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INTERNATIONAL
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THE RUSSIAN ECONOMY –

“Reliable Rear” or
“Perfect Storm”

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The Russian Economy – “Reliable Rear” or “Perfect Storm”

Introduction

The current state of the Russian economy is characterized as complex, with certain signs of stagnation and significant challenges. On the one hand, official statistics may show growth, especially in the military sector, but at the same time there are problems with inflation, budget deficits, dependence on raw material exports, and the consequences of international sanctions.

This does not mean that an immediate collapse can be expected, but it does indicate that the Russian economy is entering a phase of high vulnerability, in which even a moderate external or internal shock could trigger a deep recession or financial crisis. At the same time, the structure of the economy does not allow us to consider the situation “normal” or “stable”.

The overview of the Russian economy, especially in the media, is usually a good illustration of the natural division of people into optimists and pessimists. Optimists expect the collapse of the Russian economy in the near future and they do not pay attention to the fact that this expectation has been going on since the first days of the full-scale war, and possibly even after the sanctions of 2014. Pessimists, in turn, say that the Russian economy is very strong, and nothing can happen to it, and the problems that constantly arise do not have any significant impact.

Russia is facing a growing budget deficit, especially due to war spending and falling oil prices. Rising inflation is a serious problem, affecting the purchasing power of the population and the overall economic situation. Sanctions imposed on Russia restricted access to traditional markets, in particular the EU market, and caused the need to search for new export routes. The Russian economy is largely dependent on the export of raw materials, in particular oil and gas, which makes it vulnerable to fluctuations in world prices. Official data may not reflect the real state of the economy due to a significant shadow economy and corruption. The Russian economy is showing growth in the military sector, but this growth may be at the

expense of other industries. Consumer activity is declining, which is affecting retail trade and other sectors of the economy.

Section 1 – Macroeconomic indicators

One of the main issues on the agenda is an assessment of the capabilities of the Russian economy to continue waging a full-scale war and, at the same time, maintain price stability, including to create conditions for balanced and sustainable economic growth.

To assess the realism of such plans, it is necessary to consider individual components of the RF's economic development, which will affect its parameters in future periods.

GDP. Traditionally, one of the main macroeconomic indicators is considered to be the country's GDP. Among individual countries in the world, the Russian Federation retains the 11th place in terms of this indicator. The RF's GDP is USD 2.08 trillion. For comparison, the US GDP is USD 30.5 trillion, and China's - USD 19.23 trillion. The RF economy is 10 times smaller than the Chinese and 15 times smaller than the US economy.

The annexes to the speech of the Chairman of the RF Central Bank to the State Duma on November 18, 2024 noted that the forecast of real GDP growth rates for 2024 is 3.5-4%, for 2025 - 0.5-1.5%, for 2026 - 1-2%, and for 2027 - 1.5-2.5%. These estimates have certain differences with the estimates of the leading world economic institutions - the IMF and the World Bank. According to the IMF, the growth rate of real GDP in the Russian Federation in 2024 will be 3.6%, in 2025 - 1.3%, and in 2026 - 1.2%. The World Bank estimates indicate a lower growth rate of the RF's real GDP at the end of 2024 - 3.2%. However, growth is expected to be 1.6% in 2025, and 1.1% in 2026. Therefore, based on these three forecasts, we can state that at the end of 2024, a slowdown in the growth rate of the Russian economy was expected for the coming periods.

These expectations were confirmed during 2025. According to the latest forecasts, growth will be 1% to 2%. Some analysts predict growth at 1.4%. At the

same time, the Ministry of Economic Development of the Russian Federation predicts a more optimistic scenario with growth of 2.5%, which it includes in the baseline scenario. The Bank of Russia maintains the forecast for GDP growth in 2025 at only 1-2%.

Regarding the forecasts of international institutions, the World Bank predicts growth of 1.4%, which is 0.2 percentage points lower than their forecast at the end of 2024. A worse forecast was due to a slowdown in growth, which, in turn, is associated with the consequences of a tight monetary policy aimed at containing inflation. However, despite the slowdown, some sectors of the economy, such as agriculture, logistics, manufacturing, services and information technology, should demonstrate positive dynamics.

Overall, the Russian economy slowed sharply in the first half of 2025, with GDP growing by just 0.4% year-on-year as of July 2025, indicating stagnation. Growth rates fell 11-fold in half a year, and some sectors, including defense, have lost momentum. This slowdown is attributed to huge war spending, isolation due to sanctions, falling investment, and loss of energy export revenues.

Inflation. The Central Bank of the Russian Federation forecasts presented in November 2024 expected that inflation in the RF in 2024 would be in the range of 8-8.5%, after which its pace should slow down to 4.5-5% in 2025 and 4% in 2026 and 2027. However, data on the monthly inflation in the Russian Federation indicated a slightly different trend. In October 2024, inflation was 0.75%, and from November 1 to 25, it was 1.15% (with weekly inflation rates in November being in the range of 0.3-0.5%). It should be noted that in the first half of 2024, there was not a single month in the Russian Federation with inflation above 1%. Thus, an obvious acceleration of the inflation rate was observed.

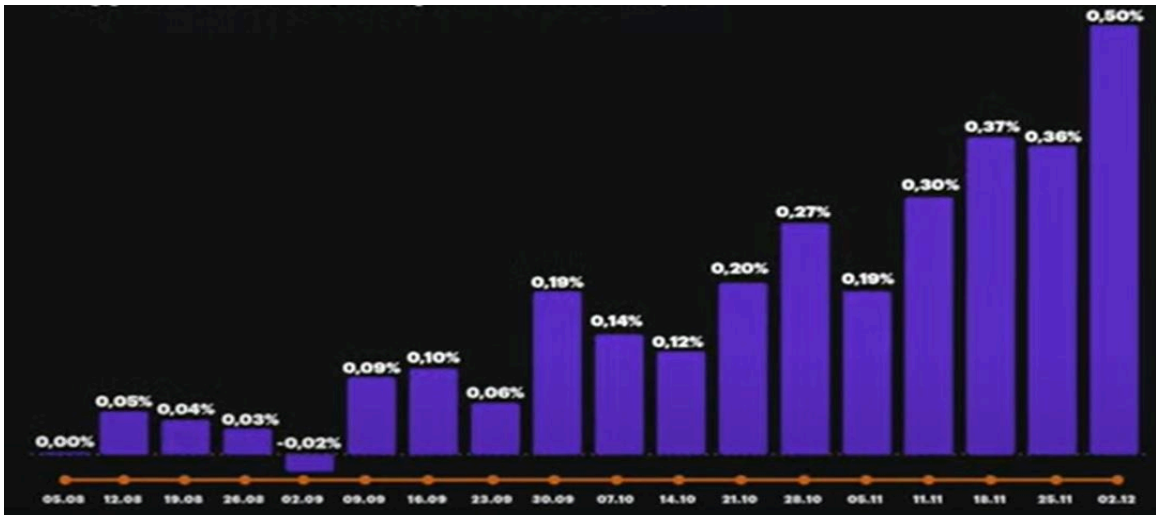


Figure 1. Weekly inflation in the Russian Federation from August to November 2024.

Source: Russian Federal Statistics Service.

However, the real inflation rates in the Russian Federation during 2025 showed that it will definitely not be possible to keep inflation within the 4.5-5% range. In July 2025, the inflation rate in Russia was 0.57%, which is 0.37 times higher than in June 2025 and 0.57 times lower than in July 2024. At the same time, inflation since the beginning of 2025 has been 4.37%, and in annual terms – 8.8%. According to analysts' estimates, in 2025 Russia will take first place in terms of inflation globally.

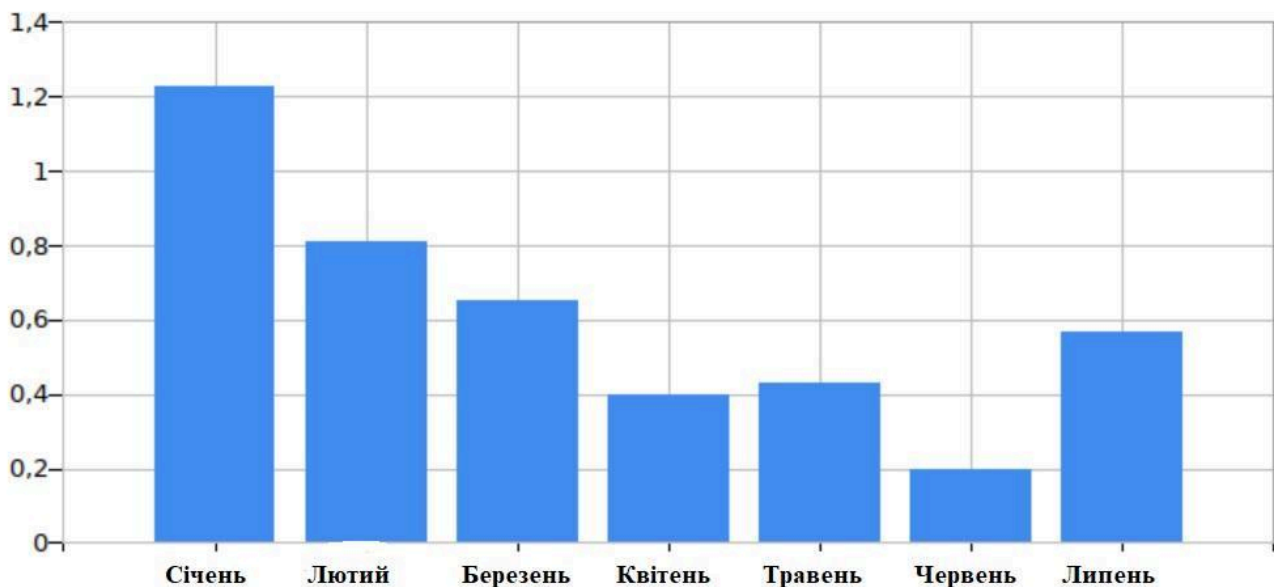


Figure 2. Monthly inflation in the Russian Federation from January to July 2025.

Source: Russian Federal Statistics Service.

Money stock. Since the beginning of the full-scale war, there have been significantly higher rates of money supply growth in the RF. If in September and October 2021 they amounted to 8.2%, then after the start of the full-scale war they have consistently exceeded 15%. At the beginning of December 2024, the money supply in the Russian Federation amounted to 111.1 trillion roubles, having increased by 2% over November. The annual growth rate of the money supply in November increased to 20.1% (in October it was 19.5%). In early August 2025, the money supply in Russia amounted to 120 trillion roubles, which is 15% more than in August 2024.

These data indicate that the Russian Federation is intensively printing new money, which may also contribute to an increase in inflation rates. In addition, it can be stated that a stable trend towards increasing the money supply has been established in the Russian Federation.

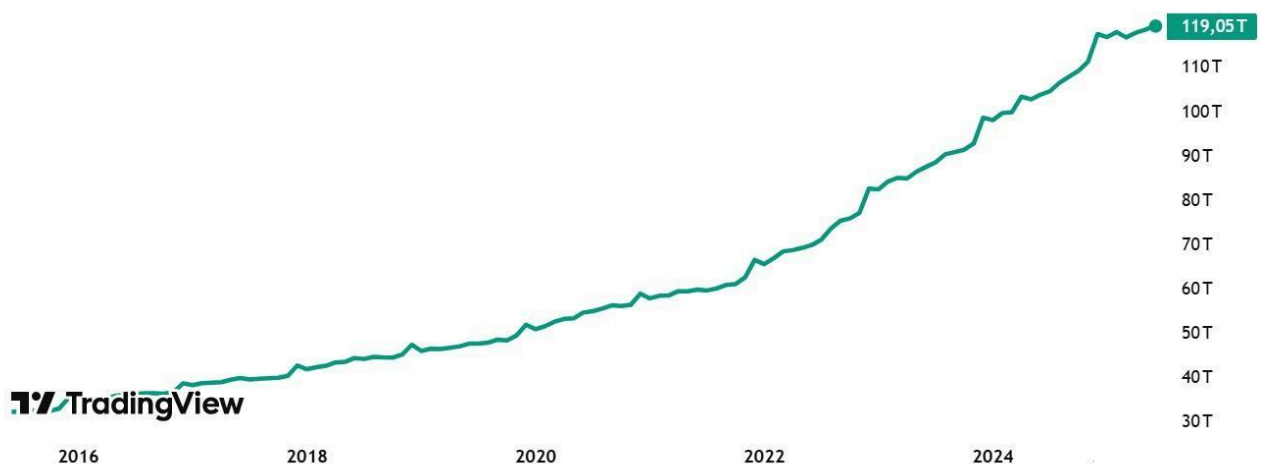


Figure 3. money stock volume (M2) in the RF from 2010 to 07/30/2025, trillion roubles.

Source: <https://ru.tradingview.com/symbols/ECONOMICS-RUM2/>.

Rouble exchange rate. The rouble exchange rate is a clear indicator of the Russian economy's health. Since August 2023, the Russian rouble exchange rate has stabilized and even strengthened slightly at a level below 100 Russian roubles per US dollar. However, the situation in the second half of November 2024 demonstrated the

fallacy of the idea of stabilizing the exchange rate. During the first week of the second half of November, the exchange rate slightly exceeded the mark of 100 Russian roubles per US dollar, and on November 27, at an exchange rate of 105.5 roubles per US dollar at the beginning of the day, it reached the mark of 114.5 roubles by lunchtime. After that, it stabilized and decreased to a level of approximately 100.55 roubles per US dollar in early December 2024. A similar situation was observed with regard to the exchange rate of the Russian rouble against the euro and the Chinese yuan. Thus, a serious devaluation of the Russian rouble is observed, which demonstrates the vulnerability of the Russian financial system. This decline reflects not only the severity of the sanctions, but also a loss of confidence in the RF's long-term economic prospects. For a common Russian, this means galloping inflation, declining purchasing power, and an increasingly uncertain economic future. Essential goods such as food, medicine, and imported products are likely to increase significantly in price before the end of 2024, putting enormous pressure on household budgets. In addition, the devaluation of the Russian rouble is contributing to inflation.

The situation, however, changed significantly in 2025. During the first half of 2025, the rouble strengthened significantly and remained at around 80 roubles per US dollar for almost the entire year.



Figure 4. US dollar to rouble exchange rate from January to August 2025.

Source: <https://ru.tradingview.com/symbols/USDRUB/>.

On the one hand, this situation indicates the financial stability of the Russian Federation, which is converted into a demonstration of political power. After all, both the RF leadership, and the population, pay special attention to the exchange rate of the national currency. Therefore, from a psychological point of view, the RF Central Bank seeks to keep the official exchange rate below 100 roubles per US dollar.

However, on the other hand, a strong rouble raises many questions and problems. This exchange rate is not to the liking of Russian exporters, as it reduces their margins. As a result, in rouble equivalent, Russian export revenues are lower than they would be if the rouble exchange rate were to weaken. Therefore, at various economic forums held in the Russian Federation, the Central Bank leadership is subjected to significant criticism for keeping the national currency strong.

There is also some concern that the Central Bank is spending the country's gold and foreign exchange reserves to maintain a strong rouble. That is, the reserves are being spent so that the country's exporters earn less money.

National Welfare Fund and gold and foreign exchange reserves of the Russian Federation. As of August 1, 2025, the volume of the National Welfare Fund (NWF) of the Russian Federation amounted to 13.08 trillion roubles, which is equivalent to \$159.8 billion and is 5.9% of the country's GDP forecast for 2025. The NWF is replenished at the expense of additional revenues from the oil and gas sector and is used to cover the budget deficit. In 2025, it is planned to spend part of the monies from the Fund to cover the deficit, as well as replenish it at the expense of excess profits, but now the NWF is being used more actively, since oil prices are lower than forecast.

As of August 1, 2025, the accounts with the Bank of Russia contained 210.2 billion Chinese yuan (as of July 1, 2025, it was 214.8 billion Chinese yuan), 179.1 tons of gold in dematerialized form (as of July 1, 2025, it was 212 tons), and 419.6 million roubles (as of July 1, 2025, it was 2.5 billion roubles). The NWF funds are also invested in foreign debt securities worth 3 billion USD (this is a loan granted to Ukraine in late 2013, which the English Supreme Court allowed Ukraine not to repay on March 15, 2023) and in a wide portfolio of Russian bonds.

The liquid assets of the National Welfare Fund placed in accounts with the Bank of Russia decreased from 4.13 trillion roubles (as of July 1, 2025) to 3.95 trillion roubles (as of August 1, 2025), or by 48.3 billion USD per month. The exchange rate difference and the revaluation of assets in January–July led to a cumulative decrease in the value of the National Welfare Fund's assets. It is obvious, however, that the liquid part of the National Welfare Fund is rapidly decreasing, and may disappear by the end of 2025 or in the first half of 2026.

As for gold and foreign exchange reserves, they are under the administrative management of the RF's Central Bank. As of mid-August 2025, the gold and foreign exchange reserves of the Russian Federation amounted to approximately USD 686.5 billion. At the same time, their increase is mainly due to the positive revaluation of assets. The reserves include gold (about 2,330 tons) and foreign currency. It should be noted that about USD 300 billion is frozen due to sanctions. The share of gold in the structure of reserves increased to 36.5% as of early June 2025, which is the maximum indicator for the last 25 years.

Key rate. In order to combat inflation in the Russian Federation, the Central Bank has raised the key rate eight times since July 2023. In October 2024, it amounted to 21% (at that time, the Russian Federation ranked 12th in the world in terms of the key rate). Moreover, according to available information from open sources, the next key rate increase was not ruled out on December 20, 2024. The increase in the key rate comes against the backdrop of criticism of such steps by the heads of many Russian companies, including the CEO of the leading Russian military-industrial company Rostec, S. Chemezov, who stated that even companies in the Russian military-industrial sector cannot operate at such a key rate. He was supported by a number of leading Russian businessmen.

One of the consequences of such pressure was a change in the policy of the RF's Central Bank during 2025. In February 2025, the Central Bank decided to lower the key rate to 20%, and in July 2025 to 18%.

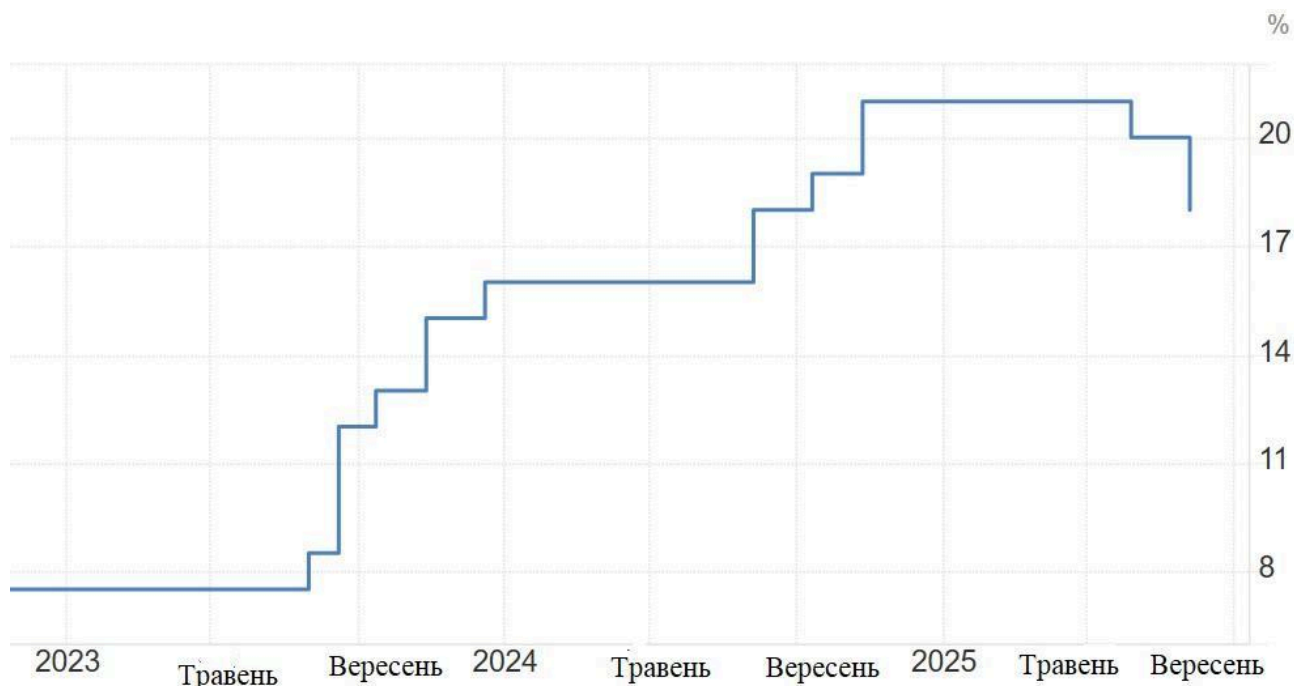


Figure 5. The key rate in the Russian Federation from 2023 to August 2025.

Source: <https://tradingeconomics.com/russia/interest-rate/>

These dynamics have influenced the Central Bank's forecasts for the near future. In the baseline scenario for the development of the Russian economy, the Central Bank predicts the mean key rate in the range of 18.8–19.6% per annum in 2025 and 12.0–13.0% per annum in 2026. The Central Bank also emphasizes that it expects a long period of tight monetary policy in the Russian Federation.

Talks about recession. In the Russian media, mainly business-oriented, there has been an increasing trend of talk about the possibility of a recession in the economy. Measures aimed at curbing inflation could put many enterprises in a difficult position, especially in segments not related to government orders or preferential programs. With each new increase in the key rate, the situation became increasingly severe for businesses that did not have privileges. And given the expected tough monetary, fiscal and macroprudential policies, the prerequisites are being created for the so-called "perfect storm" in the economy. If corporate and consumer spending is limited in addition to that, then instead of the expected growth in the Russian Federation's GDP in 2025, its decline may occur.

Despite the fact that the key rate was lowered twice in the first eight months of 2025, talk of a recession by the end of 2025 has not disappeared. On the contrary,

during one of the plenary panels at the St. Petersburg International Economic Forum in June 2025, the possible state of the Russian economy as a recession was discussed. During the discussion, ministers and the head of the RF's Central Bank argued about whether the current slowdown in the economy is a recession or simply a temporary cooling.

According to estimates by VTB, one of the largest banks in the Russian Federation, Russian GDP fell by 0.6% in the second quarter of 2025 compared to the first quarter. A similar drop of 0.6% occurred in the first quarter compared to the fourth quarter of 2024. Two consecutive declines in quarterly GDP are considered a sign of a technical recession.

Section 2. The RF budget and its implementation in 2025

Perhaps the best indicator of the state of the Russian economy is its budget. In the Russian Federation, the federal budget for 2025 was approved with revenues of about 40.3 trillion roubles and expenditures of about 41.5 trillion roubles, which provides for a deficit of 0.5% of GDP. In 2022–2024, the budget was implemented with a deficit: 0.1% of GDP in 2022, 1.7% of GDP in 2024 (although the planned deficit was 0.5% of GDP). The main priority of the 2025 budget is defense and national security with more than 40% of all expenditures allocated, which is a record-breaking figure. If to add expenses for closed items, this share will increase to 71%.

The first draft of the Russian budget provided for a deficit of almost 1.2 trillion roubles at the end of the year. However, in May 2025, the Russian government submitted to the State Duma and prepared for adoption an amendment to the federal budget for 2025 (although the budget revision in the Russian Federation was traditionally carried out around October), increasing its deficit from 0.5% to 1.7% of GDP and adjusting the revenue forecast due to falling oil and gas prices. These changes required the use of savings from the National Welfare Fund (to cover the deficit) and allowed for an increase in budget spending, in particular, on social needs

and payments to employees of federal institutions, as well as on transfers to the Pension and Social Insurance Fund.

A significant decline in global oil and gas prices in April-May 2025 led to a reduction in federal budget revenues, which was the main reason for the revision. While the first version of the budget assumed a price for Russian oil of \$69.7 per barrel, the revised budget reduced it to \$56 per barrel. Due to the drop in revenues, the projected budget deficit increased to 3.8 trillion roubles.

The amendments also provided for an increase in the total budget expenditures, in particular for the payment of salaries to employees of federal institutions and other social needs.

These changes meant that the Russian Federation would be able to finance more programs and payments than originally planned. However, it would have to apply to its financial reserve – the National Welfare Fund – to cover the costs. Data for the first seven months of 2025 showed, however, that even the updated parameters of the Russian Federation’s budget would most likely not be implemented. Thus, for the period from January to July, the only time when revenues exceeded expenditures was March.

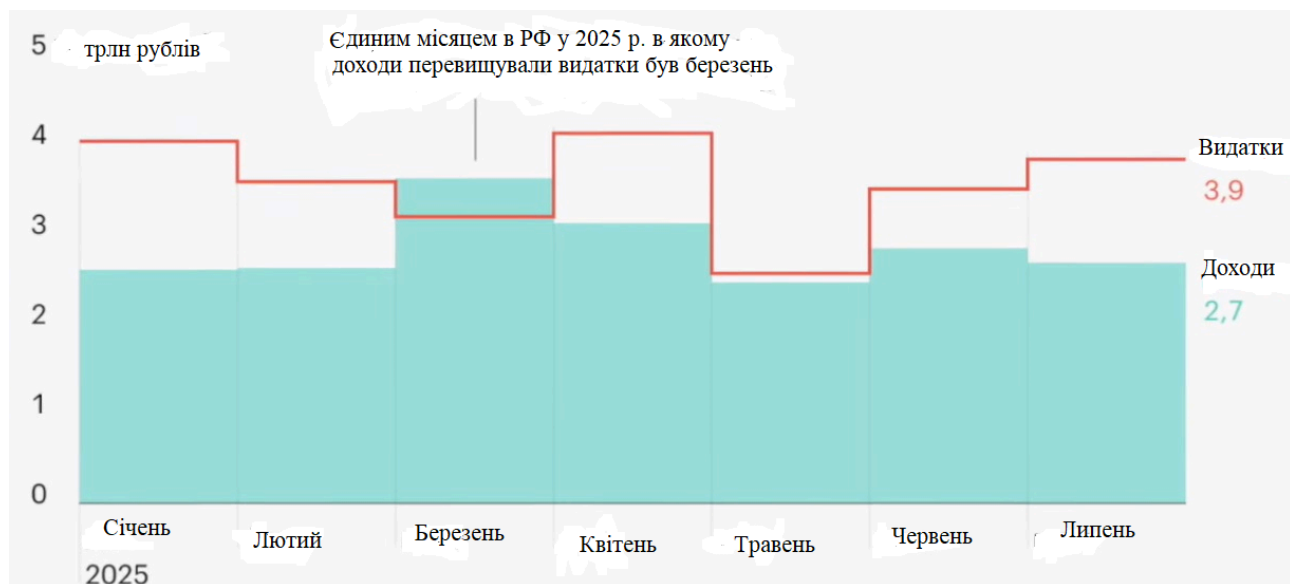


Figure 6. Monthly revenues and expenditures of the RF budget in January-July 2025.

Source: Ministry of Finance of Russia

In July 2025 alone, the Russian budget deficit amounted to 1.2 trillion roubles. That is, the same figure that was expected to be obtained in the first version of the budget for the twelve months of this year. In total, the Russian state budget deficit for seven months amounted to 4.9 trillion roubles. And given the dynamics of its increase, some analysts suggest that by the end of 2025 this deficit will amount to 8 trillion roubles. Maintaining current trends may lead to further growth of fiscal risks in the country.

In addition, the issue of covering this deficit is becoming increasingly acute. The revised budget states that the deficit will be covered by the National Welfare Fund. This is a significant problem, however, because in August 2025 there was a situation, for the first time in the history of the Russian Federation, when the liquid part of the National Welfare Fund was less than the budget deficit and amounted to 3.95 trillion roubles. That is, by almost 1 trillion roubles.

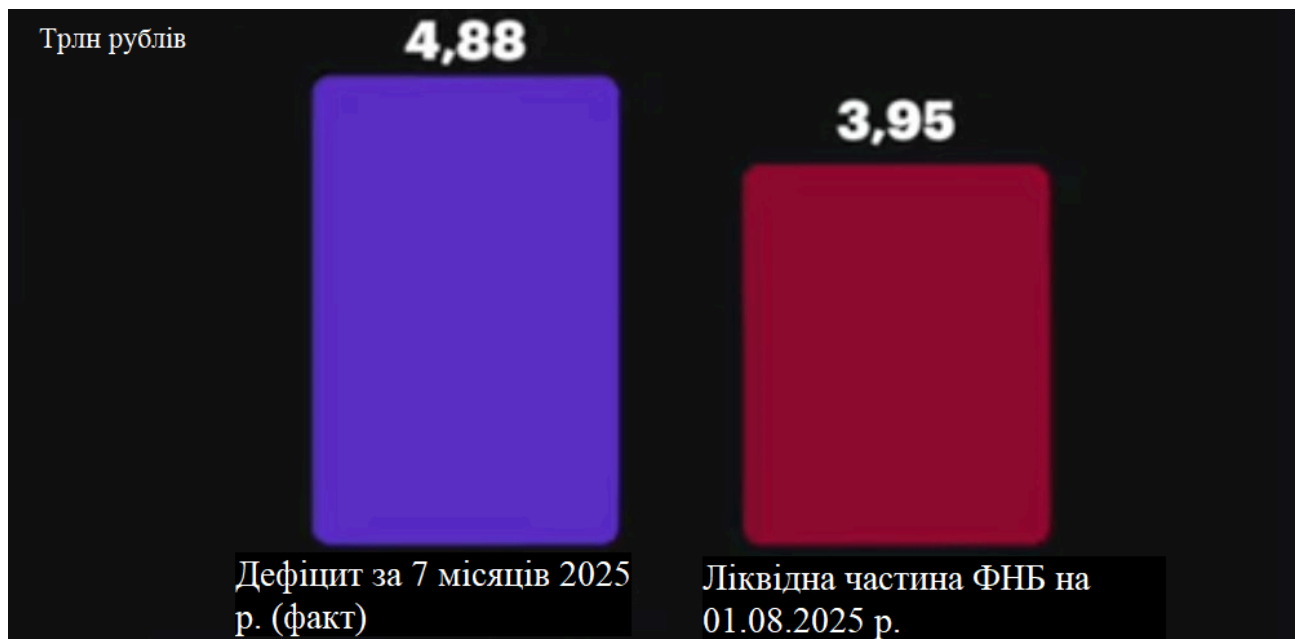


Figure 7. Ratio of budget deficit to the liquid part of the National Welfare Fund

Source: Ministry of Finance of Russia

Thus, already in the early autumn of 2025, the Russian government will be faced with the need to use rather unpopular solutions in order to save budget expenditures. From the normal logic point of view, the best option would be to reduce spending on national defense, which is already being directly discussed by more and

more representatives of financial and business circles. For the Russian Federation, this means, however, losing a full-scale war, so this option is excluded.

Therefore, other options may be on the table, such as non-payment of pensions (this has been discussed by representatives of propaganda circles in the Russian Federation, as well as individual businessmen), or reduction of wages in the budget sector (already now in the Russian Federation more and more enterprises are switching to a four-day work week instead of a five-day one. From the point of view of paying wages, this means that workers will receive 4/5 of their salaries).

There is also an option to reduce the cost of subsidies to sellers for selling fuel at prices not higher than those set by the state – the damper (the Russian budget has allocated 2.6 trillion roubles for this line item). However, such actions in September 2023 already led to the disappearance of fuel in some RF regions. And the information about the disappearance of fuel at gas stations in August 2025 suggests that the damper surcharges have been canceled again (especially considering the disappearance of fuel in the Russian Far East, where Ukrainian drones have not yet flown).

Finally, there are options to freeze deposits of Russian citizens in all banks throughout the country. According to various estimates, there are from 56 to 70 trillion roubles deposited in Russian banks. The USSR resorted to a similar measure in January 1991, which accelerated the processes of its collapse.

Of course, there is still the option of printing more money, but, as noted earlier in this report, the RF's Central Bank is already increasing the money supply, and therefore even greater amounts of its increase will lead not simply to inflation, but to hyperinflation.

Section 3. Selected indicators of the RF's financial sector

One of the signs of the phased degradation of the Russian economy is the decline in the commodity production sector, which is reflected in the decrease in the value of the Purchasing Managers' Index (PMI) from 50.2 in May to 47.5 in June this year. This PMI decrease was the third in the last four months and the largest since

March 2022, which is explained by the decline in consumer purchasing power and weak demand for goods from customers¹.

Despite the limited access to information on the state of the Russian economy, this information can be partly obtained from reports prepared by the Central Bank of the Russian Federation. Based on them, in May 2025, the volume of incoming payments through the payment system of the Central Bank decreased by 1.8% compared to the average level of the first quarter of 2025. It should be noted that, except oil products and public administration, revenues decreased by 0.9%. This situation is due to a significant decrease in global oil prices in May 2025. A decrease in incoming payments was recorded in all aggregated groups of industries.

Since the second half of 2024, there have been ongoing discussions in the Russian Federation regarding a reduction in the key rate of the Central Bank. On June 6, 2025, the Board of Directors of the Central Bank decided to reduce the key rate by 100 bp to 20% per annum. This decision was expected by some market participants, since weekly inflation rates in the Russian Federation, according to the Central Bank, continued to decline. The Central Bank believes that the Russian economy is gradually returning to a balanced growth trajectory, because domestic demand, as before, is outspeeding the possibilities for expanding the supply of goods and services.

According to the Central Bank, monetary conditions remained tight under the influence of the implemented monetary policy and other factors, primarily related to the significant level of ongoing geopolitical tensions. The impact of tight monetary conditions on demand in the Russian Federation was increasingly evident in the reduction of inflationary pressures.

The Central Bank has stated that it will pursue a tight monetary policy that is necessary to bring inflation back to the Central Bank's target by 2026. This implies a prolonged period of tight monetary policy. Further decisions on the key rate will depend on the speed and sustainability of the decline in inflation and inflation expectations.

¹ S&P Global Russia Manufacturing PMI®. URL: <https://www.pmi.spglobal.com/Public/Home/PressRelease/85b0e407e31744cca55fea9ea70f02d4>.

Most Russian market participants believe that the easing of state credit policy will occur in the second half of 2025. However, in the first half of 2025, the relatively high value of the key rate had a significant impact on the Russian economy.

It is worth noting that compared to the fourth quarter of 2024, the cost of credit risk in retail trade increased significantly and amounted to 3.6% (an increase of 1.5 percentage points), which is significantly higher than the historical average of 2%. The worsening of the situation is noted mainly in the consumer lending segment, where the volume of overdue loans is increasing.

There is a significant slowdown in the area of mortgage lending. Mortgages in the first quarter of 2025 decreased by one third to 0.6 trillion roubles from 0.9 trillion roubles in the fourth quarter of 2024. The difference is even more noticeable when compared to the second quarter of 2024, when issuance of mortgages amounted to 1.8 trillion roubles. At the same time, market mortgage issuance decreased by 66%, and state-supported mortgages - by 23%.

Despite the temporary increase in compensation for state-supported mortgages, some banks continued to charge commissions to developers, trying to further increase the margin of preferential mortgages. Such practices cause risks, which is why the Central Bank opposes banking products with commissions that lead to an overestimation of the cost of housing. It should be noted that the mortgage debt of the Russian population is 21.8 trillion roubles (approximately USD 277 billion).

The quality indicators of the mortgage portfolio has deteriorated somewhat, the share of bad loans grew by 0.2 pp. based on the results of the first quarter of 2025, reaching 0.9%. In order to directly limit the issuance of risky loans, the Central Bank for the first time set macroprudential limits in mortgages for the third quarter of 2025.

The share of distressed unsecured consumer loans continues to grow. In May 2025, it increased by 1.7 pp to 10.5%. This situation is due to the fact that loans issued in late 2023 - early 2024, in particular to new borrowers with no credit history and low debt loads, turn out to be distressed.

Distressed corporate loans, including loans to small and medium-sized enterprises and state entities, increased to 4.9 trillion roubles, and their share among

all distressed corporate loans grew from 5.8% to 6.1%, mainly due to the reduction of banks' corporate portfolios.

Risky restructurings increased by 15.4% to RUB 2.7 trillion. The increase is mainly due to the deterioration of the financial performance of borrowers whose loans have already been restructured. At the same time, debt on restructured loans increased by RUB 0.4 trillion and amounted to RUB 11.4 trillion.

There was also a 21% reduction in the issuance of loans for the purchase of cars. This dynamics is due to high loan rates and car prices. At the same time, car prices in the Russian Federation are expected to remain high in the near future due to plans for a further gradual increase in the scrappage fee.

In general, loans from the Central Bank in the first quarter of 2025 decreased by 36.4% compared to the beginning of 2025. According to the Central Bank's report, this dynamics was based on a lower need for banks for loans from the Central Bank, but it is quite likely that this figure was caused by the general deterioration of the Russian economy.

Separately, attention should be paid to the volume of Russian public funds on bank accounts that increased in the first quarter of 2025 by 0.4 trillion roubles. It should be noted that over the same period of the previous year, they increased by 1.6 trillion roubles. Despite significant tax revenues in March 2025, growth was restrained by unusually high budget expenditures in January and February 2025, in particular on advances for state contracts.

An important component of the RF's monetary and financial policy is the money emission. The annual growth rates of the money stock and broad money supply excluding currency revaluation in the RF in April 2025 decreased from 17% and 13.8% in March 2025 to 14% and 11.4%, respectively. Such a significant slowdown in the growth rate of the money supply in April compared to the previous month was largely due to the technical decrease in the annual contribution of budget operations due to the postponement of tax payments in 2024 from April to the first working days of May. According to a preliminary estimate, in May the annual growth rates of monetary aggregates (money stock - by 15.4%; broad money supply excluding

currency revaluation - by 12.7%) were above the level of April, but below the level of March 2025.

In May, the rouble strengthened slightly against major foreign currencies. The main factor supporting the rouble is the Central Bank's tight monetary policy. Its effects are manifested through restraining domestic demand, which leads to a reduction in imports and a high interest rate differential, which determines the attractiveness of rouble assets. In particular, in March, the population began to reduce foreign currency deposits in non-resident banks. The average monthly exchange rate of the rouble also demonstrated positive dynamics: in May, the rouble strengthened by 3.4% against the US dollar, by 2.8% against the euro, and by 2.2% against the yuan.

The real effective exchange rate of the rouble, calculated against the currencies of major foreign trade partners, strengthened by 2.8% in April compared to March 2025, and by 11.8% compared to April 2024. According to preliminary data for May 2025, the real effective exchange rate of the rouble strengthened by 4.8% compared to April and remains higher than its average value in recent years (19.6% higher than the average value for the period from January 2015 to May 2025).

It should be noted here that in recent times, criticism of the Central Bank for maintaining a strong exchange rate of the national currency has intensified in the Russian Federation. After all, under such circumstances, exporters of goods and services face additional difficulties, and the Russian budget receives less money from foreign economic activity.

The Russian stock market declined in May 2025. During this month, the index demonstrated mixed dynamics, fluctuating in the range between 2,700 and 2,935 points under the influence of geopolitical factors, the rouble exchange rate, oil prices, as well as reporting for the first quarter of 2025 and decisions of individual companies to pay dividends.

At the end of the month, the Moscow Exchange Index was at 2,828 points (3% worse than in the previous month). The volatility index also showed a decrease: at the end of May it was 38 points, which was 9 points lower than in April 2025. According to the results of May 2025, all sectoral indices of the Moscow Exchange showed

negative dynamics, except for the construction sector (4.3% increase compared to the previous month) and the electricity indices (0.4% increase compared to April 2025). This situation can be explained by the growth of developer shares after the instructions of the RF President to support organizations engaged in housing construction (which emphasizes the importance of this industry for the stability of the situation in the Russian Federation). The most significant declines were observed in the sectors of transport (a decrease in the corresponding index of 5.4% compared to the previous month), metals and mining (a decrease in the corresponding index of 6.8% compared to the previous month), and the consumer sector (a decrease in the corresponding index of 5.2% compared to the previous month).

Section 4. Labor market and social sphere

In the Russian Federation, 16% of the federal budget is allocated for social policy in 2025, which is approximately 6.4 trillion roubles, with a total expenditure of about 41.47 trillion roubles. This section includes spending on pensions and benefits, as well as on healthcare and education. Unlike previous years, in 2025, spending on the social sphere will be more than half the unprecedented military spending, which will reach 13.5 trillion roubles. Thus, in 2024, about 7.8 trillion roubles were planned for social policy in the Russian federal budget, which is approximately 21.1% of total budget expenditures. That is, despite inflation, spending on social policy was reduced by 1.4 trillion roubles.

The Russian labor market in the first half of 2025 is demonstrating, according to the RF Central Bank, signs of "cooling" after a period of overheating with a record low unemployment rate, but at the same time with a decrease in the number of new vacancies. It is noted that there is an acute shortage of qualified personnel, especially in IT, engineering, medicine and industry, which is why companies are forced to optimize staffing and increase salaries in order to retain employees. Among the challenges are the lack of young specialists and a significant shortage of personnel in the regions.

After a rapid increase in the number of vacancies in previous years, there is a decrease in their number in the first half of 2025, which indicates a moderate level of competition for jobs. In 2025, the unemployment rate remains at a record low level, but this is due not only to the growth in the number of employed, but also to the general shortage of labor. It is the labor shortage that has a significant impact on the Russian economy. There is an acute shortage of qualified specialists in key industries: IT, engineering, medicine, transport and construction. Further growth of the shortage is forecast until 2030.

According to the RF Central Bank, the indicator of human resource availability in the third quarter of 2024 reached another minimum in the entire history of observations in the Russian Federation and amounted to -33.6 points (based on the results of 2020, this indicator was -6.4 points). The lack of a significant number of personnel necessary for the functioning of the economy will negatively affect both the production indicators of various products and tax revenues to the Russian budget.

It should be noted that Russian businesses did not notice the signs of a “cooling in the labor market” reported by the Central Bank. Its leaders, discussing the key rate in March 2025, emphasized “signs of easing tension in the labor market”. However, a survey of 12.3 thousand businesses conducted in April 2025 showed that staffing levels in the first quarter of 2025 were again close to the lowest in the history of observations. This was stated by the Central Bank, which conducts such surveys every month.

Once a quarter, it asks about employee availability, reporting the difference between the share of those who have enough and those who do not. In January-March 2025, the share was -31.9 points - the worst indicator was only in the third quarter of 2024. At the end of 2024, the gap decreased to -31.2 points, but in 2025 it approached the historical minimum. Companies named the shortage of personnel as the second most important factor after the growth of costs, which limits their work. They even mentioned the lack of funds to finance working capital less often.

"There was a shortage of both highly qualified personnel and workers in labor jobs. According to the Central Bank, the most acute shortage of personnel continued

to be experienced by manufacturing enterprises that produce investment and consumer products".

Therefore, companies' hiring plans are growing again - after three quarters of decline. In April-June 2025, they were 8.9 (difference in answers) compared to 6.6 at the end of the year. Hiring plans are close to the first half of 2024 (10.3 in the first quarter and 9.1 in the second). They are growing almost everywhere - "in most industries, except for trade in motor vehicles and agriculture," the Central Bank notes.

In such conditions, businesses have no choice but to raise wages. To solve the problem of staff shortages and employee retention, companies are increasing labor costs, the Central Bank states. It has for the first time begun to publish data on the increase in labor costs expected by businesses in the next three months. On average, companies plan to increase wages by 1.6% in the second quarter of 2025.

At the same time, most of those surveyed do not plan to increase salaries in the next three months, but one of the reasons is that they have already increased them in January. Analysts surveyed by the Central Bank in April 2025 slightly lowered their forecast for salary growth this year: to 12.3% in nominal terms and 2.9% in real terms (12.6% and 3.2% in the March survey). However, the estimates of the personnel reserve have not changed: they still expect unemployment to be 2.5% on average in 2025. Labor market figures from the survey of businesses indicate the preservation of the employment rate, but less salary growth, which is quite understandable.

The Central Bank has often argued recently that the severity of the problems associated with the personnel shortage is decreasing. "The labor market remains tight, but there are more and more signs of a gradual decrease in tension", the participants in the discussion of the key rate noted. Unemployment, as before, is at a historical minimum, but its level is stabilizing; the share of companies experiencing personnel shortage continues to decline; vacancies are becoming fewer, and the number of resumes is increasing, they said. The labor market in February 2025 continued to gradually cool down, analysts at [@xtxixty](#) noted: unemployment froze at the lowest values in history, while labor supply for the first time since the summer of 2024 was equal to demand - before that, the demand was higher.

The survey conducted in April 2025 brought one piece of good news for the Russian Federation: companies noted that the shortage of qualified labor began to restrain their investment activity a little less. However, increasing costs remain among the top three reasons for rising costs for companies.

In addition, although employer activity is still growing, its pace has slowed compared to previous years. New specialties are emerging at the intersection of disciplines, such as neurointerface designer, digital linguist, genetic engineer, which will be needed in the near future, but for now require the combination of competencies from different fields.

Key challenges in the labor market are the shortage of young professionals (the number of employed people under 35 has significantly decreased), regional imbalances (some regions have extremely high unemployment rates), and the militarization of the economy (the economy's emphasis on the military field leads to a shortage of personnel in industry and a decrease in the return of specialists to civilian industries).

Overall, the Russian social sector is under pressure in 2025 due to increased military spending and reduced funding for other budget sectors, including education, healthcare, and science. Although the Russian economy still has sufficient resources to adapt, high inflation and the Central Bank's high key rate are expected, which could lead to further cuts in social programs and services, as well as a shortage of qualified specialists in the public sector.

In addition, the increase in military spending is forcing the Russian government to reduce funding for other areas, which leads to worsening the situation in budget-funded sectors such as education, healthcare and science. Insufficient funding may lead to a shortage of funds necessary to maintain an adequate level of social services and utilities. Also, the outflow of specialists from public sectors due to military operations may lead to a shortage of personnel in key social areas.

As for the impact of inflation and a high key rate on the social sphere, it is expected that high inflation and a double-digit key rate of the Central Bank will negatively affect real incomes of the population, reducing their purchasing power. In

the long term, the economy will be forced to adapt to new conditions, but this process may be accompanied with further cuts in social spending.

Section 5. Russia's primary needs for lifting sanctions

Despite the frequent statements that sanctions do not affect the Russian economy, Russian representatives constantly ask for the lifting of sanctions, and Russian markets primarily expect signals to lift or reduce the sanctions pressure on the Russian Federation. At the same time, due to the significant volume of sanctions imposed on the country, the list of the RF's priority needs is very significant. To some extent, the degree to which the Russian Federation needs the lifting of sanction restrictions can be understood from the offers that the Russian Federation made to the United States before the meeting of the US and Russian presidents in Alaska on August 15, 2025.

The very fact of the large volume of those such offers indicates how much sanctions are harming the Russian economy. From the large list of Russia's wishes, we will highlight the priority proposals for joint strategic projects, as follows:

1. Permit for the procurement of American civil aviation equipment (including wide-body passenger aircraft and medium-haul passenger aircraft) and components for them, including for the production of SSJ-100 and MS-21.

2. Supply of Be-200ES-E aircraft (PJSC "UAC") for extinguishing forest fires in a new import-substituted form (with subsequent work on certification of the Be-200ES aircraft by the relevant US body - the US Federal Aviation Agency) or the creation of a joint organization to form an international fleet for extinguishing fires on a commercial basis.

3. Organization of long-term supplies of titanium, as well as the resumption of the joint venture of the Boeing Corporation and the Russian PJSC "Corporation VSMPO-Avisma" - JSC "Ural Boeing Manufacturing". This requires exclusion from the list of controlled entities with the qualification "military end user" of the AS9100 standard.

4. Resumption of supplies of ferroalloys from Russia in order to reduce the dependence of the US economy on Chinese exports of relevant materials.

5. Integration into the chain of the radio electronics industry, which is being created in the United States, by providing the American market with a competitive raw material and component base, including within the framework of creating joint manufacturing of a component base for microelectronics and batteries (including for electric vehicles), as well as cooperation in the production of clean and inert gases, in exchange for access to the relevant products.

6. Implementation of joint projects (in a number of areas, Chinese manufacturers dominate the global market) in civil shipbuilding and the production of ship components, including for the expansion to the northern seas - for example, in the field of icebreaking fleet, tankers, large-tonnage merchant fleet, floating power units (USC JSC).

7. Localization of production of gas turbine equipment with a capacity of 300 megawatts and above (potential site – Russian Gas Turbines, a former joint venture with General Electric in Rybinsk).

8. Organization of joint manufacturing of mining equipment close to the Russian Federation - quarry hydraulic excavators, drilling equipment, self-propelled underground equipment.

9. Participation in the implementation of the US LNG project "Alaska LNG" (cost - USD 60 billion) based on the principles of financial and technological partnership.

The Russian Federation also has detailed proposals for negotiations within the framework of industrial cooperation with the US, which can be divided into two groups. The first includes the restoration of international cooperation mechanisms and the normalization of mutual economic relations. The second group includes proposals for the implementation of joint strategic projects.

Within the first group of proposals, the Russia has several subgroups

1) Restoration of financial and other interaction infrastructure, lifting of top-level restrictions:

- exclusion of Russian banks, financial institutions, logistics companies and enterprises from US sanctions lists (SDN Letters);

- connecting Russian banks to the SWIFT system or removing the Russian payment system from the US sanctions lists (SDN Letters);
- admission of American banks and financial institutions to the Russian market and permission to provide financial services (lending, insurance);
- exclusion of goods from US companies from "parallel imports";
- waiver of mutual claims to sanctions restrictions on both sides at the state and commercial levels after mutual lifting of restrictions;
- lifting of sectoral restrictions – for the radio electronics industry (on access to TSMC, advanced lithography equipment and CAD), for metallurgy (sectoral sanctions, abolition of prohibitive duties, as well as a ban on the import of Russian aluminum, copper, and nickel), sectoral sanctions on the civil aviation.

2) Intensification of trade and economic dialogue:

- resuming the activities of the U.S.–Russia Business Council;
- resumption of the activities of the Russian Trade Mission in the US (at the request of the US authorities, the activities of the Russian Trade Mission were suspended in 2017 with no access to its building).

3) Mutual opening of access to the markets of the two countries, which will consist in easing quantitative restrictions, import bans, and existing additional high tariffs, which, combined with the removal of top-level restrictions, will allow for the export to the US of sanctioned and non-sanctioned goods that are critically important for the American economy.

4) Creating conditions for doing US business in Russia:

- Special conditions within the framework of the SPIC mechanism (including regarding the movement of US companies' capital) when implementing counter-obligations, including in the form of reinvestment of partial profit and a certain degree of product localization;
- The possibility of acquiring European assets frozen in Russia (production sites in the automotive industry and mechanical engineering).

As for the second group,

1) Aviation industry:

1.1) Supply of Be-200ES-E aircraft (PJSC "UAC") for extinguishing forest fires in a new import-substituted form (with subsequent work on certification of the Be-200ES aircraft by the American aviation authority - the US Federal Aviation Agency (FAA)) or the creation of a joint organization with the aim of forming an international Be-200ES-E and Il-76) for extinguishing fires on a commercial basis.

1.2) Permit for the procurement of the US civil aviation equipment (including wide-body passenger aircraft, medium-haul passenger aircraft) and components for it, including for the production of SSJ-100 and MS-21 (only for the US systems (Goodrich Actuation Systems SAS, Rockwell Collins, Inc., B/E Aerospace, Inc. (as part of Collins Aerospace), the Russian side paid but did not deliver products worth more than USD 500 million, which is equivalent to 400 aircraft sets in absolute terms).

1.3) Certification of MRO centers and automotive equipment maintenance plants that perform Boeing maintenance and repair in Russia. Organization of a system of maintenance and repair of major systems and units near Russia.

1.4) Certification of organizations (designers) of aviation equipment, previously certified Boeing enterprises (Hamilton Standard-Nauka, VSMPO-Avisma, Ural Boeing Manufacturing, Boeing Moscow Engineering Design Center).

1.5) Localization in Russia of enterprises producing basic components for repair and maintenance of Boeing equipment with access to design documentation and production technologies, production of components for MS-21 and SSJ-100.

1.6) Creation of a stand for determining the torsional stiffness of aircraft tires (there are no such stands in Russia or China).

2) Metallurgy and rare earth metals (REE).

In 2023, the US Department of Energy presented a list of critical minerals for the energy sector, which includes: aluminum, cobalt, copper, dysprosium, electrical steel (with and without grain size preference, amorphous steel), natural graphite, neodymium, nickel, platinum, praseodymium, silicon, silicon carbide, terbium. These are minerals whose production in the US is insufficient to meet the needs of its own production.

2.1) Entry into 50-year offtake contracts for the supply of rare metals and rare earth elements to the United States from deposits developed in the Russian Federation, via the following forms of cooperation:

- Involvement of American companies in the establishment of rare earth oxide production facilities in Russia with localization of equipment;
- Participation of US partners at the stages of extraction, processing (including from phosphogypsum dumps: the Skygrad site, Korolev, planned capacity up to 500 tons/year; Solikamsk Magnesium Plant - possible expansion to 4 thousand tons/year) and product sales;
- Joint development of technologies for concentrating and processing of heavy REM ores.

For reference:

- Umbozersk section of the Lovozersk deposit (Murmansk region) – about 200 million tons of loparite ore (average loparite content 1.2–1.5%). Requires restoration of infrastructure and a concentrating plant.
- Alluvium – eudialyte ores with a high content of heavy REMs (gadolinium, terbium, dysprosium) and up to 12% zirconium. Reserves – 56.8 million tons (not approved by the State Commission).
- Kulyok area (Murmansk region) – brytholite ores with a content of up to 50% REM oxides, including the heavy group (yttrium). Reserves – 17 million tons of ore, 10.8 thousand tons of heavy REM oxides.
- Tomtor deposit (Yakutia) - the planned production capacity of the project is up to 3.5 thousand tons/year of praseodymium/neodymium oxides, up to 2.5 thousand tons/year of medium-to-heavy oxides in collective concentrate and up to 10 thousand tons/year of niobium in ferroniobium.

2.2) Implementation of joint projects in the aluminum industry in the event of the lifting of sanction restrictions (JSC Rusal).

For reference:

- construction of BoAZ-2 (Boguchansky Aluminum Plant, investment volume – \$600 million including VAT), Nyzhneboguchansk HPP (project budget \$1.2 billion including VAT);

- environmental modernization of the Krasnoyarsk Aluminum Plant (USD 1,170 million excluding VAT), the Bratsk Aluminum Plant (USD 1,212 million excluding VAT);
- construction of the Taishet Aluminum Plant, the 2nd series (TaAZ-2) (investment of USD 1.8 billion);
- construction of a new spreader foil rolling plant (Krasnoyarsk) with an investment volume of USD 250 million;
- construction of a new wheel factory (Krasnoyarsk) with an investment volume of USD 150 million;
- construction of a modern bank tape production facility (Krasnoyarsk) with an investment of USD 1 billion;
- construction of an aluminum plate production facility (Krasnoyarsk) with an investment of USD 160 million;
- construction of a wide-profile production facility (Krasnoyarsk) with an investment volume of USD 120 million.

2.3) Arrangement of long-term supplies of titanium, as well as the resumption of the joint venture of the Boeing Corporation and PJSC "VSMPO-Avisma Corporation" - JSC "Ural Boeing Manufacturing" (which requires exclusion from the list of controlled entities with the qualification "military end user"), as well as AS9100 certification).

2.4) Withdrawal of the application for an anti-dumping and countervailing duty investigation into the supply of unprocessed palladium and investments in the joint development of palladium production (PJSC Mining and Metallurgical Company "Norilsk Nickel").

2.5) Resumption of supplies of ferroalloys from Russia (in particular, ferrosilicon and ferrochrome) in order to reduce the dependence of the US economy on Chinese exports of relevant materials as a result of the actions of the Biden administration (potential export volume - USD 400 million).

3) Civil shipbuilding: Implementation of joint projects (Chinese manufacturers dominate the global market in a number of areas) in civil shipbuilding and production of ship components, including for the expansion to the northern seas - for example, in

the field of icebreaking fleet, tankers, large-tonnage merchant fleet, floating power units (JSC "USK", State Corporation "USK").

4) Machinery manufacturing:

4.1) Project to localize the production of gas turbine equipment with a capacity of 300 megawatts and above (potential site – Russian Gas Turbines, a former joint venture with General Electric in Rybinsk). For reference: Currently, 25 units of such gas turbines with a unit capacity of 260 to 400 MW and the total capacity of 7.3 GW, are operating in the Russian Federation with a mass end of life from 2027 (without service support from manufacturers), which will require the renewal of the fleet of these machines. Plus the resumption of supplies of original spare parts with mandatory repairs on the territory of the Russian Federation for 260 US-made gas turbines in operation.

4.2) Organization of joint manufacturing of mining equipment near the Russian Federation - quarry hydraulic excavators, drilling equipment, self-propelled underground equipment (excluding mining transport, the Russian mining equipment market is USD 2.5 billion; the potential partner is Caterpillar that owned Caterpillar Tosno2 LLC).

4.3) Participation in the implementation of the US LNG project "Alaska LNG" (cost - USD 60 billion) based on financial and technological partnership.

5) Development of a raw material and component base for the formation of a sovereign microelectronics industry in the United States in exchange for access to relevant products (including in Taiwan):

5.1) Organization of long-term supplies of rare earth elements for microelectronics.

5.2) Based on Russian rare earth metals, the creation of joint production of components for microelectronics - semiconductors and superconductors, batteries for radio electronics and electric vehicles (for example, for Tesla - currently the main supplier of lithium-ion batteries for this company is CATL, a Chinese manufacturer).

5.3) Development of joint projects for the production of pure and inert gases, which are in demand in the microelectronics industry (Sistema JSFC).

5.4) Development of joint projects for the production of special chemical components for the microelectronics industry (IREA Research Institute).

5.5) Development of joint projects for the production and processing of synthetic/technical diamonds for the radioelectronics industry and production facilities (JSC "Monokristal").

Interestingly, the Russian proposals conclude with the need to lift restrictions on issuing licenses to the US importers for importing Russian-made cartridges for sporting and hunting weapons, which should be considered an attempt by the Russian Federation to establish cooperation with the US in the military sphere.

An analysis of the above-mentioned proposals by the Russian Federation demonstrates how important the lifting of sanctions is. Moreover, a significant proportion of these proposals are of a pronounced anti-Chinese nature.

Conclusions

1. The main problem of the Russian economy is the rapidly growing budget deficit. Moreover, since the beginning of the second half of 2025, the increase in the deficit has accelerated. Maintaining this trend will require very unpopular steps from the Russian government, namely stopping pension payments, reducing wages, nationalizing citizens' money in bank accounts, and even greater money emission.

2. In the next few years, the growth rate of the Russian Federation's real GDP is expected to slow down, and its indicators will be within the limits of statistical error. Therefore, it can be assumed that the Russian economy may face the threat of stagflation, and even recession in the Russian Federation is not excluded, in particular due to a significant increase in the financing of the war against Ukraine, tax increases, labor shortages, accelerating inflation, an increase in the key rate of the Central Bank, problems with attracting investments and technologies, risks of excessive indebtedness of enterprises, etc.

3. At the end of 2024, the devaluation trends of the Russian currency, the Russian rouble, were stabilized, the exchange rate of which, although slightly strengthened, nevertheless demonstrated possible reduction of its value in the short term.

4. Since the beginning of the full-scale war, money emission has significantly accelerated in the Russian Federation, which contributes to expected increase in the level of inflation. Given the negative trends in the economy, weekly inflation rates in the RF have been steadily increasing.

5. In order to curb inflation, the RF Central Bank was forced to increase the key rate eight times since July 2023. Despite these steps, however, there is a high probability of its further increase.

6. An increase in global oil production and a decrease in global oil prices is expected, and therefore a shortfall in budget revenues that the Russian Federation hopes for in 2025.

7. Given the increasing share and role of non-oil and gas revenues in the Russian budget, it is considered appropriate to strengthen the sanctions policy and export control over other sectors of the Russian economy and sources of this revenue part of the Russian budget, along with the oil and gas and financial sectors.

8. Under the pressure of sanctions and export controls, the militarized economy of the Russian Federation continues to degrade. The tight monetary policy that the Central Bank uses to reduce inflation is also holding back economic growth. In the near term, monetary conditions in the Russian Federation will remain tight, and a relatively insignificant reduction in the Central Bank's key rate will not have a significant impact on the parameters of the Russian economy.

9. There is a significant slowdown in the area of mortgage lending, which can be considered as prerequisites for a crisis in the country's construction industry and the emergence of a significant number of unemployed.

10. Economic turmoil in the Russian Federation has also led to large mortgage debt among the Russian population (in the amount of 21.8 trillion roubles or approximately USD 277 billion), as well as the share of corporate and distressed unsecured consumer loans.

11. A stable trend towards increasing the money supply has been established, which creates the basis for accelerating inflation in the RF in the near future.

12. Despite Russia's statements that sanctions do not affect its economy, at every opportunity Russia asks to have these sanctions lifted. Moreover, the list of its priority requests is quite significant.

13. An analysis of the Russian Federation's proposals to the United States aimed at lifting sanctions against it has a noticeable anti-Chinese rhetoric, which indicates the RF's desire to minimize its dependence on China.

14. The social sphere in the Russian Federation will face challenges caused by the redirection of resources to military needs, which may negatively affect access to quality social services and the lives of citizens.