despite the decline, grain production remains historically high by post-Soviet standards, supported by **significant state investment** in infrastructure, irrigation, and seed technology.

Grain exports continue to be a major source of foreign currency earnings. Russia retained its position as the **world's largest wheat exporter**, with shipments reaching an estimated **50mn tonnes** in 2025. Global demand remained strong, particularly from countries in the Middle East, Africa and Asia, as Russian wheat remains price competitive despite logistical and payment challenges linked to sanctions. The government has also prioritised

expanding port capacity and insurance schemes to maintain access to global markets.

Looking ahead to 2026, the **agriculture ministry forecasts a rebound in output**, assuming normal weather conditions. Policy focus will remain on **expanding arable land use**, improving grain logistics, and supporting the **National Agro Export Project**, which aims to further boost agricultural exports to BRICS and SCO countries.

Beyond grains, **non-grain agricultural production** showed steady growth in 2025. Output of **oilseeds, vegetables, fruits, and livestock products** continued to rise, largely driven by demand from both the domestic market and friendly trading partners. Russia has expanded **exports of poultry, pork, dairy, and processed foods**, particularly to China, the UAE, and Central Asia, while also meeting increased internal demand amid reduced imports from Europe.

The government continues to subsidise fertiliser, machinery, and rural infrastructure to support **food self-sufficiency and technological upgrading** of the sector. Despite near-term climate risks, the long-term trend remains positive, with **Russia positioning agriculture as a strategic growth sector** in its economic policy.

In the long term, **climate change presents a complex mix of risks and opportunities for Russian agriculture**. The key southern grain-producing regions, including the **Black Earth Belt**, are experiencing rising average temperatures, more frequent droughts, and erratic rainfall patterns. These trends threaten to reduce crop reliability and increase yield volatility, particularly for water-intensive crops such as wheat and maize. Although the government is investing in irrigation and drought-resistant seed varieties, experts warn that without broader adaptation measures, **the productivity of Russia's most fertile farmland could decline** in coming decades.

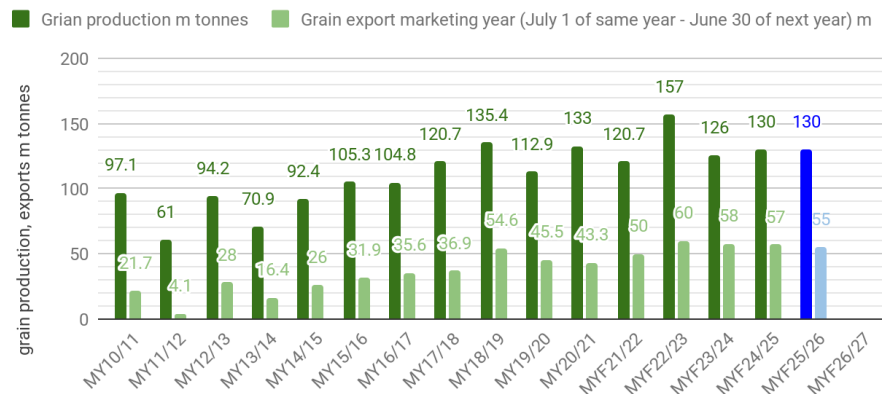
At the same time, **climate shifts are making previously marginal or frozen lands in Siberia and along the Chinese border more agriculturally viable**. Some parts of the **Amur and Transbaikal regions**, once dominated by permafrost, are now experiencing longer growing seasons and milder winters. However, while **new acreage is opening up**, the land remains difficult to farm at scale due to **extreme temperature swings, limited soil fertility, and underdeveloped infrastructure**. Yields in these zones remain **significantly lower** than in traditional agricultural regions, and only a narrow range of crops can currently be grown. Analysts see **limited near-term upside**, but note that with sustained investment in land improvement, seed adaptation, and transport links, **Russia could expand its cultivable land base over the next two**

decades, particularly for fodder crops and oilseeds.

According to various studies, including assessments from the **Russian Hydrometeorological Centre** and the **Intergovernmental Panel on Climate Change (IPCC)**, Russia could see between **10mn and 30mn additional hectares** of land become climatically suitable for agriculture by **2040–2060**. Much of this potential lies in **southern Siberia and the Far East**, including regions along the **Chinese and Mongolian borders**, where permafrost is retreating and growing seasons are lengthening. However, only a **fraction of this land is currently arable or economically viable**. Constraints such as low soil fertility, insufficient precipitation, and **infrastructure gaps** mean that actual near-term expansion will be limited unless supported by large-scale public and private investment.

Russia currently has about 123mn hectares of agricultural land, of which about 80mn hectares is arable. A 10–30mn hectare increase would represent up to a 25% boost in theoretical land availability, though much of this would be low-yield and high-cost to cultivate.

Russia grain production, export m tonnes



source: Rosstat

• 5.2 Construction & Real Estate

Russia’s construction and real estate sectors remained resilient in 2025 despite broader economic headwinds, buoyed by **state-backed housing programmes**, ongoing **infrastructure spending**, and rising demand in the defence and logistics sectors. Total housing completions are expected to reach **over 100 million square metres** by year-end, supported by government

incentives and subsidised mortgage rates, which continued to anchor residential construction activity despite tightening monetary conditions.

Real estate prices, particularly in major cities, continued to rise sharply. In **Moscow**, the average cost per square metre in the city centre surged by **53.9%** in 2025, reaching **€9,343**, making it the fastest-growing capital market globally this year, according to industry reports. The **rent-to-income ratio** in the capital rose to **78%**, underscoring growing affordability concerns among urban households. Rising material costs, supply chain constraints, and labour shortages have further fuelled price inflation across both residential and commercial real estate markets.

The **state remains a key driver** of construction activity, with large-scale investments in transport corridors, industrial zones, and military infrastructure continuing into 2026. Defence-related construction, particularly in border regions and occupied territories, has expanded rapidly, diverting resources from the civilian sector but supporting output levels in key sub-sectors such as cement, steel, and engineering.

Looking ahead to 2026, the outlook remains mixed. Residential demand is expected to stabilise as **mortgage subsidies are gradually scaled back** and the **VAT increase** begins to weigh on disposable incomes. However, government spending will continue to support **infrastructure and strategic construction**, including energy, logistics, and defence-related projects. Developers face persistent cost pressures, and labour shortages—exacerbated by demographic trends and wartime mobilisation—are likely to remain a structural constraint.

• **5.4 TMT**

The online retail market in Russia will reach RUB15.2 tln by the end of 2025 and domestic IT companies already contribute 6% to Russia's GDP.

The market has demonstrated steady growth from RUB1.6 tln in 2019. "The online retail market in Russia grew from RUB1.6 tln in 2019 to RUB12.6 tln in 2024. The forecast for 2025 is RUB15.2 tln. By 2028, the market size could reach RUB27 tln," a Sberbank study states.

The Chelyabinsk Region, where the market expanded 13.6-fold, was the fastest-growing region in the 2023-2025 period; the Sakha Republic (Yakutia) grew 12.3-fold; Bashkortostan grew 9.3-fold; and Tatarstan grew 7.8-fold.

Moscow grew significantly more slowly, growing only 6.8- fold, indicating market saturation.

As of September 2025, Wildberries, Ozon, and Yandex Market accounted for 68.9% of all online sales in the country. The study also notes significant growth in certain product categories: electronics, more than 5 times, sports nutrition, and cosmetics, 3 times.

The combined sales of Russia's largest online marketplaces Wildberries, Ozon Holding, and Yandex Market reached RUB6 trillion (\$66.4bn) excluding VAT in 9M25, making a 36.4% year-on-year (y/y) increase, according to Vedomosti daily citing data from Infoline-Analitika.

However, while absolute figures grew significantly, the pace of growth has nearly halved compared to 9M24, when combined sales rose by 60% y/y to RUB4.4 trillion (\$48.7bn).

As covered by bne IntelliNews, e-commerce sector is in focus as it came under strong regulatory pressure from the Central Bank of Russia (CBR) and major state-controlled and private banks.

In 9M25 Wildberries' revenue grew by 33.6% y/y to RUB3.1 trillion (\$34.3bn), Ozon (excluding Ozon.travel) by 44.3% y/y to RUB2.4 trillion (\$26.6bn), and Yandex Market by 17.6% y/y to RUB404.5bn (\$4.5bn), according to Infoline.

However, all three platforms disputed these figures. Ozon claimed its 9M25 turnover was RUB2.9 trillion (\$32.1bn), up 50.7% y/y, while Yandex Market reported 39% y/y revenue growth in its broader "urban services" segment to RUB561.2bn (\$6.2bn), without specific breakdowns.

Ozon attributed the growth deceleration to a high base in previous years, calling the trend normal for a maturing market, according to Vedomosti.

Experts surveyed by the daily, including Infoline CEO Mikhail Burmistrov and e-commerce chamber head Aleksey Fedorov, agreed that the slowdown reflects saturation in a sector that expanded rapidly between 2020 and 2023.

According to Infoline, Wildberries' revenue grew 93.4% in 2022 and 79.1% in 2023, while Ozon posted 87.7% and 109.1%, and Yandex Market 62.3% and 61.9% respectively.

Fedorov noted that e-commerce has a natural ceiling, as it gradually replaces offline rather than creating new demand. Online sales now account for 18.3% of total retail in Russia, up from 15.4% a year earlier, according to the

Association of Internet Trading Companies (AKIT). AKIT estimates the total online retail market reached RUB8.2 trillion (\$90.7bn) in 9M25, up 32% y/y.

Despite the slowdown, e-marketplaces still outperform traditional retailers. The top ten retail chains, including X5, Magnit, Lenta, and Mercury Retail Holding, grew sales by 14.3% y/y in 9M25 to RUB9.9 trillion (\$109.6bn), down from 21.3% growth a year earlier.

2025 marked the first year that Russia's isolation from the rest of the world became a reality — not at the ideological level, but at the level of everyday communication.

It became increasingly difficult for people on opposite sides of the border to simply reach each other by phone. Within Russia, communication was only possible using state-approved — or not yet banned — services. Anything else was excluded from “whitelists,” which have become part of daily life. The Russian firewall, once a feared concept, is now functioning in full.

Runet — the Russian internet — underwent two major transformations this year. First, the authorities embraced regular mobile internet shutdowns as a new normal. Then, they implemented restricted access solely to “whitelisted” services — and normalised that too.

Regional impact: The scale of the disruption can be estimated using data from the “Na Svyazi” project, which monitors shutdowns based on user complaints and official statements. Their records show a sharp rise: from 68 confirmed cases in May to 2,099 in August. The numbers declined slightly thereafter — 1,997 in September, 1,725 in October, and 1,693 in November — but this is likely due to a new normal where mobile internet is permanently unavailable in some areas. For instance, parts of Ulyanovsk region officially shut off internet access “until the end of the special military operation,” while parts of Nizhny Novgorod region have lived without any mobile internet — and never had fixed-line access at all.

The “whitelist” is increasingly replacing the open internet. According to “Na Svyazi,” by mid-December, whitelisted services were available in nearly every confirmed case of mobile internet shutdown.

Among the top ten regions suffering the most internet shutdowns are both Russian capitals: Moscow ranks third in total days with outages, and St Petersburg is tenth.

The most affected area is Nizhny Novgorod region, where shutdowns became an almost daily routine from July onward. Dozens of regions experienced

near-daily mobile internet outages each month. The August peak was not followed by major relief — rather, the situation stabilised at a high level.

WhatsApp, Russia’s most-used messaging app, was blocked using a gradual strategy first applied to YouTube in 2024. First, voice calls were restricted, then the app’s functions were throttled, followed by near-total blocking. “Now, using WhatsApp in Russia without a VPN is almost impossible,” users told The Bell.

Telegram, by contrast, remains semi-operational: voice calls are blocked, but other features work. Lawmakers say a full ban is not planned — yet. The delay likely reflects the government’s push to migrate major Telegram channels to Max. But few expect this to succeed: Telegram remains the main obstacle to Max’s dominance.

WhatsApp had 96mn monthly users and 81mn daily users in Russia in October 2025, according to Mediascope. Telegram has been the main beneficiary of previous bans on Instagram and YouTube, growing from 18mn daily users in 2021 to 68mn by October 2025, with a monthly audience of 91mn.

Telegram now serves as Russia’s newsfeed, political forum, and elite communication tool. According to The Bell, federal ministers often call each other during meetings via Telegram.

Russia’s domestic messaging service Max, launched in March 2025, has rapidly grown under state pressure and promotion. It now claims 46mn daily users and 75mn total registrations. Officials, civil servants, students, and even building residents are forced onto the platform, which is also used to verify age for tobacco/alcohol purchases and to access Gosuslugi (public services).

But the platform still lacks genuine user activity. Since launch, only 6.5bn messages have been sent — modest for a “national” app. Its top channel, “Kremlin.News,” has 1.6mn subscribers on Max versus 298k on Telegram. Popular channel Mash has 3.2mn on Telegram but only 271k on Max. Without more organic migration, another growth boost will likely be needed — and blocking competitors has proven effective.

One surprise survivor of the crackdown is Zoom — despite fears it might be banned after Putin’s May meeting with tech leaders, where firms complained about competitors that had “not fully left.” The president promised to “squeeze them out.”

Streaming platforms and gaming services have so far avoided restrictions, but likely only temporarily. Games are now seen as a tool for promoting “correct

values,” and may soon face the same fate as other banned services.

• 5.5 Manufacturing

Russia’s manufacturing sector delivered **uneven performance in 2025**, shaped by ongoing **sanctions pressure, labour and input shortages**, and a strategic reorientation towards **military and import-substitution industries**. Official data indicates modest year-on-year growth in output volume, but this masks a growing divergence between **state-driven defence production** and stagnation in most civilian manufacturing sectors.

The **defence-industrial complex** continued to expand rapidly, absorbing a rising share of state orders, industrial labour, and investment flows. Production of armaments, military vehicles, and dual-use components surged, supported by direct procurement from the Ministry of Defence and subsidies for key enterprises. However, this has diverted resources — particularly skilled labour and materials — away from civilian industries, exacerbating supply constraints.

Outside of defence, the picture was far weaker. **Machinery, automotive, and high-tech manufacturing** sectors struggled with restricted access to imported components and reduced consumer demand. Capacity utilisation remained below pre-2022 levels in most segments, with **automotive output down sharply**, reflecting both supply bottlenecks and collapsing domestic car sales. **Consumer goods manufacturing** was weighed down by soft household consumption and tighter financial conditions.

Looking ahead to 2026, the sector is expected to remain bifurcated. **Military production** will continue to dominate industrial policy, with government strategy documents prioritising the **modernisation of defence enterprises** and expansion of domestic capacity for critical inputs. **Import substitution efforts** are set to continue across machinery, electronics, and chemicals, though structural limitations — including technology gaps and weak private investment — will cap the pace of progress. Civilian industrial recovery will likely remain subdued, with **limited export opportunities**, weak domestic demand, and high financing costs expected to persist into the medium term.

• 5.7 Automotive

Russia's automotive sector faced a turbulent year in 2025, shaped by shifting consumer demand, rising costs, and a structural reorientation towards **Chinese and domestically assembled models**. Total car sales remained well below pre-2022 levels, as **high borrowing costs, rising vehicle prices**, and the **revised recycling fee** continued to suppress demand, especially for imports and electric vehicles.

By the end of 2025, **Lada remained the market leader**, with **33,251 vehicles sold in October**, though this marked a **26% decline year-on-year**. **Chinese automakers** continued to expand their market share, with **Haval** posting a **10% increase** in sales (26,125 units), while **Geely** sold 14,238 vehicles (–17%). Sales under the **Belgee brand** — Geely's Belarusian-based line — surged **2.5 times** to 10,780 vehicles, reflecting the success of locally assembled alternatives to direct imports.

At the same time, **import volumes rebounded strongly**. In October, Russia imported **49,500 new passenger cars**, the highest monthly figure in 2025, more than triple the February low of 16,200 units. The surge in imports was likely driven by advance purchasing ahead of the **new recycling fee structure**, which took effect on **December 1**, further raising costs on imported vehicles. China remained the dominant source, accounting for **65.5% of imports**, followed by **Kyrgyzstan, Kazakhstan, South Korea**, and **Belarus**, underscoring the continued reliance on **parallel and re-export schemes**.

Hybrid vehicle sales also reached a new high, with **6,290 units sold in October**, setting an **all-time monthly record** and lifting their **market share to nearly 4%**. However, electric vehicle adoption remained limited due to **infrastructure gaps** and price sensitivity.

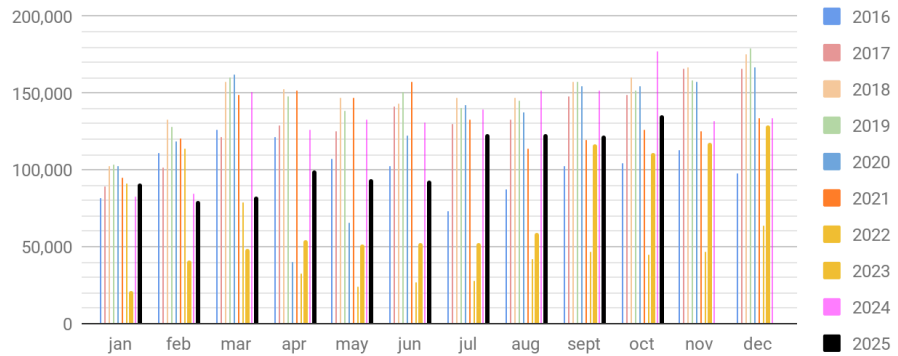
Looking ahead to 2026, according to *Avtostat*, the Russian car market is expected to see **modest growth** in 2026, driven by continued **expansion of Chinese brands**, new **localisation efforts**, and **government support for domestic production**. However, the **market will remain far below pre-2022 levels**, with consumer confidence dampened by high loan rates, the VAT hike, and stagnant real incomes.

Analysts expect the **Chinese share of the market to exceed 60%**, with further growth in local assembly, including partnerships through Belarus and Kazakhstan. Domestic brands like Lada may stabilise, but remain under pressure from better-equipped Chinese rivals. The **used car segment** will also continue to expand, driven by affordability and supply constraints in the new car market.

Overall, **the sector's structural transformation is ongoing**, with a shift from European and Japanese brands to **Chinese and domestic alternatives**, and a growing emphasis on **local production, import substitution**, and **non-cash financing schemes** to stimulate sales under tight financial conditions.

Russian car sales (units per period)

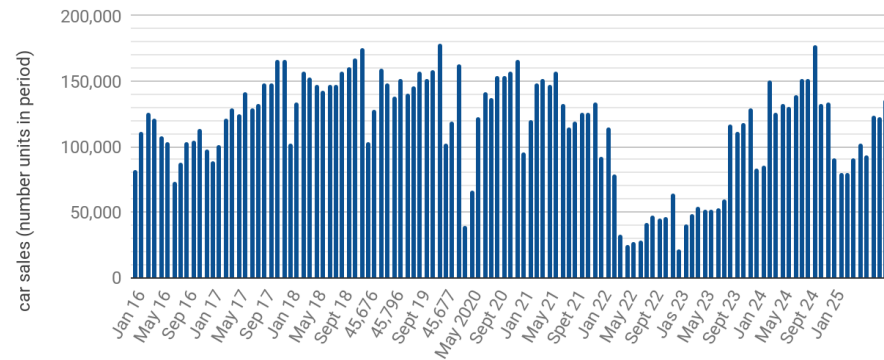
source: AEB



source: AEB

Russia car sales (number units in period)

source: AEB



source: AEB

• 5.8 Metals & Mining

Russia's metals sector — particularly **steel and coal** — faced significant headwinds in 2025, driven by weakening domestic demand, global price volatility, and sanctions-related disruptions to export markets. According to Severstal, one of Russia's largest steel producers, **domestic steel consumption declined by 14%** year-on-year, reflecting broad-based weakness in key end-use sectors such as **construction** and **mechanical engineering**, where demand fell by **10%** and **32%**, respectively.

Production cuts were widespread across the industry as firms adjusted to the deteriorating domestic market. Export volumes remained under pressure due to ongoing restrictions and logistical challenges, with shipments redirected from Europe to **Asia, Turkey, and the Middle East**, often at discounted prices. At the same time, energy-intensive producers faced margin pressures due to rising input costs, currency volatility, and elevated financing costs. The government's attempts to support the sector — including through **rail subsidies and preferential domestic orders** — have partially stabilised operations, but capacity utilisation remains well below pre-war levels.

The **coal industry** also experienced its worst downturn in over a decade, as major producers reduced output in response to falling prices and declining demand from European and Asian buyers. Export redirection efforts were only partially successful, with bottlenecks in eastern rail corridors limiting access to Asian ports. Domestic consumption was stable, but insufficient to offset the export shortfall.

Looking ahead to 2026, the metals sector is expected to face continued structural challenges. Domestic demand will remain **highly dependent on state-driven infrastructure and defence construction**, while private-sector investment remains subdued. Modest recovery is expected in construction-related steel consumption if housing programmes continue to receive support. However, mechanical engineering and consumer goods sectors are likely to remain weak.

Export prospects hinge on sustained access to **alternative markets in Asia**, and the success of **new logistics corridors**, including the **North–South Transport Corridor**. Some recovery in coal exports is possible if bottlenecks are addressed, but **global decarbonisation trends** will continue to weigh on long-term demand. Industry analysts expect **steel output to remain flat or decline slightly in 2026**, while coal production may fall further unless new offtake agreements are secured in friendly markets.

• **5.9 Other Corporate & Sectors**

Due to the war, Russian arms exports have dropped by 50%. Russian arms exports, which previously brought in \$14B annually to the country's economy before it invaded Ukraine, have decreased by half compared to 2022, said Sergey Chemezov, CEO of Rostec, a Russian state-owned defence conglomerate headquartered in Moscow. He explained that the company's enterprises are now working primarily to supply the needs of the Russian

occupation army. Additionally, sanctions imposed on Rostec since February 2022 have complicated the operations of both the civil and defence divisions. Nevertheless, Chemezov promised that exports will resume soon. Meanwhile, Russia announced the initial export of the Su-57 fighter jet, marking the first time this fifth-generation aircraft has been shipped to another country's military. The likely buyer is Algeria. Russia is believed to have built about two dozen Su-57s. At the same time, the Russian State Duma approved a package of budget bills that includes tax hikes, record spending on the military and security forces, and cuts to key healthcare projects. Over the next three years, Russia plans to spend RUB39.5T, or \$487B, on its military and weapons acquisitions.

Russia's state-owned railway monopoly Russian Railways (RZhD) saw its net profit under IFRS plunge 4.2-fold y/y (y/y) to RUB24.9bn (\$282mn) for the first nine months of 2025 (9M25), according to Vedomosti citing the company's financial report. As covered by bne IntelliNews, [RZD could get a state lifeline for its \\$50bn debt](#). Cash-strapped RZD, with an annual investment programme of RUB1.2 trillion, [had already had the government hike the rail cargo transportation tariffs](#), yet still planned to [cut its 2025 investment programme by over 33%](#) and [is reportedly preparing staff cuts](#).

Russia's pharmaceutical sector continued to adapt to import disruptions in 2025, with **domestic production rising to nearly 80% of all drugs sold by volume**, according to government estimates. However, **import dependence remains high in value terms**, particularly for patented medicines, specialised treatments, and raw ingredients (APIs), most of which still come from China and India. Sanctions and logistics issues have led to intermittent shortages of foreign-made drugs. The government expanded its **"pharma sovereignty" strategy**, with continued subsidies for local manufacturers and a focus on generics. Looking ahead to 2026, localisation is expected to deepen, though capacity constraints and quality gaps will persist, especially in complex biologics and oncology treatments.

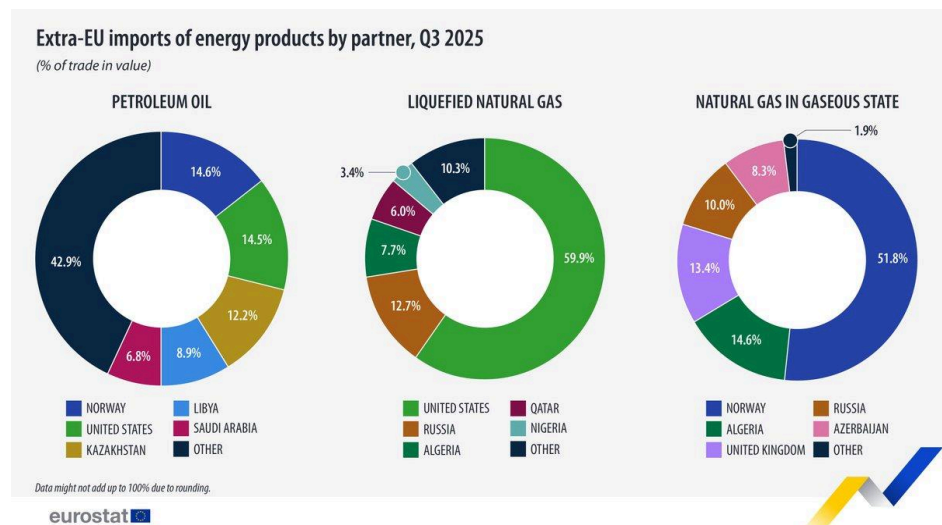
Russia's healthcare system remained under strain in 2025 due to ongoing **resource diversion to military and defence needs**, demographic pressures, and underinvestment in civilian infrastructure. Regional disparities in care access and staffing widened, particularly in rural areas. Despite these pressures, the federal budget for 2026 preserves funding for **pensions, social benefits, and basic healthcare delivery**, with plans to continue upgrading equipment and facilities in selected regions. The government has also expanded **telemedicine services and digital health infrastructure**, but long-term challenges — including workforce shortages and limited private sector participation — are expected to continue through 2026.

Russia's private healthcare sector continued to grow modestly in 2025, driven by rising demand for faster access, better service quality, and diagnostics not readily available in the public system. Urban centres saw the highest activity, with private clinics expanding in diagnostics, dentistry, and outpatient care. However, growth was constrained by rising operational costs, equipment import restrictions, and labour shortages. In 2026, the sector is expected to remain stable, with consolidation likely as smaller providers struggle to adapt to regulatory and supply pressures.

6.0 Energy & Power

Russia's energy sector experienced mixed fortunes in 2025, shaped by intensifying sanctions, shifting global demand, and evolving domestic priorities. Oil and gas exports remain key revenue drivers, but their strategic importance is increasingly challenged by logistical disruption, falling prices, and shrinking market access—particularly in Europe. Meanwhile, investment in the power sector continues, and renewables remain marginal but gradually expanding.

Europe has managed to almost completely wean itself off Russian oil and plans to end gas imports by the start of 2027.



Oil

Russian oil output remained resilient in 2025, averaging around **9.4 million barrels per day**, just below its **OPEC+ quota**, with the government

maintaining a production target of **510 million tonnes** for the year. However, **export revenues declined sharply** due to falling global prices, deepening sanctions, and continued **Ukrainian drone strikes** on refineries and offshore platforms. The **Urals crude discount widened** again in late 2025, with some shipments to Chinese refiners sold at the steepest discount seen this year. Despite physical rerouting of crude to Asia and the Middle East, the **fiscal impact of lower oil prices**—expected to fall further in 2026—will weigh heavily on Russia's budget, which is based on an optimistic forecast of **\$59 per barrel** for Urals.

Gas

Russia has pushed back by "several years" a plan to reach an annual liquefied natural gas output target of 100mn tonnes, Deputy Prime Minister Alexander Novak told state TV on Thursday, citing the effect of Western sanctions on its energy industry.

Russia's long-term plans to gain a fifth of the global LNG market by 2030-2035, from 8% currently, have been challenged by sanctions imposed over the conflict in Ukraine, including against the new Arctic LNG 2 plant. A recently updated government strategy, which outlines Russia's long-term plans in energy sector, sees the country producing 90-105mn tonnes of LNG by 2030 and 110-130mn tonnes by 2036. "Our goal was to reach 100mn tonnes. It is clear that, due to sanctions-related restrictions, this will now be pushed back by several years," Novak told Rossiya-24 TV station, without elaborating.

Russia's LNG production rose by 5.4% in 2024 to 34.7mn tonnes, below the expected 35.2mn tonnes. The European Union plans to ban Russian LNG imports from January 1, 2027, while there is also fierce competition from the United States, which is expanding sales in Europe, and from Qatar, which already dominates sales to Asia.

Gas exports held up better than expected, with Russia remaining the **third-largest supplier to the EU** in 2025. EU imports of Russian gas reached **€10.6bn** in the first nine months of the year, up slightly from 2024. However, the long-term outlook is negative: Brussels remains committed to **ending all Russian gas imports by 2027**, and countries such as Hungary and Slovakia have challenged this legally. Meanwhile, **Belgium and France** remained major buyers in 2025, alongside **Hungary**, which leads the EU in Russian gas imports. The medium-term future of Russian pipeline gas in Europe will depend on political developments, as LNG expansion remains constrained by limited new infrastructure.

Power

The domestic power sector remained stable in 2025, underpinned by strong state investment and rising industrial demand from military production and infrastructure projects. However, ageing infrastructure, especially in remote regions, and a growing reliance on subsidised tariffs are placing financial strain on regional utilities. Electricity consumption rose modestly year-on-year, with demand concentrated in southern and central industrial clusters. Grid modernisation remains a long-term challenge, with several major upgrades delayed or underfunded.

Renewables

Russia's renewable energy sector remains marginal in the overall energy mix, contributing **less than 1.5% of total generation**. While hydro and nuclear retain their roles in baseload generation, **wind and solar expansion slowed in 2025**, with no major new utility-scale projects commissioned. Sanctions on imported equipment and a lack of domestic manufacturing capacity continue to hinder growth. However, new legislation introduced in late 2025 aims to revive investor interest through **capacity market incentives** and **tax breaks** for domestic component production. The 2026 outlook is modest, with limited additions expected, mostly in pilot and regional-scale solar projects.

Nuclear

Russia's nuclear power sector maintained steady performance in 2025, with total installed capacity reaching **29.5GW** across **11 operational nuclear power plants (NPPs)** comprising **37 reactor units**.

The sector, operated primarily by state-owned *Rosatom*, accounted for around **20% of domestic electricity generation**, underlining its strategic role in the national energy mix.

Despite financial constraints and sanctions affecting other parts of the energy sector, nuclear development remains a state priority. *Rosatom* continued construction on several new units, including those at the **Kursk II**, **Smolensk II**, and **Leningrad II** sites, aiming to replace ageing Soviet-era reactors with modern VVER-TOI designs. The government's long-term strategy envisions increasing nuclear capacity to **over 40GW by 2045**, with **13 new units** scheduled to come online by **2035**, according to the latest Energy Strategy update published in late 2025.

Russia is also expanding its presence in global nuclear markets, despite geopolitical headwinds. *Rosatom* remains a major exporter of nuclear technology, with ongoing projects in Turkey, Egypt, India, and Bangladesh. Domestically, the first land-based **small modular reactor (SMR)** project near

Yakutia began site preparation in 2025, with commissioning planned for 2029. While sanctions have slowed access to Western technology and financing, the nuclear sector has proven more resilient than hydrocarbons, supported by a strong domestic supply chain and strategic state backing.

• **6.1 Oil production & transport**

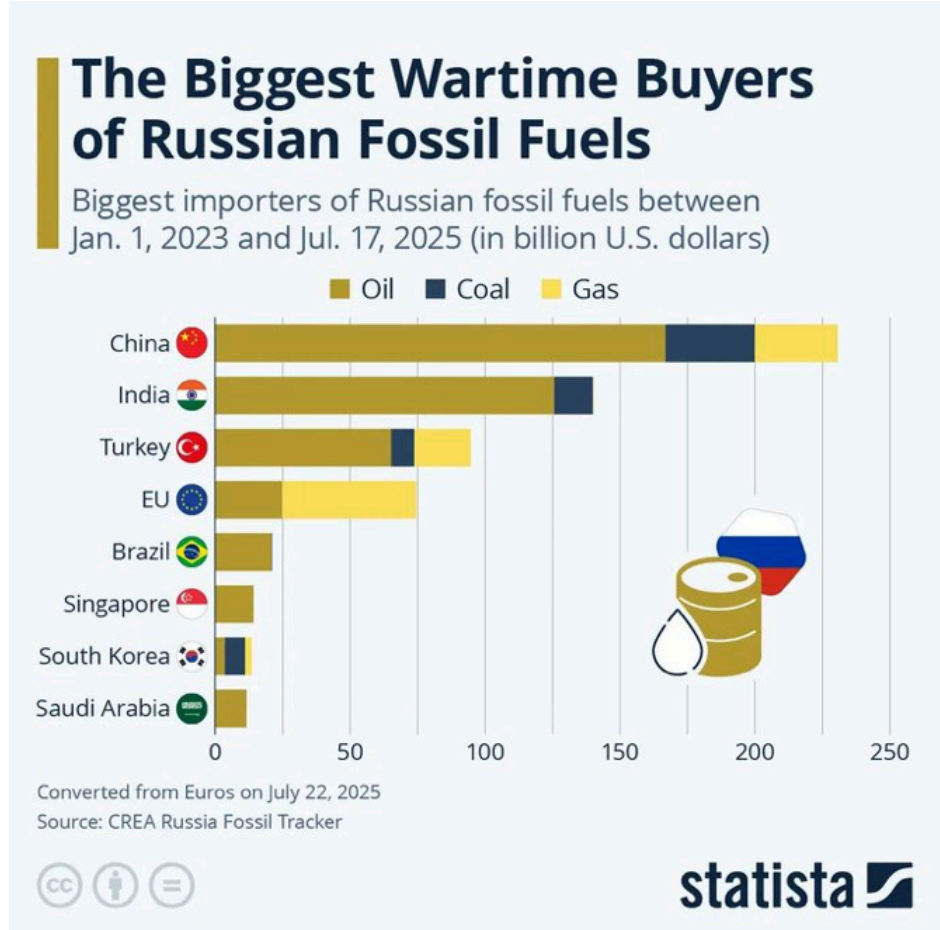
In December, the oil market took the progress in US-European-Ukrainian negotiations seriously: following the announcement that Washington had promised Kyiv security guarantees, Brent crude fell below \$60 a barrel for the first time since May and could close at that level for the first time since 2021. Against this backdrop, the price of Russian oil, which continues to be pressured by sanctions, has almost reached \$40.

It's clear that Russian oil and gas revenues will be even lower in 2026 than in 2025, even though the budget currently projects an average annual price of \$59 per barrel for Urals—a dollar higher than the current price. The authorities will have to compensate for these reserves by borrowing on the market or spending them, with all the unpleasant consequences that entails.

Russia has increased its oil exports by sea, but Ukraine refuses to give up and continues to attack the aggressor's energy facilities. Trump's sanctions on Russian oil had an effect only immediately after their implementation. Then the "fear" passed, and Russia increased its sea exports of crude oil from ports on the Baltic Sea, according to the Institute for Black Sea Strategic Studies. From December 1 to 10, 2025, analysts recorded 34 tankers with a total deadweight of 3.8 million tons in the Baltic Sea, which is 35.7% more than the figures for the same period in November. Last month, Russian crude oil exports by sea reached 10.1 million tons, a 15.01% decrease from October (11.8 million tons). Crude oil was transported by 87 tankers, down from 99 in October. Meanwhile, Ukraine has struck Russian Lukoil's oil production platforms in the Caspian Sea with long-range drones for the third time in two weeks. On December 15, a platform located at the Korchagin oil and gas condensate field was hit, halting production at the facility entirely. In addition, the Ukrainian Defense Forces successfully struck a strategic Russian asset, the Astrakhan Gas Processing Plant. It has also become known that the Slavneft-YANOS oil refinery in the Yaroslavl region has suspended operations following Ukrainian drone strikes.

Russian oil is being sold at a record discount as new buyers emerge. Russian

ESPO crude has been purchased by at least one Chinese buyer at the largest discount seen this year. This follows a sharp decline in demand for the grade due to US sanctions on oil companies Rosneft and Lukoil. The petroleum cargoes were sold at a discount of \$7 to \$8 per barrel. The buyer was an independent Chinese refinery. The ESPO crude purchased last week was likely the first purchase by a Chinese refiner since late October. ESPO remains in demand among Chinese refineries because of its high diesel yield and short delivery distance. Meanwhile, Sri Lanka is negotiating with Russia to secure uninterrupted oil supplies. Additionally, the Sri Lankan ambassador to Russia reported that the state-owned Sri Lanka Petroleum Corporation is also discussing LNG supply and refinery modernization to ensure steady use of Russian energy resources. Simultaneously, Estonia has offered to help Hungary avoid fines if Prime Minister Viktor Orbán abandons energy contracts with Russia. Estonian President Alar Karis pointed out that some existing agreements between Budapest and Moscow may remain valid until the 2040s. He stressed that Hungary should terminate these contracts with Russia, as they support energy dependence on the aggressor country and conflict with European unity in opposing Russian aggression.



Moscow is keeping faith with its oil production forecast for 2025 even though sanctions against Russian majors have dented exports and increased price discounts. According to Deputy Prime Minister Alexander Novak, Russia envisages crude oil and gas condensate production this year at 510mn metric tonnes (10.23mn barrels per day). "The forecasts have not changed. Production continues," Novak was quoted as saying last week. In fact, Russia is currently growing production as part of the Opec-plus decision to unwind its earlier output cuts, Novak noted. He also expressed confidence that it would take a month or two for the Russian oil industry to adapt to new sanctions, requiring some restructuring of logistics.

Russia has fully compensated for its crude oil overproduction under the Opec-plus deal, Novak said. According to Energy Intelligence estimations, Russia's output of crude oil in October stood at 9.411 million b/d. Novak said Russia's output last month was about 70,000 b/d lower than its quota allowed by Opec-plus. He said the gap was due to inertia. "We had a decrease that was inertial, and the increase will also be inertial," Novak explained, adding that this month's output would grow from October. Russia's crude oil quota under the Opec-plus deal for November was set at 9.532 million b/d.

Russia's crude oil production edged up in October, but remained below its OPEC+ quota as international pressure mounted on the country's energy sector. Russia pumped an average 9.411 million barrels a day last month. While that's 43,000 barrels a day higher than in September, it's 70,000 a day below a quota that includes compensation cuts for previous overproduction, Bloomberg calculations show.

Russia's oil industry, long seen as the bedrock of the country's economic strength, is being slowly degraded—not by sanctions or falling demand, but by the persistent and methodical pressure of Ukraine's drone attacks.

Ukraine doesn't have the missile firepower to deliver a knockout blow of Russia's oil refineries. But it can keep hitting them and damage them faster than Russia can repair them.

This summer, Ukraine launched an increasingly effective campaign against [Russia's oil refineries](#), which has damaged over half of Russia's 38 major installations since August. Long-range drone strikes are reshaping the way the Kremlin manages its energy sector. Though Russia still maintains enough refining capacity to prevent outright collapse, repeated hits are stretching its repair capabilities and exhausting spare parts already limited by Western sanctions.

Even more counterintuitively, refinery outages have not significantly reduced

Russia's oil export revenue, at least not yet. The estimates of how badly affected production has been are in the range of [10%-30%](#) but Vakulenko recently updated the change for the year-on-year average and estimates total oil product reduction has only been 3% as of the end of the third quarter. But this reduction will build over time in a sustained campaign.

In the long run, the threat to Russia's oil industry may not be sudden destruction but a kind of operational petrification.

Global oil markets have taken a decisively bearish turn as leading agencies warn of a growing supply overhang stretching into 2026. The International Energy Agency (IEA) has reversed its previous position of imminent peak oil to a view that oil demand and production will increase through to 2050.

In the last quarter of 2025 oil traders pushed spot prices below six-month futures, a structure that typically signals expectations of weakening demand and an oil glut in 2026.

Fresh projections from the IEA indicate that American crude output will be even higher next year than previously assumed. The agency now expects oil production to exceed global demand for refined products in 2026, forecasting a record oil surplus in 2026.

Producers within OPEC+ have also abandoned earlier predictions of a supply deficit, citing rising output across member states. According to analysts, this shift removes one of the few remaining pillars of support for the market.

Evidence of slackening demand is already visible offshore. Bloomberg reports that hundreds of millions of barrels of oil sitting on tankers at sea, with no clear destination and limited buyer interest — a sign that refiners are in no rush to take delivery.

The outlook suggests that even renewed geopolitical tensions or fresh rounds of sanctions may struggle to lift prices meaningfully. Western restrictions on Russian exports have never triggered a significant rise in crude prices, and the market appears even more insulated today.

The [harshesht ever oil sanctions](#) on Russia introduced in January 2025 that targeted the third and fourth largest Russian oil companies (Surgutneftegas and Gazprom Neft) did temporarily reduce oil exports by around 15%, but once traders found work arounds export levels recovered. Following the introduction of Trump's [oil sanctions](#) in November the same is expected to happen.

- Discounts

Since mid-2022, a sequence of EU and G7 sanctions — beginning with the EU's sixth package (2) and culminating in targeted US measures under both Biden and Trump — has sought to limit Russian oil revenues through embargoes, price caps, and enforcement actions. It didn't work very well.

These sanctions initially drove the Urals–Brent discount to over \$30 per barrel, severely impacting Russia's budget. However, Moscow adapted by redirecting exports to Asia and building a shadow fleet, narrowing the discount to under \$5 by mid-2024.

Despite further efforts, including the “first serious enforcement push” (5), Biden's tanker sanctions (6), and Trump's Rosneft & Lukoil sanctions (10), the long-term effectiveness of the sanctions regime has diminished, as global markets adjusted and enforcement gaps emerged.

The EU's sixth sanctions package (2), agreed in June 2022, introduced a phased ban on Russian seaborne crude and oil products, along with restrictions on shipping and insurance. At the time, Brent stood at \$124.25 and Urals at \$90.45, a discount of \$33.80. That spread held in the low-to-mid \$30s until mid-August, then began narrowing, falling below \$30 on August 19 and into the mid-\$20s by late August.

From autumn 2022, the discount stabilised in the \$22–24 range, with occasional spikes like \$29.60 on September 15 and \$25.49 on November 29. Markets anticipated the next key measures: the EU embargo and G7 oil price cap (3), which came into force on December 5. That day, Brent traded at \$85.00, Urals at \$60.24 — a \$24.76 discount — which widened to \$30.50 by Christmas.

Further pressure came on February 5, 2023, with the EU refined products embargo and price caps (4). On implementation, the Urals discount hit \$31.58 (Brent \$80.99, Urals \$49.41), peaking at \$32.40 on February 13. Falling global oil prices and deepening discounts hit Russian revenues hard.

But by spring, Russia had reoriented oil exports toward Asia. Although longer and costlier, once the shipping loop was established, flows returned to around 5mbpd. The discount narrowed accordingly, dropping below \$20 by May 2023. Budget figures reflect this: a RUB1.6tn deficit in January returned to surplus by May.

Through summer 2023, the discount steadily compressed: \$21.84 on April 3; \$19.94 by June 1; and within a \$16–20 range from July to December.

Western governments responded on October 2 with the “first serious enforcement push” against price-cap evasion and the shadow fleet (5). The Brent–Urals spread was \$15.20 that day. The move prevented

further narrowing, keeping the discount between \$14 and \$19 through November.

No major new sanctions followed in early 2024. The discount stabilised: \$18.99–19.01 in January, then tightening to \$14.34 by January 29. By mid-2024, Urals was trading just a few dollars below Brent. Russian crude was no longer “distressed,” and Indian and Chinese refiners profited by exporting high-priced products to Europe, with margins rising tenfold.

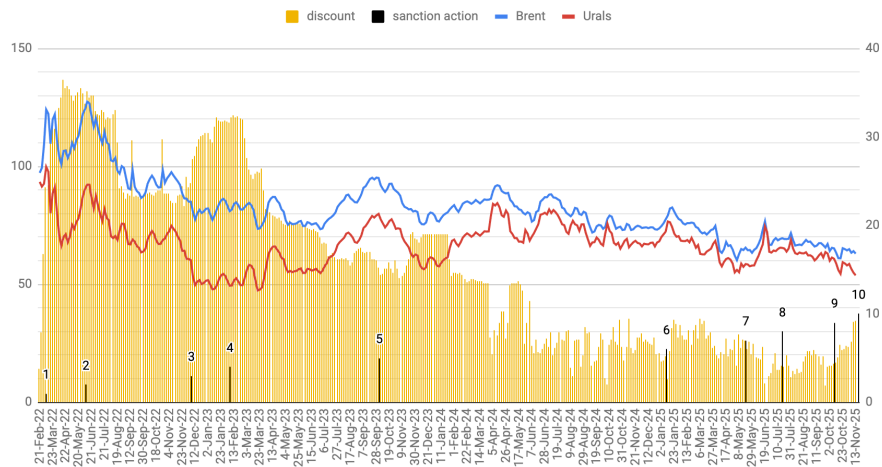
Late 2024 and 2025 saw renewed action. On January 9, 2025, President Biden introduced what he called the toughest oil sanctions ever (6), targeting 180 shadow fleet tankers and sanctioning Surgutneftegas and Gazprom Neft. The discount stood at \$5.19 on announcement, narrowing to \$2.60 by January 13, then widening to \$9.35 by January 23.

The EU responded on July 17 with a floating oil price cap (7), pegging the Russian export price at 15% below the prior six-month average. It had little effect: the discount remained narrow at \$4.09, fluctuating in the \$2.84–3.81 range through early August.

The final move came on October 10, 2025, with Trump’s Rosneft & Lukoil sanctions (10), targeting Russia’s two largest oil companies. The discount was \$4.41 at announcement, rising to \$9.14 by November 10 as the market reacted ahead of the November 20 enforcement date.

Russia price of Brent vs Urals, discount (\$/barrel)

source: incorrays.com



• 6.2 Gas production & transport

In 2025, Russia became the third largest gas supplier to the EU. In January-September, the EU imported €10.6 billion of Russian gas — 1.6% more than last year. Russia's share in total imports was 16.1%. At the same time, the EU plans to completely [ban imports of Russian gas](#) by January 1, 2027.

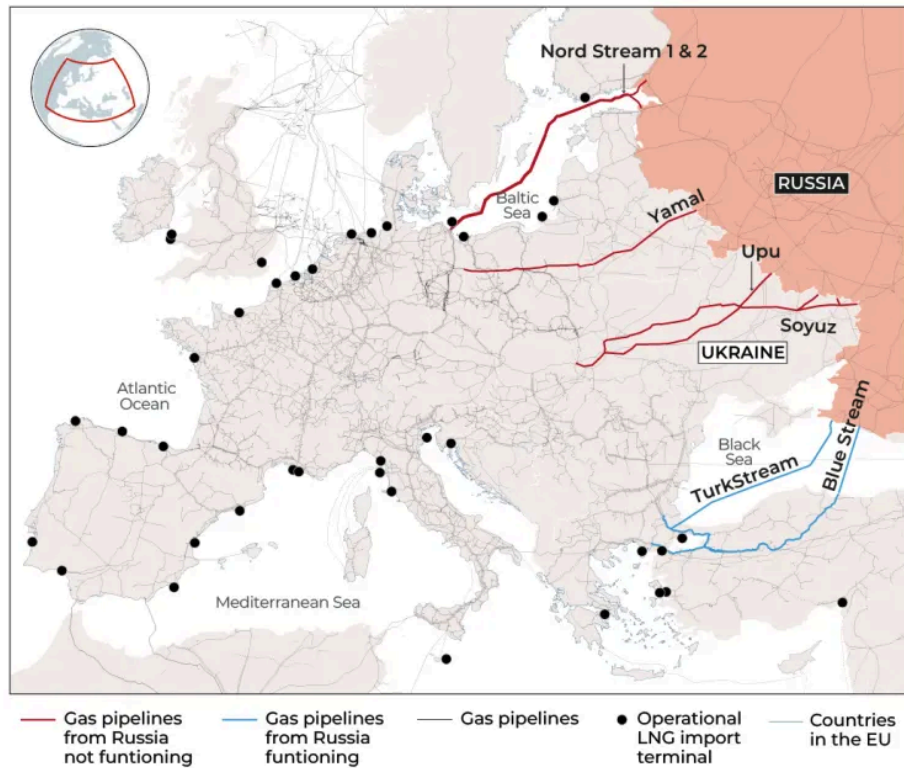
Belgium increased its purchases of Russian gas in October, becoming one of the top three importers of this fuel among European Union (EU) countries, according to a RIA Novosti analysis of Eurostat data.

According to the analysis, in mid-autumn, gas supplies from Russia to Belgium increased 4.3-fold, reaching €154.7 million. This growth made the country the third-largest buyer of Russian gas in the EU.

Hungary retained first place, despite a decline in imports from €232.2 million to €213.7 million. France remained in second place, although its purchases decreased by 12% to €162.3 million.

The list of major importers also included Greece with purchases of 91.9 million euros, Bulgaria with 80.9 million euros, and the Netherlands with 76.2 million euros.

On December 15, Hungary and Slovakia filed a lawsuit against the EU leadership in the Court of Justice of the European Union. The case stemmed from Brussels' intention to achieve a complete ban on oil and gas supplies from Russia by the beginning of 2028. This was announced by Hungarian Minister of Foreign Affairs and Trade Péter Szijjártó ahead of a meeting of EU foreign ministers in Brussels.



• 6.3 Electricity production

Russia's power sector remained broadly stable in 2025, supported by sustained demand from heavy industry, defence production, and infrastructure development. Total electricity consumption rose modestly year-on-year, driven primarily by industrial clusters in the Central Federal District, the Urals, and the Volga region. However, the sector faced growing strain from ageing infrastructure, rising operational costs, and regional imbalances in supply and grid capacity.

Investment continued in several major federal transmission and distribution upgrades, although progress was uneven. Delays in grid modernisation projects, especially in remote or sparsely populated regions, hindered network reliability. Grid operator Rosseti reported intermittent capacity shortages in parts of Siberia and the Far East, with industrial consumers increasingly reliant on localised generation solutions. In urban centres, load management challenges were exacerbated by rising residential and logistics-related consumption.

Tariff policies remained a contentious issue. The state maintained

regulated tariffs for households and socially important enterprises, while industrial consumers faced incremental increases. Regional utilities continue to operate under financial pressure due to below-cost pricing and deferred maintenance backlogs. The federal government has provided selective support to loss-making utilities, but broader sector reform has been delayed amid fiscal constraints and political sensitivity to household energy prices.

In 2026, electricity demand is expected to grow modestly, assuming continued support for construction, defence, and industrial output. However, the outlook for capital investment remains constrained by tight federal budgets and high borrowing costs. Analysts expect the government to prioritise **selective modernisation** of critical grid assets and support for distributed generation in regions facing capacity bottlenecks. Broader liberalisation of the power market is unlikely in the near term, and the system will continue to rely on **state-driven investment** and cross-subsidisation between consumers.

• **6.4 Renewables**

Renewable energy remained a marginal component of Russia's electricity generation mix in 2025, accounting for **less than 1.5%** of total output. The sector faced multiple structural and regulatory obstacles, including **sanctions on foreign equipment, limited domestic manufacturing capacity, and insufficient policy incentives**. As a result, **no major new utility-scale wind or solar projects** were commissioned during the year, and overall renewable capacity remained flat.

Existing projects continued to operate in a stable manner, primarily concentrated in **southern regions** with favourable solar conditions and limited grid constraints. However, a lack of follow-on investment and slow progress on localisation goals stalled further development. According to market participants, previously approved projects under the government's capacity supply agreement (CSA) mechanism have been delayed or suspended, citing financing difficulties and supply chain disruptions.

The **hydropower** and **nuclear** segments, which are not typically included in renewable energy statistics but make up a large share of Russia's low-carbon generation, remained stable. No significant capacity additions were made in 2025, although modernisation works continued at several ageing hydro installations.

Looking ahead to 2026, the renewables outlook remains cautious. While the Ministry of Energy has proposed **tax incentives and new capacity payments**

to stimulate investment, uptake is expected to be modest. Pilot projects in solar microgrids and hybrid systems for remote regions are likely to receive support, particularly in the Russian Far East and Arctic settlements. However, analysts do not expect a structural shift in energy policy. Renewables will remain peripheral to the national energy strategy, which continues to prioritise fossil fuels, nuclear, and grid expansion over decarbonisation goals.

7.0 Markets Outlook

• 7.1 Equity Capital Markets

Russia's equity capital markets remained relatively stable in 2025, supported by sustained domestic retail participation and improved investor sentiment following tentative diplomatic developments late in the year. The Moscow Exchange (MOEX) reported **total trading volumes of RUB149tn (\$1.69tn) in November**, up **20% year-on-year**, though down **14% month-on-month**, reflecting seasonal and geopolitical volatility.

The exchange has largely regained its pre-2022 levels of activity, buoyed by the **reorientation towards domestic investors**, particularly retail accounts, amid ongoing international capital restrictions. Although MOEX posted record net profits of **RUB79.2bn** in 2024, its financial performance weakened in early 2025, with **first-quarter profit down 33% year-on-year** to **RUB13bn**, due to declining interest income and higher operating costs. However, volumes began to recover by mid-year, tracking a global rebound and localised risk-on sentiment.

Late 2025 saw a brief rally across select Russian equities and related investment vehicles following the announcement of a **US-brokered peace initiative in Ukraine**. Russian retail investors returned to the market, and **frozen share-linked instruments** listed abroad posted double-digit gains. The ruble also appreciated by approximately **3%** against both the US dollar and the euro in the immediate aftermath of the proposal.

Looking ahead, **five IPOs are expected in 2026**, according to *Vedomosti*, signalling renewed interest in primary issuance. Market participants expect most new listings to come from **state-linked companies** or **import-substituting sectors**, including IT, infrastructure, and food production. The pipeline remains modest, and foreign investor participation is expected to remain minimal due to ongoing capital controls, sanctions, and geopolitical risk. Market depth will continue to depend heavily on domestic institutional and

retail flows, with corporate actions and dividend payments likely to serve as key catalysts for activity.

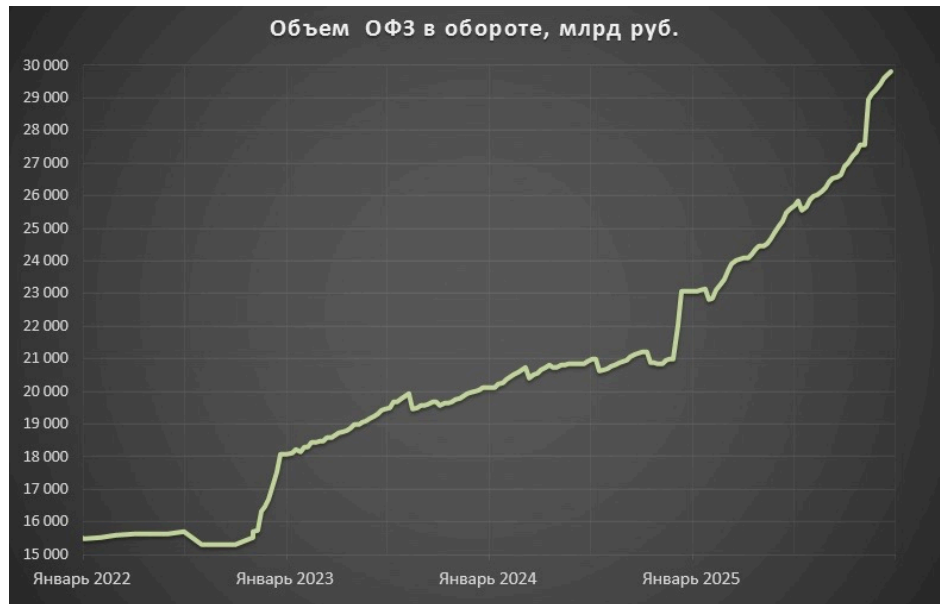
• **7.3 Debt Capital Markets**

Russia's domestic debt capital markets saw record activity in 2025, as the federal government relied heavily on **OFZ (federal loan bond) issuance** to finance a widening budget deficit. The Ministry of Finance raised **RUB6.05tn (\$77.9bn)** by mid-December — **87% of its annual borrowing plan** — with several weeks of auctions still remaining.

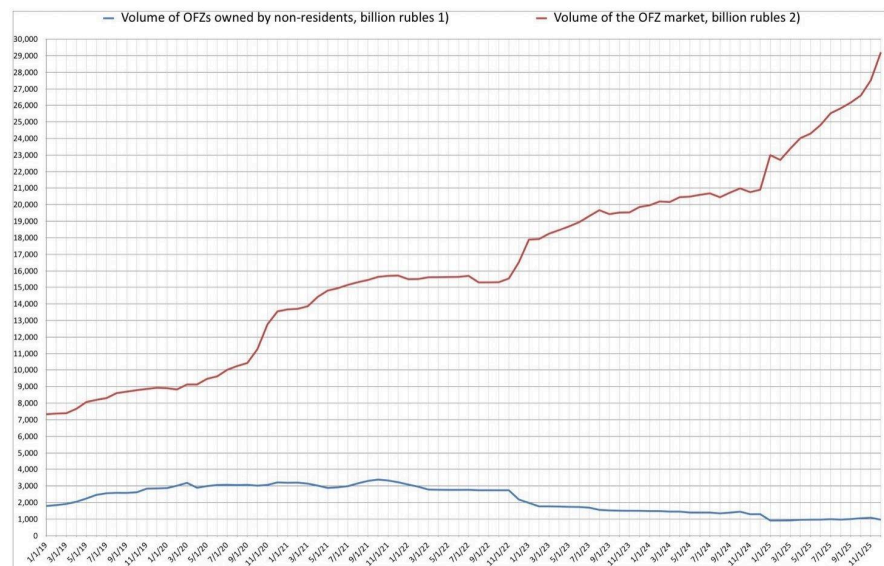
A record was set at the **November 12 auction**, when the ministry raised **RUB1.86tn (\$23.9bn)** in a single day. This included the reintroduction of **floating-rate bonds**, which had not been offered in over a year. Two new issues, Series 29028 and 29029, raised a combined **RUB1.69tn** at par. The innovation in these floaters lies in their pricing: instead of using the traditional average RUONIA with a lag, the new methodology employs the **urgent version of RUONIA**, offering more responsive rate adjustments in a volatile interest rate environment.

The strong market absorption of OFZs reflects continued demand from **state banks, non-bank financial institutions, and pension funds**, amid limited alternative investment channels and favourable regulatory treatment. Despite inflationary pressures and monetary tightening earlier in the year, OFZ yields remained attractive for institutional investors. The Ministry of Finance has consistently exceeded quarterly placement targets, suggesting robust domestic demand for sovereign debt.

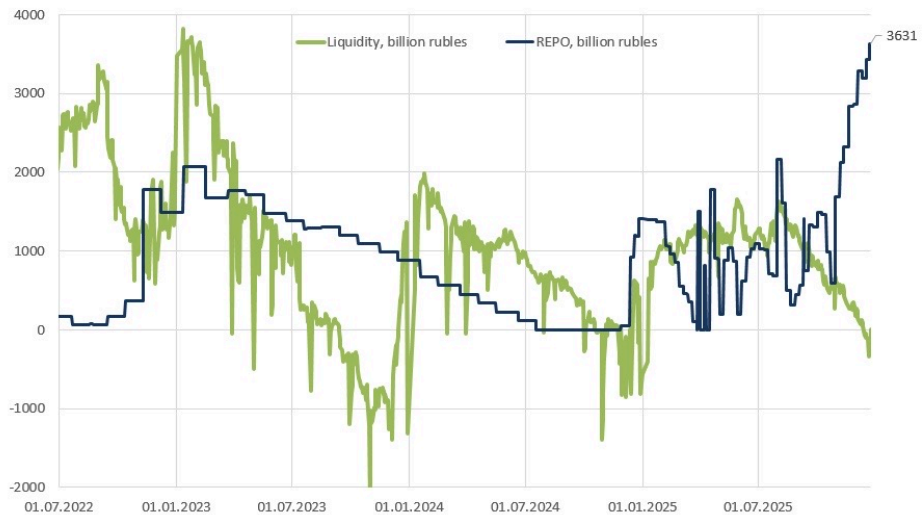
OFZ issues have soared as oil revenues no longer covering the government's spending, deficits are now a structural component of the Russian budget. The response is debt. A lot of it. The OFZ market has nearly doubled in size since 2022 and keeps growing.



Once a big investor into OFZ, foreign investors are effectively gone. Non-residents now hold a record-low share of OFZs. Russia is funding its budget almost entirely from inside its own financial system, with no external shock absorber left.



REPO usage shows the stress clearly. Trillions of rubles are borrowed week after week by the banks with no unwind. Banks aren't smoothing short-term shocks anymore. They are refinancing theirs and the economy's survival on a rolling basis.



Domestic banks absorb the bonds, then refinance them through the central bank. Bonds in, REPO out. It's a circular closed loop that works on paper for a while, but concentrates all risk inside the system.

Looking ahead to 2026, heavy reliance on domestic bond issuance is expected to continue, as Russia seeks to finance another deficit while minimising the inflationary effects of monetary financing. Analysts anticipate a greater share of **floating-rate and inflation-linked bonds**, as the government seeks to diversify its debt profile and manage refinancing risks. External borrowing remains limited due to sanctions, although **yuan-denominated sovereign bonds** are under discussion as part of a broader de-dollarisation strategy.

Placement results:

- Offer volume — the remainder available for placement in the specified issue (RUB442.359 bln).
- Demand volume — RUB198.567 bln.
- Volume of the issue placed — RUB164.578 bln.
- Revenue from the placement — RUB151.899 bln.
- Cut-off price - 91.4371% of the nominal value.
- Yield at the cutoff price is 14.85% per annum.
- Weighted average price - 91.5432% of the par value.
- Weighted average yield - 14.83% per annum.

Russian 10-Year Bond Yield, % (Blue - RHS) and CBR Key Rate (Green - LHS)



Source: Central Bank of Russia