

## Russia's stagnating economy

Iwona Wiśniewska

Low export prices for crude oil and the slowdown in economic activity that has persisted since mid-2024 have severely constrained the Kremlin's financial capacity and forced the government to undertake a major revision of its economic forecasts for the coming years. According to the latest projections, GDP in 2025 is expected to grow by only 1%, rather than the previously anticipated 2.5%. The deceleration of growth results from many enterprises reaching the limits of their production capacity, as well as from a slowdown in demand arising, among other factors, from the state's fiscal policy. It is also influenced by a reduction in budgetary support for the economy amid persistently high interest rates, which restrict access to capital. Nevertheless, the deepening economic difficulties do not mean that the Russian Federation (RF) is on the brink of a severe economic crisis. The war remains the top priority for the Kremlin, which can still allocate additional resources to its financing, although its room for manoeuvre in this regard is steadily narrowing.

According to preliminary data compiled by Rosstat,<sup>[1]</sup> in the first half of 2025, **Russia's GDP** increased by 1.2% year-on-year, compared with 4.8% in the corresponding period of the previous year. This slowdown reflects a decline in both consumer and investment demand. Such a growth rate effectively indicates economic stagnation. At the same time, it is important to note that there are considerable doubts about the reliability of Russia's official statistics.

In 2025, the pace of growth in **consumer demand** fell significantly. Retail trade recorded growth primarily in the purchase of agri-food products and medicines, while sales of many industrial goods – including cars, mobile phones, building materials, and furniture – declined.

At the same time, **investment growth also slowed**. In the first eight months of 2025, capital expenditure rose by 4.3% year-on-year, compared with 11.2% in the previous year, with the slowdown occurring mainly in the second quarter. Approximately 60% of all investments were implemented in ten regions of Russia (which currently comprises 89 regions, five of them located in the occupied territories of Ukraine), with as much as 19% in Moscow alone. A significant portion of the funds allocated to these projects came from federal and regional budgets (approximately 14% of the total) and from state-owned corporations. These entities financed, among other projects, the construction of Gazprom's Amur Gas Processing Plant and the expansion of transport infrastructure, particularly in Russia's Far East. Priority sectors, such as arms production, also benefit from access to preferential loans. By

contrast, the financial capacity of private companies has been severely constrained by high borrowing costs and shrinking profits, the latter resulting from growing tax burdens and declining revenues. Owing to persistently high interest rates, more than 60% of all investments have been financed from companies' own funds.

Although the slowdown in demand enabled the Central Bank of the Russian Federation (CBR) to reduce its key interest rate by 4 percentage points (from 21% to 17%), it nevertheless remains high, significantly restricting access to capital for both households and businesses.

During the first eight months of 2025, **manufacturing output** was 3.2% higher year-on-year; however, virtually **all industries producing for civilian needs recorded declines**. Many of these sectors had already faced difficulties a year earlier. **The situation is particularly severe in the automotive industry**, which is experiencing a collapse in demand: in the first nine months of 2025, sales of new passenger cars and light commercial vehicles (LCVs) in Russia fell by more than 20% year-on-year, while sales of trucks declined by nearly 60%. This downturn stems, on the one hand, from high interest rates in Russia and reduced access to credit, as well as from lower activity in sectors such as transport and construction. On the other hand, it is also linked to the sharp increase in car imports in 2024, primarily from China,<sup>[2]</sup> and the stockpiling of vehicles by dealers in anticipation of a significant rise in the recycling fee on imported cars introduced in October 2024, which resulted in an oversupply.

Consequently, sales by AvtoVAZ – the country's largest passenger car manufacturer – fell by 20% in the first nine months of 2025. A similar decline was recorded by Kamaz, the leading producer in the truck segment. Both companies belong to the Rostec corporation, which primarily controls defence industry enterprises, and can rely on state support in the form of subsidies and public procurement (in 2024, approximately 30% of Kamaz's production is estimated to have been carried out under defence contracts), as well as regulatory measures restricting the expansion of foreign car manufacturers in the domestic market. Nevertheless, Kamaz reported a loss of more than US\$370 million in the first half of the year (AvtoVAZ has not published its financial results since 2022). Owing to the collapse in demand, all Russian automotive companies were forced to introduce a four-day working week in the second half of the year.

In the second half of 2025, reports of **wage reductions** – resulting, among other factors, from shorter working hours – have emerged from virtually all sectors of the economy oriented towards meeting civilian needs. For instance, the cement producer Cemros closed its plant in Belgorod and introduced a four-day working week at its remaining facilities. Rostselmash, the agricultural machinery manufacturer based in Rostov, reduced working hours to just three days per week following a 30% decline in production. Meanwhile, the Sveza group shut down its birch plywood factory in Tyumen, where capacity utilisation had fallen below 50% and the plant had been incurring losses since 2022.

**Sectors serving the war effort continue to record double-digit growth in production, although a slowdown is also evident in this area.** This applies in particular to ammunition manufacturing (concealed under the category 'production of finished metal products') as well as to electronics and optical instruments. The armed conflict also largely explains the performance of the medical industry. In March 2025, Deputy Minister of Industry and Trade

Vasily Osmakov acknowledged problems in the armaments sector, noting that most enterprises had reached the limits of their production capacity, which in turn had led to stagnating wages. An analysis conducted by *Novaya Gazeta Europe* of job vacancies in defence companies<sup>[3]</sup> showed that during the first eight months of 2025, median salaries in the sector remained higher than the national average, yet had been declining since the beginning of the year. Further increases in employment and wages were recorded only in plants manufacturing drones and missiles.

**The extractive sector**, which continues to play a crucial role in the state of Russia's economy and public finances, **has been recording a decline in output since 2023**. Until recently, companies were able to limit their losses by redirecting exports to countries that did not join the sanctions (mainly China and India) and by benefitting from the relatively high commodity prices during the initial years of the full-scale war. State support also proved particularly important for their performance, as the government subsidised infrastructure projects facilitating greater sales to Asian markets and provided railway freight subsidies for coal, ferrous metals, mineral fertilisers, and petroleum products. However, since the beginning of 2025, these ongoing and accumulated problems have been compounded by a sharp fall in global prices – especially for crude oil and coal – which has had a markedly negative impact on the performance of this sector of the economy

**Stagnation is the most accurate term to describe this year's hydrocarbon extraction dynamics**. This applies to all three commodities of critical importance to Russia – natural gas, coal (both lignite and hard coal), and crude oil. Between January and August, the production of the first fell by 3.4% year-on-year, while that of the second increased by 0.2% year-on-year. In both cases, this will allow output to remain at roughly the 2024 level (with minor deviations considered acceptable). It is worth noting that, even so, Russian production remains below pre-2022 levels.

From a macroeconomic perspective, **crude oil** remains the most significant factor. According to this year's estimates, annual oil production will show a slight year-on-year decline, reaching 510 million tonnes. Officials attribute this to the need to maintain production limits within OPEC+. It should be noted that although Russia has increased the operation of its extraction platforms since July, following the cartel's decision to ease production cuts, this is unlikely to result in any substantial improvement in overall output. Based on OPEC data (as Russia stopped publishing its own figures in 2022), production in the third quarter of this year increased by approximately 200,000 barrels per day compared with the beginning of the year.

**The absence of a significant increase in extraction is primarily due to export difficulties**. This year, **foreign sales** of both **natural gas** and **coal** are likely to show slight declines. As regards gas, this stems from the **ongoing loss of the European market, which, for the time being, Asian buyers are unable to offset**.<sup>[4]</sup> As for coal, domestic exporters are struggling with **high production and transport costs**, which make their offer unattractive to customers in Asia.<sup>[5]</sup> Nevertheless, it cannot be ruled out that last year's crude oil sales levels will be maintained, partly owing to the OPEC+ decision to increase production within the cartel, which will translate into higher export volumes.

Compared with 2024, hydrocarbon sales have also become less profitable due to lower prices and a reduced number of potential customers, particularly in the oil and gas sectors. This situation has had a **negative impact on the financial performance of Russian producers and exporters. The coal industry has been the most affected.** The crisis that began in 2024, manifesting primarily in economic terms, has further deepened. In the first seven months of 2025, the overall result for the sector was negative, with more than 65% of companies reporting losses (compared with just over half during the same period of the previous year). Tangible consequences of the crisis include **corporate bankruptcies** – according to data from the Ministry of Energy, approximately 13% of coal-sector companies were closed between January and August 2025. Persistently low oil prices throughout this year, combined with a relatively strong rouble, have also had an adverse impact on the oil and gas industry. According to financial statements for the first half of the year, the country's largest companies recorded **steep profit declines** – in some cases two- or even threefold year-on-year – while total sector revenues were 50.4% lower than in the same period of the previous year. Owing to sanctions pressure – primarily the Western embargo, which has forced Russia to export mainly to the Chinese and Indian markets – Russia has been selling its crude oil at a discount compared with other grades on the market, amounting to between US\$10 and US\$14 per barrel during the first nine months of the year.

The situation in the Russian oil and gas sector has also been aggravated by **Ukrainian attacks on fuel infrastructure.** According to media reports, at the end of September the Kremlin revised its forecasts for crude oil production and sales. Under the updated estimates, Russian companies are expected to export 10 million tonnes more crude oil this year than initially planned, at the expense of fuel production. Foreign sales are projected to reach 240 million tonnes, while overall extraction levels are expected to remain unchanged.

This revision suggests the need to align export volumes with the decline in refining output caused by Ukrainian strikes on refineries. In September, Russia's crude oil exports rose by 13% – that is, by more than 0.5 million barrels per day – compared with August, while **fuel exports simultaneously fell by 17%.** The timing of this shift coincided with the intensification of Ukrainian attacks in August and September, demonstrating their effectiveness. **The forced increase in crude exports exerts a moderating effect on global oil prices while simultaneously reducing budget revenues from the sector, as tax rates are calculated on the basis of export prices.** Moreover, the inability to sell fuels resulting from temporary refinery shutdowns continues to exacerbate the problems of Russia's oil industry, further eroding corporate revenues.<sup>[6]</sup>

As a result of Western sanctions, the **diamond-mining sector has also faced difficulties.** In 2024, Russia's diamond exports totalled 30.4 million carats, representing a 38% decline compared with 2021. The state-owned **company Alrosa** – the world's largest diamond producer – recorded an almost four-and-a-half-fold decrease in profits, to approximately US\$208 million, ending the second half of the year with a loss. This compelled the company in 2025 to close its least profitable mines and reduce its wage fund by approximately 10%. To support Alrosa, the government decided to purchase diamonds using budgetary funds for inclusion in the State Precious Metals and Gems Repository (Gokhran). In total, 154 billion roubles (equivalent to approximately US\$1.8 billion at the current exchange rate) are to be allocated for this purpose between 2025 and 2027.

In the first eight months of 2025, **agricultural output recorded a modest increase** of 1.2% year-on-year. However, **the sector faces numerous challenges**, most notably rising costs associated in particular with higher wages and debt servicing. In recent years, it has also come under increasingly strict state regulation, including the introduction of export quotas and tariffs. Moreover, ownership concentration has been growing around entities linked to the Kremlin, partly through nationalisation processes,<sup>[7]</sup> (earlier this year, one of Russia's largest grain traders, Rodnye Polyva was transferred to state ownership). The sector's difficulties are illustrated by a **14% year-on-year decline in agri-food exports**, driven both by falling global grain prices and by reduced export volumes (down by more than 20%). At the same time, import values rose by 15%, reflecting higher logistics costs and the need to increase imports of fruit and vegetables following a poor domestic harvest. In spring 2025, Russia even experienced a **shortage of potatoes**, with prices more than doubling year-on-year. The country remains dependent on imports of vaccines, vitamins, animal feed, seedlings, fish fry, and other goods and raw materials essential to sustaining domestic agriculture. These products constitute the majority of agri-food imports. Consequently, in 2025, **Russia once again became a net importer of agri-food products**, having maintained a positive trade balance in this category since 2020.

Although the Russian **construction sector grew** by 3.5% in the first eight months of 2025, **residential construction** – the driving force behind the industry in previous years – is experiencing a downturn. The sector's overall positive indicators are primarily driven by projects financed from public funds or by state-owned corporations, including programmes for the renovation of municipal housing in major cities in central Russia, and the expansion of the business district in the capital. This year, budgetary allocations for the national project 'Infrastructure for Life' will increase by almost 50% year-on-year, reaching 1.17 trillion roubles (approximately US\$14 billion at the current exchange rate).

**Residential construction has been in decline since August 2024**, following the government's withdrawal from a large-scale preferential mortgage-lending programme and the simultaneous increase in interest rates by the CBR. In the first eight months of this year, the value of work in this segment fell by 5.3% year-on-year. During the same period, developers sold more than 17% fewer square metres of housing than a year earlier. Although in monetary terms the decline amounted to only 8% (as housing prices continued to rise), the value of newly issued mortgage loans decreased by 37% year-on-year. At the same time, developers' debt levels increased (according to the latest available CBR data, reaching 13% in the first half of the year), and the situation of many companies remains difficult. Although the sector as a whole still generated a net profit, more than 26% of enterprises reported losses. Deputy Prime Minister Marat Khusnullin announced that the completion of around 19% of housing projects has been delayed, while approximately 20% of companies – including one of Russia's largest developers, Samolet – face the risk of bankruptcy. Given the importance of the sector to the broader economy (residential construction accounts for approximately 9% of GDP and 12% of tax revenues), the government has offered support to construction companies, including a moratorium on the payment of penalties to consumers for missed deadlines.

In the first eight months of 2025, **freight transport volumes declined** by 0.6% year-on-year. The **sharpest decreases were recorded in rail and air transport**, the latter having been in crisis since 2022 as a result of Western sanctions. At the same time, there has been a

marked concentration of assets in the hands of major players, particularly state-owned ones, including Russian Railways, Sovcomflot (maritime transport), and Rosatom (which oversees traffic along the Northern Sea Route and container transport within Russia). This concentration has reduced competition in the sector and undermined its overall flexibility.

The slowdown in economic activity is particularly evident in the **rail transport sector**, which is primarily responsible for the shipment of bulk commodities such as coal, petroleum products, construction materials, ferrous metals, and mineral fertilisers. Since 2024, the industry has been experiencing a decline in freight volumes across virtually all categories, driven primarily by reduced domestic deliveries (down 8.5%), particularly of construction materials. Export shipments – considered a state priority – have also been curtailed, partly due to the temporary bans on petrol exports imposed by the government in 2024 and 2025. The sector's performance has also been affected by falling export prices for domestic commodities – particularly coal – combined with rising transport tariffs. Over the past three years, Russian Railways, the state-owned company managing the railway infrastructure, has increased these tariffs by 65%. Despite state subsidies, transport remains expensive due to vast distances, which has a negative impact on exporters' profitability. Consequently, in the first half of 2025, despite having secured quotas and export approvals, domestic coal companies opted not to transport 1 million tonnes of coal by rail. At the same time, it was impossible to replace these shipments with other goods, as freight forwarders lacked sufficient time to secure alternative contracts. Consequently, the financial performance of Russian Railways has deteriorated: although the company remained profitable in the first half of the year, its earnings were more than 22 times lower than in the same period of the previous year.

Rail transport has, in effect, become dominated by bulk commodities – primarily those destined for export – rendering this mode of transport increasingly unattractive to smaller freight forwarders. Consequently, many have shifted to **road transport**, including for long-distance routes, leading to an increase in road freight volumes in Russia during the first eight months of 2025. However, rising costs – driven by higher fuel prices, vehicle leasing rates, and wages amid a shortage of drivers – have reduced the sector's revenues. In the first seven months of 2025, more than 26% of companies reported losses, and a significant proportion now face the risk of bankruptcy, having recorded negative financial results for the second consecutive year.

Although **inflation** remained relatively high, **its pace slowed** due to weakening demand and economic activity, mainly regarding industrial goods, the prices of which in September 2025 were only 3.9% higher than in 2024. Against this backdrop, petrol stands out sharply, with prices rising by as much as 12.7%. In categories of essential goods, however, strong price growth persists: food prices increased by 9.5% year-on-year, while the cost of services rose by 11.1%.

**In 2025, Russia continues to experience strong growth in real household incomes, although this growth is unevenly distributed across social groups.** The rise is driven primarily by the earnings of the self-employed, dividend payments, interest on deposits, and bonuses for members of supervisory boards. At the same time, however, the **pace of real wage growth has slowed markedly**. Unemployment remains at a record low of 2.1%, yet the

number of job vacancies has fallen by around 25% year-on-year as of September. **Pensions and social welfare payments** have increased only marginally above the official inflation rate. Meanwhile, the cost of living for the poorest segments of society has risen much more rapidly. The average pension in Russia now amounts to just under US\$300, most of which is spent on food, medicines, and housing and utility payments, all of which have risen in price well above the official consumer price index.

The performance of Russia's economy – particularly its public finances – has also been adversely affected by the **downturn in global markets**. Since the beginning of the year, the **prices of Russia's key export commodities, particularly crude oil, have fallen sharply**. In September 2025, the average export price of a barrel of Russian oil stood at US\$57.6, compared with US\$70.3 a year earlier, while prices below US\$60 per barrel – that is, below the baseline level assumed in the federal budget – have persisted since March 2025. Consequently, the value of Russian exports in the first seven months of 2025 declined by 5% year-on-year, while foreign sales of mineral products (the vast majority being crude oil) fell by more than 15%.<sup>[8]</sup> During the same period, imports rose slightly, by just under 1%. Interestingly, China – Russia's largest trading partner – reported a decline in both its exports to Russia (down 7% y/y) and its imports from Russia (down 9% y/y).

The deteriorating economic situation has led to a **sharp increase in Russia's federal budget deficit** during the first nine months of the year, according to data from the Ministry of Finance. Owing to low oil prices and a strong rouble, **oil and gas revenues fell by around 21% year-on-year**, while the slowdown in economic activity reduced the growth rate of other revenues to approximately 13% year-on-year (compared with the planned 15%). This applies primarily to value-added tax (VAT), but also to corporate income tax, the rate of which was increased by five percentage points in 2025 to 25%. During the same period, expenditure was 19.5% higher than a year earlier, with public procurement spending – particularly on defence contracts – increasing by 34% year-on-year to nearly US\$90 billion (at the current exchange rate). In total, at least 40% of all official budgetary resources are to be allocated to national defence and public security this year, although **the real costs of the war are considerably higher and also concealed within other budget items, likely exceeding 50% of total expenditure**. Additional funds are being channelled to the war effort from regional budgets and corporations, particularly state-owned ones.

As a consequence of the unfavourable financial situation, the government has been forced to **revise the 2025 budget and its parameters** for the second time this year (the first revision having taken place in April).<sup>[9]</sup> The budget results primarily reflect the slowdown in economic growth and the strength of the national currency.

#### Modification-of-assumptions-in-Russia'sbudget-for-2025

Given the continuing decline in revenues throughout 2025, the budget deficit is expected to rise to approximately US\$66 billion. However, it may prove to be even higher, as the Kremlin traditionally authorises additional expenditure each December, including advance disbursements.

**The authorities plan to cover the resulting deficit primarily through the issuance of government bonds.** They intend, however, to preserve the resources accumulated in the National Welfare Fund (NWF), which, in the current circumstances, provide flexibility and the capacity to respond swiftly to the rapidly changing market situation, particularly in the event of a further decline in oil prices. **After more than three years of full-scale aggression, the NWF's liquid assets have halved** and now stand at approximately US\$51 billion (at the current exchange rate).

**The low level of reserves and the high cost of servicing domestic debt** (which in 2025 will account for approximately 7.5% of total budget expenditure) **are contributing to the continued transfer of the war's financial burden onto citizens and businesses.** **The government has once again decided to increase the tax burden.** In 2026, the VAT rate will be raised to 22% (an increase of 2 percentage points), while numerous tax reliefs for small and medium-sized enterprises will be abolished. The state's fiscal policy is negatively affecting demand and corporate investment programmes, which in turn further suppresses economic activity and, consequently, tax revenues.

**The scope for further substantial increases in budgetary expenditure is therefore very limited.** While the authorities could, in search of additional revenue, allow inflation to rise or devalue the rouble, such measures could, in the longer term, further complicate the economic situation. Consequently, the government's draft budget for 2026 envisages only a 4% increase in expenditure, accompanied by an overly optimistic projection of more than 10% year-on-year growth in revenues. At the same time, expenditure on national defence and internal security is expected to decrease. However, it is important to note that actual budget execution sometimes diverges significantly from initial plans, as evidenced by previous years. **The war remains the Kremlin's priority, and additional funds can still be diverted to its financing, even at the expense of other areas.** Nonetheless, the government's room for manoeuvre in this regard is clearly diminishing.

---

[1] Throughout the report, the authors rely on data from Rosstat, unless otherwise indicated.

[2] I. Wiśniewska, *'Russia is grappling with an influx of Chinese-made cars'*, OSW, 1 August 2025, [osw.waw.pl](https://osw.waw.pl).

[3] Д. Таланова, *'Танки уперлись в потолок'*, Новая газета Европа, 22 September 2025, [novayagazeta.eu](https://novayagazeta.eu).

[4] See F. Rudnik, *'Farewell to Europe: Gazprom after 2024'*, OSW Commentary, no. 644, 11 February 2025, [osw.waw.pl](https://osw.waw.pl).

[5] See *idem*, *'Russian coal on the global market: difficulties and weak prospects'*, OSW Commentary, no. 661, 23 April 2025, [osw.waw.pl](https://osw.waw.pl).

[6] See *idem*, *'Russia: the government's ineffectiveness in the face of Ukrainian attacks on refineries'*, OSW, 3 October 2025, [osw.waw.pl](https://osw.waw.pl).

[7] I. Wiśniewska, '*Putin's elite divides the spoils in Russia: large-scale nationalisation and re-privatisation of assets*', *OSW Commentary*, no. 685, 1 September 2025, [osw.waw.pl](https://osw.waw.pl).

[8] Since 2022, the Russian government has ceased publishing detailed foreign trade statistics. Consequently, the Federal Customs Service currently provides only highly aggregated data.

[9] I. Wiśniewska, '*Low oil prices are forcing Russia to revise its 2025 budget*', *OSW*, 7 May 2025, [osw.waw.pl](https://osw.waw.pl).