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Russian fiscal space – In-depth analysis of Russian public debt, constraints to medium-term sustainability, and macroeconomic consequences

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Marek Dabrowski

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List of abbreviations

BoR	Bank of Russia
CBIE	Central Bank Independence Extended
CIT	corporate income tax
CNY	Chinese yuan
COVID-19	Coronavirus Disease 2019
CPI	Consumer Price Index
EU	European Union
EUR	Euro
GDP	gross domestic product
G7	Group of Seven
GFC	global financial crisis
GFS	Government Finance Statistics
GG	general government
IMF	International Monetary Fund
MoF	Ministry of Finance (of the Russian Federation)
NWF	National Wealth Fund
OFZ	*obligatsyii federal'nogo zaima* (federal government's bonds)
OKVED2	Russian Classification of Economic Activities – version 2
OPEC	Organisation of Petroleum Exporting Countries
QFO	quasi-fiscal operation
PIT	personal income tax
Rosstat	Federal State Statistics Service
RUB	Russian rouble
SIPRI	Stockholm International Peace Research Institute
SMEs	small and medium-sized enterprises
SWF	sovereign wealth fund
SWIFT	Society for Worldwide Interbank Financial Telecommunication

US	United States (of America)
USD	United States dollar
VAT	Value Added Tax
WEO	World Economic Outlook

About the Author

Marek Dabrowski is a Non-Resident Fellow at Bruegel, Brussels, and Fellow at CASE – Center for Social and Economic Research in Warsaw. He was a co-founder of CASE (1991), Chairman of its Supervisory Council and President of the Management Board (1991–2011), Chairman of the Supervisory Board of CASE Ukraine in Kyiv (1999–2009 and 2013–2015), Professor at the Higher School of Economics in Moscow (2014-2022), Visiting Professor at the Central European University in Vienna (2023–2024), and Member of the Board of Trustees and Scientific Council of the E.T. Gaidar Institute for Economic Policy in Moscow (1996–2016). He also held positions of the First Deputy Minister of Finance of Poland (1989–1990), Member of Parliament (1991–1993) and Member of the Monetary Policy Council of the National Bank of Poland (1998–2004). He has been involved in policy advising and policy research in Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Egypt, Georgia, Iraq, Kazakhstan, Kyrgyzstan, Moldova, Mongolia, Montenegro, North Macedonia, Poland, Romania, Russia, Saudi Arabia, Serbia, Somalia, Syria, Turkmenistan, Ukraine, Uzbekistan and Yemen, and international research related to monetary and fiscal policies, growth and poverty, currency crises, European integration, and the political economy of transition. He has also worked as a consultant in the EU, World Bank, IMF, UNDP, UNICEF, OECD, GIZ and USAID projects. Member of the Academia Europaea (since 2020).

Abstract

In 2022–2025, the Russian economy and public finances demonstrated a high level of resilience despite the increasing costs of the war in Ukraine and the extensive economic and financial sanctions imposed on Russia by the coalition of Western countries. Fiscal accounts, though under strain, remained under control. However, after more than three years of war, the associated fiscal and quasi-fiscal costs have grown significantly and started to challenge macroeconomic and financial stability. Inflation has now long been well above the BoR target of 4% annually. The high growth rates in 2023–2024, fuelled by war-related public spending and a corporate credit boom, have decelerated in 2025 due to capacity constraints. Nevertheless, the Russian government still has some room for fiscal manoeuvres in 2026 and (depending on oil price developments). It has some fiscal reserves (NWF liquid assets), can increase domestic borrowing, and may seek to raise non-hydrocarbon taxation, for example, by eliminating various tax exemptions. However, all these means of adjustment have a limited scope.

JEL codes: E31, E58, F51, H56, H62, H63, H81

Key words: war in Ukraine, Russia, public finances, war expenditure, hydrocarbon revenue, non-hydrocarbon revenue, fiscal deficit, public debt, quasi-fiscal operations, inflation

1. Introduction

The Russian economy has performed better than many expected since the start of the war of aggression against Ukraine in February 2022 (Dabrowski, 2023a). Following the initial shock caused by the unprecedented package of Western[1] economic and financial sanctions against Russia, its economy quickly returned to the path of economic growth. According to the October 2025 database of the World Economic Outlook (WEO) of the International Monetary Fund (IMF), a mild decline of gross domestic product (GDP) by 1.4% in 2022 was followed by growth of 4.1% in 2023 and 4.3% in 2024. However, inflation well above the Bank of Russia's (BoR) declared target (4%), coupled with increasing fiscal tensions, represents two serious macroeconomic vulnerabilities.

Despite high BoR key interest rates, inflation has consistently remained well above the BoR inflation target (4%). It reached 9.5% in December 2024 and 10.3% in March 2025, then went down to 9.4% in June 2025 and 5.6% in December 2025.

At first glance, the fiscal situation does not look bad. According to the IMF WEO database, October 2025 edition, the general government (GG) deficit amounted to 1.3% of GDP in 2022, 2.2% in 2023, and 1.6% in 2024. These are relatively low figures compared to both advanced economies and many emerging markets. The same opinion may relate to GG's gross debt,[2] which amounted to 18.5% of GDP in 2022, 19.5% in 2023, and 20.3% in 2024 – slightly higher than the 2021 level of 16.5%.

However, due to the sanctions, high inflation, and limited trust in the rouble (RUB) and the Russian financial system, the Russian government faces limited access to both international and domestic debt markets. High yields for zero-coupon federal government bonds (*obligatsyii federal'nogo zaima* – OFZ), which fluctuated between 14% and 16% (depending on maturity) in December 2025,[3] highlight sovereign borrowing constraints.

Against this background, the purpose of this study is to analyse the actual fiscal space in the Russian economy in the short-to-medium term, in the context of the ongoing war in Ukraine. Such an analysis is important for at least two interrelated reasons: (1) assessing the prospects for macroeconomic stability of the Russian economy in wartime conditions (which may also impact social and political stability); and (2) assessing financial capacity to continue the war against Ukraine.

Another goal of the research is to explore contradictory expert views on the macroeconomic and fiscal situation in Russia. On the one hand, opinions have been expressed both inside and outside Russia that it has ample macroeconomic and fiscal space to continue the war for the next couple of years, due to its low public debt, current account surplus, and ability to raise taxes further, among other factors (see, e.g. Aleksashenko et al, 2024). The capacity to withstand the unprecedented package of Western sanctions and serve the war machine is seen as evidence of the flexibility and resilience of Russia's market economy (Libman, 2024).

[1] By the West we mean the United States (US), the European Union (EU), other Group of Seven (G7) countries and their closest allies.
[2] Net debt data unavailable.
[3] See https://cbr.ru/hd_base/zcyc_params/

On the other side of the spectrum, there have been expert views (see e.g. Becker, 2024) arguing that Russia's economic situation has been deteriorating rapidly, and is worse than suggested by the official statistics. It is on the verge of a serious macroeconomic crisis.

Our position, presented in this study, lies between these two extreme judgments and resembles those of *The Economist* (2024), Bunzel and Ribakova (2024), and Aslund (2025).

The working hypothesis that we strive to validate in this study is that Russia's fiscal situation has been gradually deteriorating due to the increasing costs of war (not only direct military expenses), and is the country's most serious macroeconomic challenge. Looking ahead, Russia's fiscal space will be determined mainly by two factors: the dynamics of war-related expenditure and oil-related revenues. The former will depend on domestic political decisions concerning the continuation of war and its intensity, and the latter – largely on global market conditions and the decisions of the Organisation of Petroleum Exporting Countries (OPEC) and its associates (OPEC+). Overall, at the time of this study's completion (early July 2025), and its updating (December 2025 – January 2026), and given the available global macroeconomic forecasts for 2026, Russia's fiscal situation still appears manageable in the short term, which will allow it to continue the war for some time.

Our study is divided into six chapters. Chapter 2 analyses the institutional settings related to macroeconomic policymaking in Russia (BoR legal and actual independence, fiscal rules, and the role of the National Wealth Fund (NWF)). Chapter 3 presents a brief overview of the macroeconomic and fiscal situation in Russia between 2014 and 2021, that is, between the first stage of Russia's aggression against Ukraine (the annexation of Crimea and instigation of the separatist rebellion in Donbas) and the beginning of the full-scale war in February 2022. Chapter 4 is devoted to the main part of our analysis – Russia's macroeconomic and fiscal situation during the full-scale war. In Chapter 5, we discuss short-to-medium-term macroeconomic and fiscal prospects based on alternative scenarios of Urals oil prices and war-related expenditures. Chapter 6 offers a summary and conclusions from our analysis.

The study primarily uses an analytical narrative based on simple statistical analysis, particularly in Chapters 3–5. The discussion of short-to-medium-term fiscal and macroeconomic prospects is based on a simplified scenario analysis.

The analysis is conducted using the available Russian and international data sources and literature. This imposes some constraints on the suggested scope of the analysis. While the official Russian statistics provided by the Federal State Statistics Service (Rosstat), BoR and Federal Ministry of Finance (MoF) were generally of good professional quality and were regularly published before the war, the situation changed after the outbreak of war in February 2022. Some publications and releases were discontinued, while others became less frequent and less detailed.

Some experts question the correctness of Russia's statistical information during the war. For example, at the end of 2024, there was a heated debate about the supposed underreporting of inflation by Rosstat, against higher price indices published by a private market research company, ROMIR (SITE, 2024; Becker, 2024; The Economist, 2024). However, a closer analysis suggests that ROMIR's indices[4] are incompatible with the Rosstat-computed consumer price index (CPI) due to a narrower survey base (only large and medium-sized cities) and different methods of data collection (such as a household budget survey rather than a comparison of representative consumer price baskets over time). Furthermore, a consistency check carried

[4] https://romir.ru/index

out by Simola (2024a) concludes with the opinion that "…*the relationship and explanatory power has remained high for various statistical series related to consumption and provided by Rosstat. This may indicate that these data have been and remain quite accurate*." According to the same author, the fiscal statistics provided by the MoF are more questionable. We will revisit this matter in Chapter 4.

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2. Institutional settings related to macroeconomic policymaking

This chapter analyses institutional settings related to monetary and fiscal policies: legal and actual independence of the BoR; monetary regime (Section 2.1); fiscal rules (Section 2.2); and the NWF (Section 2.3).

2.1 Bank of Russia's independence and monetary regime

The mission, tasks, and institutional settings of the BoR are determined by Article 75, paragraphs 1 and 2 of the Constitution of the Russian Federation,[5] and Federal Law No. 86-FZ of 10.07.2002 on the Central Bank of the Russian Federation (Bank of Russia), as subsequently amended.[6]

According to Article 75(2) of the Constitution, ensuring *the protection and stability of the rouble* is the main function of the BoR, which "…*it carries out independently of other government bodies*." The principle of BoR independence is reiterated in Article 1 of Federal Law No. 86-FZ.

However, other provisions of this law are not necessarily consistent with the above principle. For example, according to its Article 4(1), the BoR develops and implements monetary policy in cooperation with the federal government.

Articles 12–13 establish the National Financial Council – comprising representatives of both chambers of the Federal Assembly, the President, and the federal government – which performs various supervisory functions. For example, it can submit a proposal to the State Duma (the lower house of the Federal Assembly) to request that the Accounting Chamber of the Russian Federation review the BoR's financial and business activities.

Article 14 sets out a broad range of grounds for dismissing the Chairperson (Governor) of the BoR before the end of their five-year term.

The BoR is also responsible for financial regulation and supervision (of banks and non-banking financial institutions), macroprudential regulation, the national payment system, foreign-exchange regulation and control, and many other tasks. Such a broad mandate, including numerous tasks that fall within the domain of the executive branch of government, may not be conducive to maintaining political and institutional independence, and at times clashes with the primary mission of ensuring price and ruble (RUB) stability (see Cukierman, 1998).

The Central Bank Independence Extended (CBIE) Index,[7] developed by Romelli (2022; 2024), which builds on the experience and methodology of Grilli et al. (1991) and Cukierman et al. (1992), gives the BoR a medium-range score of 0.57 (which remained unchanged from 2007 to 2023), on a scale from 0 (no independence) to

[5] See http://www.cbr.ru/StaticHtml/File/95895/75.pdf

[6] See https://www.consultant.ru/document/cons_doc_LAW_37570/b4462d67983458f852997a29344a8d8cb4cc611e/

[7] The CBIE is a composite index that includes, among other things, the procedures for appointing the CB governor and board (or monetary policy committee), the setting of monetary policy goals and operational decisions, limitations on lending to government, financial independence, and reporting and disclosure practices.

1 (full independence). This appears to be consistent with our own analysis of the constitutional and legal provisions that govern the BoR's functioning (see above). This score is below that of most central banks in Central and Eastern Europe, the US Federal Reserve Board (0.61), and the European Central Bank (0.91).

However, the legal independence computed by the CBIE Index (and similar metrics) can differ from the actual independence determined by the political stance of the major political forces towards central bank independence, and by political practice. Consistent adherence to constitutional and legal provisions aimed at guaranteeing central bank independence may be a problem in autocratic countries where respect for the rule of law is at a low level.

Viewed from this perspective, the assessment of the BoR's actual independence is mixed. Its deep involvement in financial regulation and supervision since the global financial crisis (GFC) of 2008–2009, including commercial bank rehabilitation, restructuring and nationalisation, made it a de facto part of the executive branch of government. The same applies to the BoR's role in building a national payments system, adopting retaliatory measures against countries that imposed sanctions on Russia, and crisis management – especially after the beginning of the full-scale war in Ukraine (Dabrowski and Avdasheva, 2023).

On the other hand, a distinctive feature of the BoR is the personal stability of its leadership. Since 2002, it has had only two governors (Sergei Ignatiev, 2002–2013, and Elvira Nabiullina since 2013), both enjoying esteemed professional reputations. It does not finance the fiscal deficit or public debt (see Section 4.7). Its crisis management activities in 2022, following the adoption of far-reaching Western financial sanctions against Russia, were broadly praised for their high professionalism (see e.g. Gorodnichenko et al., 2024). Its anti-inflationary monetary policy has not been questioned by the country's political leadership, and the BoR Governor and Board of Directors seem to have enjoyed real decision-making autonomy in this area.

In November 2014, the BoR officially declared an inflation-targeting strategy as its monetary policy framework. Since 2016, the official inflation target has been 4%, although only rarely has this target been met (see Section 4.4 and Figure 4.4.1). However, the actual monetary policy regime has been quite far from genuine inflation targeting, mainly due to frequent BoR interventions in the foreign exchange market. Despite declaring a free float (IMF, 2022b), which implies no interventions and stable levels of central bank international reserves, the actual regime was based on a heavily managed float (see Sections 4.3 and 4.4).

2.2 Fiscal rules

The first domestic fiscal rule (*byudzhetnoe pravilo*) was adopted in 2003 by the amendment to Federal Law No. 145-FZ of 31 July 1998 on the Budget Code of the Russian Federation.[8] It entered into force at the beginning of 2004.[9]

Like in many commodity-exporting countries, Russia's fiscal rule has been linked to the export prices of hydrocarbon resources and the Stabilisation Fund, the Russian version of a sovereign wealth fund (SWF), which has accumulated hydrocarbon revenue surpluses (see Section 2.3). Given the dominance of oil rent (see Sections 4.2 and 4.4.2), the benchmark oil price (*cena otsecheniya*, cutoff price in Russian terminology)

[8] See https://ivo.garant.ru/#/document/12112604/paragraph/159413309:2

[9] Between 1992 and 1999, Russia was subject to IMF fiscal conditionality tied to successive IMF loans; this may be considered a form of externally imposed short-term fiscal rules.

has become a key parameter in this rule. It stood at US dollar (USD) 20 per barrel in 2004, and was raised several times in the subsequent years (Afonin, 2025).

Looking back, the purpose of adopting such a fiscal rule was twofold: (1) to avoid overspending oil-related revenue in times of boom and create a fiscal buffer for "rainy" days; (2) to avoid the so-called Dutch disease, that is, excessive RUB appreciation driven by high oil and natural gas prices. The first consideration was motivated by the memory of fiscal and balance-of-payments crises of the late Soviet period, triggered – among other things – by the collapse of world oil prices in the second half of the 1980s and the fiscal disequilibria of the 1990s, which led to a fiscal and financial crisis in 1998–1999. The second was constantly present in Russia's macroeconomic policy, but due to the asymmetry in its adoption (preventing excessive appreciation in good times while allowing the RUB to depreciate deeply in times of distress), it limited the effectiveness of anti-inflationary policies (see Chapter 3 and Sections 2.1, 4.3 and 4.4).

The subsequent modifications of the fiscal rule were not limited to updating the benchmark oil price. In 2017, an expenditure rule was explicitly added, stipulating that the federal budget's primary expenditure (total expenditure without debt servicing costs) could not exceed the sum of non-oil revenue and oil revenue up to the level of the benchmark oil price. The oil revenue surplus (above the benchmark price) was to be allocated to the SWFs. The benchmark price was set at USD 40 per barrel, subject to annual indexation by 2% (Afonin, 2025).

Following the outbreak of war in Ukraine (2022), the fiscal rule was suspended. It was reinstated at the end of 2023, in a new form. The new Urals oil price benchmark was set at USD 60 per barrel, to be indexed by 2% annually from 2027.

Article 96.6 of the Budget Code also specifies benchmark export prices for hydrocarbons other than crude oil:

- USD 250 per 1,000 cubic meters of natural gas (to be indexed by 2% annually from 2027)
- Benchmark prices for export alternatives of motor gasoline AI-92, class 5, and diesel fuel, class 5

However, because these exports make only a limited contribution to hydrocarbon rent and budget revenue (see Subsection 4.6.2), their benchmark prices play a lesser role in fiscal management.

Another measure introduced at the end of 2023 granted the MoF the right to decide each month which part of the hydrocarbon revenue would be allocated to the NWF and which would finance current spending, depending on the difference between planned and actual revenue, while disregarding the actual Urals price. In other words, the fiscal rule has become a discretionary instrument of current budget management, which is quite far removed from its original purpose when introduced in 2003.

A three-year budget planning horizon (budget plan for the forthcoming year + indicative budget indicators for the next two years)[10] is another institutional attempt to discipline public finances and provide a longer time horizon for both budget beneficiaries and budget management. However, with the increasing frequency of global and regional economic shocks and the ongoing war, which have caused heightened volatility of economic variables and uncertainty, the benefits of medium-term budget planning have diminished.

[10] See Article 169(3) of the Budget Code - https://ivo.garant.ru/#/document/12112604/paragraph/1166:0

2.3 National Wealth Fund and its institutional settings

As mentioned in Section 2.2, the first Russian SWF, known as the Stabilisation Fund, began operations on 1 January 2004. In 2008, it was split into two funds: the Reserve Fund and the NWF. The Reserve Fund was depleted in the period of falling commodity prices from 2014 to 2016 and was closed at the end of 2017. The NWF has continued to operate, and its activities are regulated by Articles 96.10–96.12 of the Budget Code.[11]

The purpose of the SWFs was to accumulate surplus hydrocarbon revenues (see Section 2.2) and save them for "rainy days." And, indeed, such a role was played during the GFC (2008–2009), the commodity price slump (2014–2016), the COVID-19 pandemic (2020), and the war in Ukraine (from 2022). Between these crisis episodes (2011–2012, 2018–2019, and 2021), SWF assets were partially replenished. However, the periods of favourable fiscal situation were shorter and not as good as those between 2004 and 2007.

Originally, SWF assets were invested primarily in foreign liquid assets denominated in major global currencies such as the USD and euro (EUR). However, over time – and especially since the 2008 reform – the NWF has increasingly invested its assets in a range of domestic projects. These investments can be considered a form of QFO (see Section 4.9; and Box 4.9.1); they reduce the transparency of the budget process and fiscal accounts, and may contradict the original purpose behind establishing the fiscal rule and creating the SWF – namely, smoothing the business cycle and avoiding overspending in good times. Even more importantly, they led to a substantial reduction in the NWF's liquid assets precisely when those assets were needed to finance rapidly growing war-related spending, that is, from 2022 onward (see Section 4.8).

Another blow to the liquidity of NWF assets was delivered by the Western financial sanctions imposed in March 2022, which immobilised those held in Western markets. This prompted a shift in the NWF's investment pattern: since 2022, it has only been able to allocate its liquid assets in Chinese yuans (CNY) and gold,[12] rather than in the currencies of "unfriendly" countries such as USD, EUR, Japanese yen, British pound, and Swiss franc. However, CNY and gold are, by their very nature,[13] less liquid than the USD or EUR. In addition, the NWF can hold its assets in RUB when financing domestic investment projects.

[11] See https://ivo.garant.ru/#/document/12112604/paragraph/5908:0
[12] Allocated in a proportion of 60% in CNY and 40% in gold.
[13] The CNY is not fully convertible due to remaining capital controls in China.

3. A brief overview of the macroeconomic and fiscal situation in Russia in 2014-2021

The period from 2014 to 2021 featured two major macroeconomic crises. The first (2014–2016) was triggered by a sharp decline in global commodity prices, particularly oil (Figure 3.1) and by the first stage of Russia's aggression against Ukraine (the annexation of Crimea in March 2014, and the Donbas rebellion from April 2014) followed by the first round of Western sanctions and Russian countersanctions (Dabrowski and Avdasheva, 2023). The second, global in nature, came with the outbreak of the COVID-19 pandemic in early 2020. Between these two shocks (2017–2019), the Russian economy experienced modest growth, driven by a partial recovery in commodity prices and adaptation to the sanctions regime. As in many other countries, GDP rebounded quite strongly in 2021 following the relaxation of lockdown measures (Table 3.1).

Table 3.1 Russia: Basic Macroeconomic Indicators, 2014–2021

Indicator	2013	2014	2015	2016	2017	2018	2019	2020	2021
GDP, constant prices (annual % change)	1.8	0.7	-2.0	0.2	1.8	2.8	2.2	-2.7	5.9
Total investment (% of GDP)	23.3	22.4	22.1	23.1	23.6	21.9	22.7	23.5	23.0
Gross national savings (% of GDP)	24.7	25.2	27.1	25.0	25.7	28.9	26.5	25.8	29.8
Inflation, e-o-p consumer prices (% change)	6.5	11.4	12.9	5.4	2.5	4.3	3.0	4.9	8.4
Inflation, average consumer prices (% change)	6.8	7.8	15.5	7.0	3.7	2.9	4.5	3.4	6.7
Unemployment rate (% of total labour force)	5.5	5.2	5.6	5.5	5.2	4.8	4.6	5.8	4.8
GG revenue (% of GDP)	33.5	33.9	31.9	32.9	33.4	35.5	35.7	35.2	35.7
GG total expenditure (% of GDP)	34.7	34.9	35.3	36.6	34.8	32.6	33.8	39.2	34.9
GG net lending/borrowing (% of GDP)	-1.2	-1.1	-3.4	-3.7	-1.5	2.9	1.9	-4.0	0.8
GG gross debt (% of GDP)	12.3	15.1	15.3	14.8	14.3	13.6	13.7	19.2	16.5
Current account balance (% of GDP)	1.5	2.8	5.0	1.9	2.0	7.0	3.9	2.4	6.8

Source: IMF WEO database, October 2025

As a result of the first shock, real GDP declined by 2% in 2015, following a near-stagnant performance in 2014 (+0.7%). This was followed by another stagnant year, 2016, when real GDP grew by only 0.2%. The next three years brought a modest recovery: 1.8% in 2017, 2.8% in 2018, and 2.2% in 2019. The COVID-19 shock in 2020 had a relatively modest impact compared to other advanced and emerging economies. Real GDP contracted by only 2.7%, followed by a strong rebound (+5.9%) in 2021.

Interpreting the above growth performance in terms of the impact of international sanctions imposed on the Russian economy in 2014–2015 (and Russia's retaliatory measures) is not an easy task.

The 2014–2015 Western economic sanctions were relatively limited in scope. They included a ban on medium- and long-term financing for the largest state-owned banks and companies, as well as a ban on trade in military and dual-use equipment and certain oil exploration and production equipment and services. In addition, trade with the annexed Crimea – including tourism, travel, and communication services – was prohibited, along with the use of Crimean ports and engagement in investment activity in the region. Political, diplomatic, and personal sanctions played a more substantial role. In response, the Russian government imposed a ban on most food imports from the US, EU, and other Western countries that had sanctioned Russia (Dabrowski and Avdasheva, 2023). These measures resulted in only limited welfare losses for Russian consumers (Volchkova et al., 2018).

Early projections of the sanctions' economic impact, both within Russia (e.g. Gurvich and Prilepskiy, 2015) and abroad (e.g. Kholodilin and Netsunajev, 2016), predicted output losses of between 1 and 2 percentage points of GDP annually, significantly higher than the losses actually observed, which were estimated at 0.2 percentage points annually (IMF 2019, p. 58; Pestova and Mamonov, 2019).

Of course, the 2014–2015 sanctions and countersanctions harmed long-term growth prospects by initiating a partial decoupling of Russia from the global economy, particularly its most advanced economies. They also contributed to growing government interference in business activity and to the suspension of market-oriented reforms. In addition, the sanctions were used to justify import substitution and other forms of inward-oriented industrial policy (Dabrowski and Avdasheva, 2023).

Increasing government interventionism was the main factor behind slower economic growth in the 2010s compared with the previous decade. However, the shrinking working-age population played an even more significant role in explaining the downward growth trend in the Russian economy (Dabrowski, 2019).

Returning briefly to the 2014–2016 macroeconomic crisis, the decline in global commodity prices – especially oil – appears to have played a key role, while the impact of sanctions was secondary. Russia's real GDP is closely linked to natural resource rent (see Section 4.3 and Figure 4.3.1). A decline in that rent during periods of low commodity prices negatively affects all GDP components: private consumption, government consumption, investment, and net exports (except for 2015).

Figure 3.1 Urals oil price, USD per barrel (blue line, rhs Y-axis) vs. RUB/USD exchange rate (green line, inverted scale, lhs Y-axis), 01.01.2014–17.02.2025

Source: Trading Economics. Data downloaded on 19 February 2025

In many respects, the 2014–2016 crisis mirrored two earlier ones, in 1998–1999 and 2008–2009. Despite having different fundamental causes (the sovereign debt crisis in 1998–1999, and external overborrowing by large corporations and some banks in 2008–2009), the decline in global oil and other commodity prices, along with capital outflows (both resident and non-resident), acted as important triggers (Dabrowski, 2023b). Figure 3.1 illustrates the close co-movement between the Urals oil price and the RUB–USD exchange rate, underscoring the impact of oil price fluctuations on Russia's macroeconomic and fiscal situation.

Changes in the RUB exchange rate are transmitted via a pass-through effect on inflation. They also affect the demand for RUB money balances. In periods when the RUB is relatively stable or appreciates, RUB bank deposits tend to grow. However, during episodes of sharp RUB depreciation, money holders seek to exit the RUB by purchasing foreign currency (mostly USD). They also withdraw RUB balances from banks – as occurred, for example, in December 2014. In addition, during periods of heightened macroeconomic uncertainty caused by rapid RUB depreciation, capital outflows from Russia intensify (Dabrowski, 2023b).

Interestingly, exchange rate depreciation plays a stabilising role in the federal budget revenue due to its high reliance on oil rent (see Sections 4.5–4.6) and the denomination of oil-related taxes in USD or EUR. The negative effect of declining oil prices is therefore partly offset by a weaker RUB (Yermakov, 2025). This may be one reason why the BoR is reluctant to defend the RUB, which continues to depreciate over the long term despite a persistent current account surplus (Table 3.1).

4. Analysis of the macroeconomic and fiscal situation in wartime Russia

This chapter analyses the macroeconomic and fiscal situation of Russia during the full-scale war in Ukraine. We start with a short overview of basic macroeconomic indicators (Section 4.1), followed by an analysis of real GDP dynamics (Section 4.2); the balance of payments, BoR international reserves, and the RUB exchange rate (Section 4.3); inflation and monetary policy (Section 4.4); major fiscal variables (Section 4.5); the structure of GG revenue (Section 4.6) and expenditure (Section 4.7); deficit and debt financing (Section 4.8); quasi-fiscal operations (Section 4.9); and contingent and implicit fiscal liabilities (Section 4.10).

4.1 Overview

Table 4.1.1 presents a set of basic macroeconomic indicators for the Russian economy since the beginning of the country's full-scale aggression against Ukraine. These indicators proved more favourable than might have been expected in February and March 2022, when the war broke out, and the unprecedented package of Western sanctions came into effect.

Table 4.1.1 Russia: Basic Macroeconomic Indicators, 2021–2025

Indicator	2021	2022	2023	2024	2025[a]
GDP, constant prices (annual % change)	5.9	-1.4	4.1	4.3	0.6
Total investment (% of GDP)	23.0	23.2	27.0	26.3	26.7
Gross national savings (% of GDP)	29.8	33.6	29.4	29.2	28.5
Inflation, e-o-p consumer prices (% change)	8.4	11.9	7.4	9.5	7.6
Inflation, average consumer prices (% change)	6.7	13.8	5.9	8.4	9.0
Unemployment rate (% of total labour force)	4.8	4.0	3.2	2.5	2.4
GG revenue (% of GDP)	35.7	33.8	33.5	35.3	35.1
GG total expenditure (% of GDP)	34.9	35.2	35.7	36.9	37.8
GG net lending/borrowing (% of GDP)	0.8	-1.3	-2.2	-1.6	-2.7
GG gross debt (% of GDP)	16.5	18.5	19.5	20.3	23.1
Current account balance (% of GDP)	6.8	10.4	2.4	2.9	1.7

Notes: a - IMF staff forecast

Source: IMF WEO database, October 2025

Unlike in 2014–2015, the economic and financial sanctions launched in 2022 and subsequent years have been very comprehensive and far-reaching. They have been systematically amended and tightened. Among other measures, they have included a ban on the purchase of debt and equity securities issued by Russian entities; the removal of several Russian banks from the Society for Worldwide Interbank Financial Telecommunication (SWIFT); the freezing of approximately half of the BoR's official reserve assets and a portion of the NWF's assets; a price cap on the purchase of Russian oil; various import and export embargoes; and the suspension of airline and train connections.[14] The main weakness of the sanctions regime has been its geographical incompleteness: about half of the global economy has not joined in, facilitating large-scale sanctions circumvention.

4.2 GDP dynamics

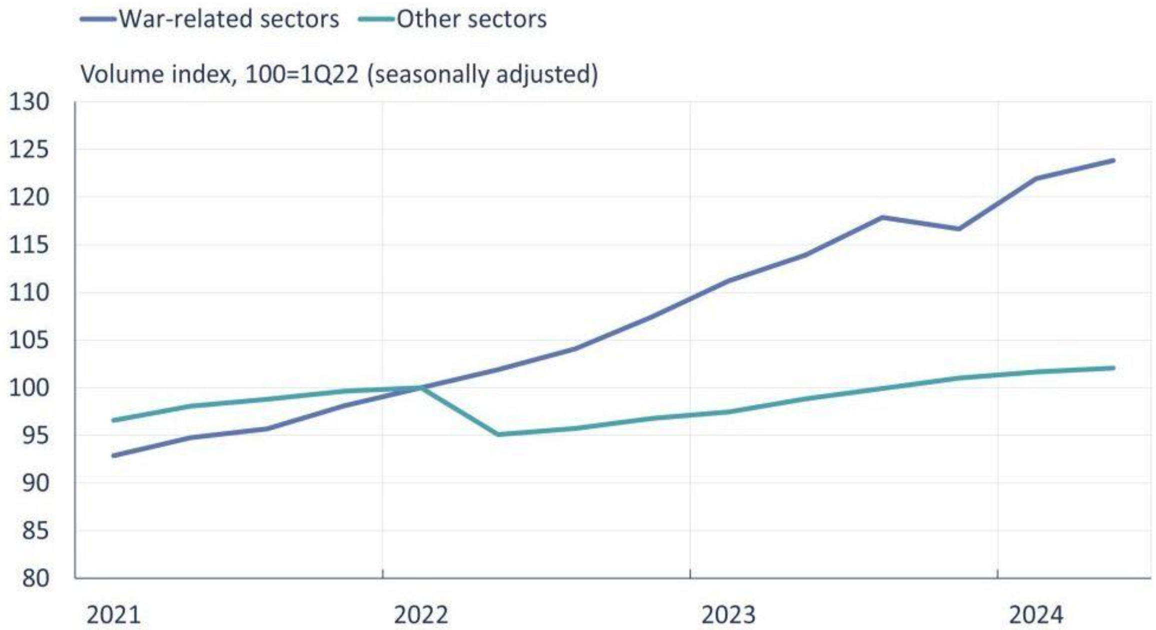
Despite several pessimistic forecasts published immediately after the war began (EBRD, 2022; IMF, 2022a; WIIW, 2022; Bank of Russia, 2022), which predicted an output decline of 8–10% of GDP in 2022, the actual recession was shallower, just -1.4% (Table 4.1.1). This was followed by a strong recovery in 2023–2024 (4.1% in 2023 and 4.3% in 2024).

Discussing why the early 2022 forecasts proved inaccurate is beyond the remit of this analysis. In our view, the better-than-expected performance of the Russian economy in 2022 can be attributed to high global oil prices (Figure 3.1), partly driven by the war itself, geographical gaps in the sanctions coalition that enabled a swift redirection of trade destinations, and the economy's relatively prudent macroeconomic management (see Sections 2.1, 4.4, and 4.5). Over the next two years, these three factors were supplemented by the demand push generated by war-related expenditures – at the cost of increasing fiscal and quasi-fiscal imbalances, a shrinking share of other expenditures, and an overheating economy (see Sections 4.7–4.9).

War-related expenditures also altered the sectoral structure of Russia's economy. Sectors serving wartime needs – including the *manufacturing of fabricated metals, computers and electronics, transport equipment (excluding automobiles), public administration, and national defence – have grown faster than others (Simola, 2024b and Figure 4.2.1).*

[14] For the full and updated sanctions list, see https://www.castellum.ai/russia-sanctions-dashboard

Figure 4.2.1 GDP quarterly dynamics, by sectors, Q1 2021 – Q2 2024



Note: War-related sectors refer to the manufacturing of fabricated metals, computers and electronics, transport equipment other than automobiles, public administration, and national defence.

Source: Simola (2024b)

4.3 Balance of payments, official international reserves, and exchange rate

Since the 1990s, Russia's balance of payments has been shaped largely by hydrocarbon exports and natural resource rents. Figure 4.3.1 shows a declining trend from the peak in 2000, with volatility driven by fluctuations in global commodity prices. The diminishing share of natural resource rents in GDP can be explained by structural diversification (although limited) of the Russian economy in the 2000s and 2010s, that is, faster growth of non-hydrocarbon sectors and industries, especially services.

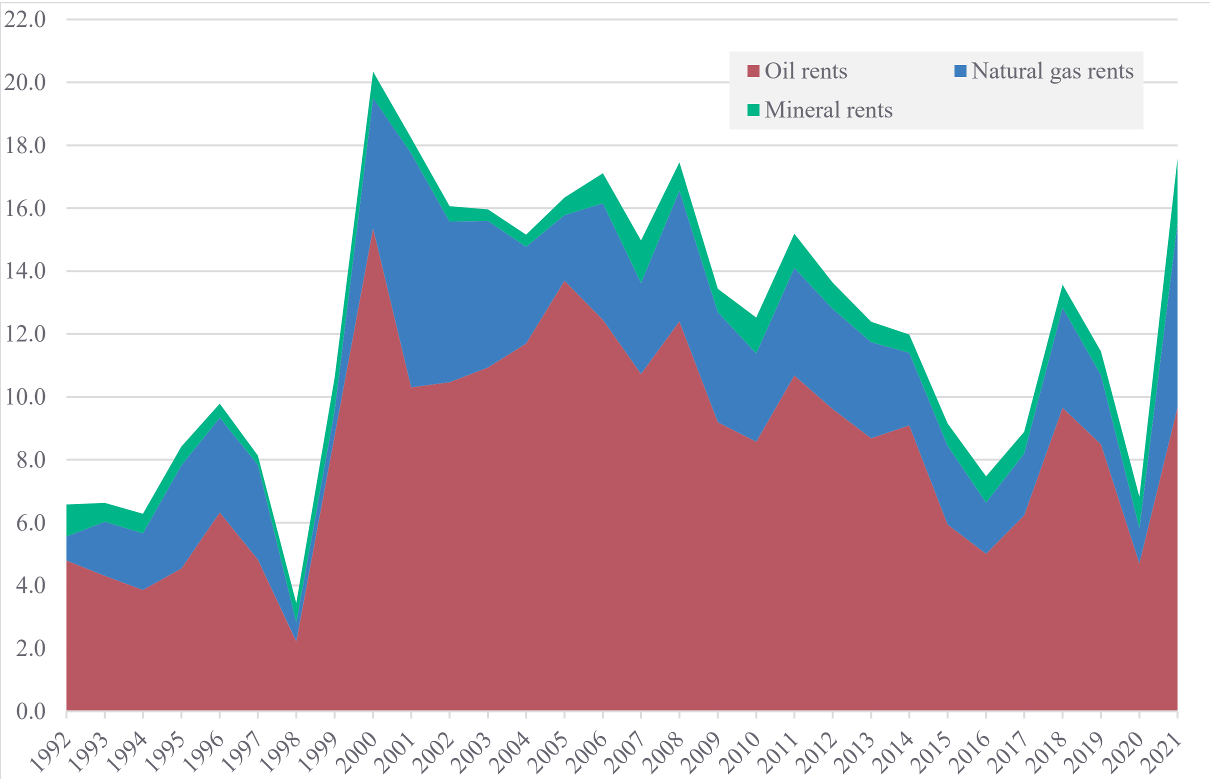
Table 4.3.1 Balance of payments, analytical presentation, selected items, USD million, 2013–2024

Balance of Payments item	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Current account	33,428	57,513	67,777	24,469	32,179	115,680	65,650	35,373	124,953	237,735	49,439	62,287
Goods	180,566	188,931	148,398	90,215	114,558	195,058	165,845	93,441	193,114	315,567	121,662	132,967
Services	-58,259	-55,278	-37,152	-23,959	-31,323	-30,082	-36,494	-16,788	-20,320	-22,073	-36,100	-39,141
Compensation of employees	-13,170	-10,074	-5,104	-1,813	-2,278	-3,323	-3,603	-1,018	178	-2,542	-4,806	-6,363
Investment income	-66,516	-58,018	-32,662	-33,744	-39,845	-37,148	-50,007	-34,052	-43,262	-44,620	-22,088	-22,176
Financial account	24,136	23,446	70,328	18,305	34,570	116,686	63,411	39,075	124,055	227,079	38,682	53,010
Direct investment	17,288	35,051	15,232	-10,225	8,200	22,592	-10,052	-3,632	25,433	26,715	20,751	8,345
Portfolio investment	11,012	39,943	26,423	-2,361	-7,983	7,593	-12,686	25,296	32,084	21,211	4,934	-25
Financial derivatives	346	5,256	7,122	-18	362	-734	2,620	1,950	-696	-3,469	-983	2,045
Other investment	17,567	50,743	19,847	22,665	11,356	49,033	17,047	29,229	3,708	189,875	24,001	46,442
Reserve assets	-22,077	-107,547	1,704	8,244	22,636	38,202	66,481	-13,768	63,525	-7,253	-10,020	-3,797
Net errors and omissions	-8,898	7,938	2,859	-5,400	2,584	2,110	-1,975	3,796	-1,023	-6,076	-9,330	-9,019

Source: https://www.cbr.ru/vfs/eng/statistics/credit_statistics/bop/bal_of_payments_ap_e.xlsx; downloaded on 24.05.2025

High natural resource rents have contributed to a high gross national saving rate, around 29-30% of GDP (see Table 4.1.1), and at times even higher (for example, in 2022). This, in turn, has resulted in a persistent current account surplus – the difference between gross national saving and total investment (see Table 4.3.1). Such a pattern is typical of many oil-exporting countries. Since the early 1990s, only once has Russia recorded a small current account deficit, in 1997. Paradoxically, the highest current account surplus (10.4% of GDP) occurred in 2022, the year the war in Ukraine started, and a massive package of Western economic and financial sanctions was imposed on Russia. This was made possible by high global oil prices and a sharp contraction in Russian imports.

Figure 4.3.1 Natural resource rents, % of GDP, 1992–2021



Note: data after 2021 is unavailable

Source: World Bank's World Development Indicators, downloaded on 24.05.2025

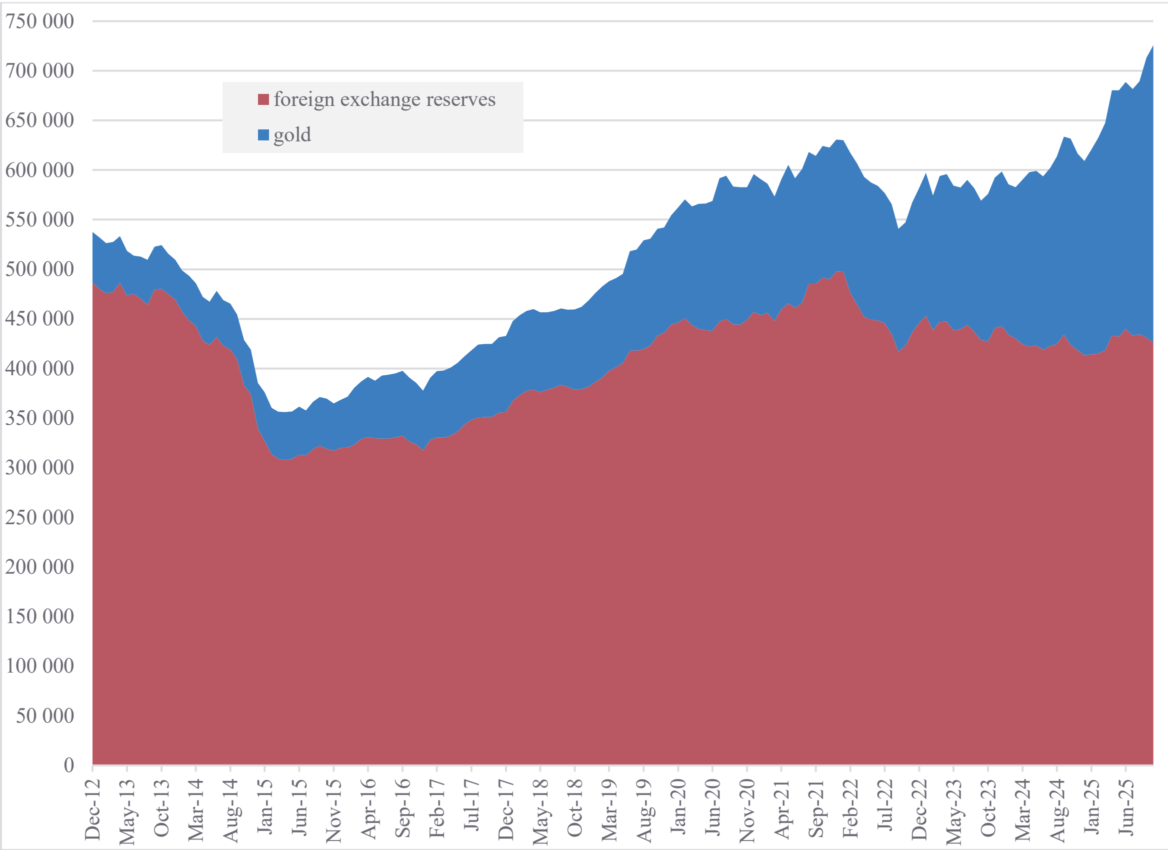
The persistent current account surplus has been matched by a financial account deficit (Table 4.3.1), that is, net capital outflows from Russia and the accumulation of the BoR's international reserves (Figure 4.3.2).

Russia has consistently been a net exporter of private capital, except during the short period of 2006–2007 (Dabrowski, 2023b). This is considered a common development in countries with a high savings rate and substantial natural resource rents. However, capital flows are highly volatile in Russia.

Such volatility has been driven by several factors: memories of past macroeconomic and financial instability, especially in the 1990s; external economic shocks (for example, in 2008–2009, 2014–2015, and 2020); the aggression against Ukraine combined with Western sanctions (2014–2015, 2022–2025); and a poor business and investment climate (Dabrowski, 2023c). In times of economic or political shock, both residents and non-residents have moved their financial assets out of Russia on a large scale.

Experience with shocks and the resulting flight of capital prompted the BoR to suspend capital account convertibility and partially restrict the convertibility of current accounts immediately after the outbreak of the war in Ukraine and the launch of the massive package of Western economic and financial sanctions against Russia (Dabrowski and Avdasheva, 2023). However, these measures failed to stop capital outflows in 2022 (see the "Other investment" entry in Table 4.3.1). Nevertheless, given the record-high current account surplus in the first half of 2022, some of the restrictions on current- and capital-account transactions were eased, particularly for residents and non-residents from "friendly" countries. Some of these restrictions were temporarily reintroduced during periods of foreign exchange market distress, for example, in the last quarter of 2024.

Figure 4.3.2 Bank of Russia's international reserves, USD billion, 2012–2025



Note: It also includes BoR international reserves frozen by Western sanctions since March 2022

Source: https://www.cbr.ru/eng/hd_base/mrrf/mrrf_m/?UniDbQuery.Posted=True&UniDbQuery.From=01.2013&UniDbQuery.To=10.2025; downloaded on 30.11.2025

The 2022 Western financial sanctions froze a substantial portion of the BoR's international reserves (approximately USD 300 billion), including part of the NWF assets. However, due to a record-high current account surplus in 2022, this did not lead to macroeconomic or financial destabilisation. The BoR's international reserves were gradually rebuilt, reaching a record-high level of USD 726 billion at the end of October 2025 (Figure 4.3.2). This figure includes the immobilised assets mentioned above. The rebuilding of the BoR's international reserves was made possible by a combination of sustained current account surpluses and capital account restrictions.

However, the prospect of unfreezing the immobilised portion of the BoR's international reserves remains problematic, given mounting international pressure to confiscate these assets and redirect them for the reconstruction of Ukraine (see e.g. Conner and Wessel, 2025). Furthermore, the management of the remaining usable reserves is constrained due to Western financial sanctions. As a result, the BoR has shifted away from accumulating reserves in USD, EUR, and other so-called "unfriendly" currencies, favouring gold and the CNY instead. Figure 4.3.2 confirms this trend with respect to gold, but statistics on the currency composition of the BoR's foreign exchange reserves are not available.

In practice, this means holding financial assets that are less liquid and do not necessarily match the main currencies of trade and financial transactions (USD and EUR).

Since the start of the war in Ukraine, the RUB/USD exchange rate has experienced three episodes of rapid depreciation (Figure 4.3.3). The first and sharpest occurred at the beginning of March 2022, immediately after the outbreak of war and the launch of the massive package of Western financial sanctions. The two others were recorded between August and October 2023 and in November 2024. The latter was triggered by the introduction of US sanctions against Gazprombank.

Figure 4.3.3 Official exchange rate, RUB for 1 USD, 2013–2026

Source: https://www.cbr.ru/eng/currency_base/dynamics/?UniDbQuery.Posted=True&UniDbQuery.so=1&UniDbQuery.mode=1&UniDbQuery.date_req1=&UniDbQuery.date_req2=&UniDbQuery.VAL_NM_RQ=R01235&UniDbQuery.From=01.01.2013&UniDbQuery.To=22.01.2026; downloaded on 23.01.2026

While all three episodes were brought to a halt and partly reversed, the RUB has followed a depreciating trend (Figure 4.3.3) over the medium to long term. Apart from the macroeconomic fundamentals (higher inflation than in the US) and geopolitical shocks, this suggests a preference at the BoR for maintaining a weak domestic currency (the BoP situation could support a more stable RUB exchange rate). We will return to this matter in Section 4.4.

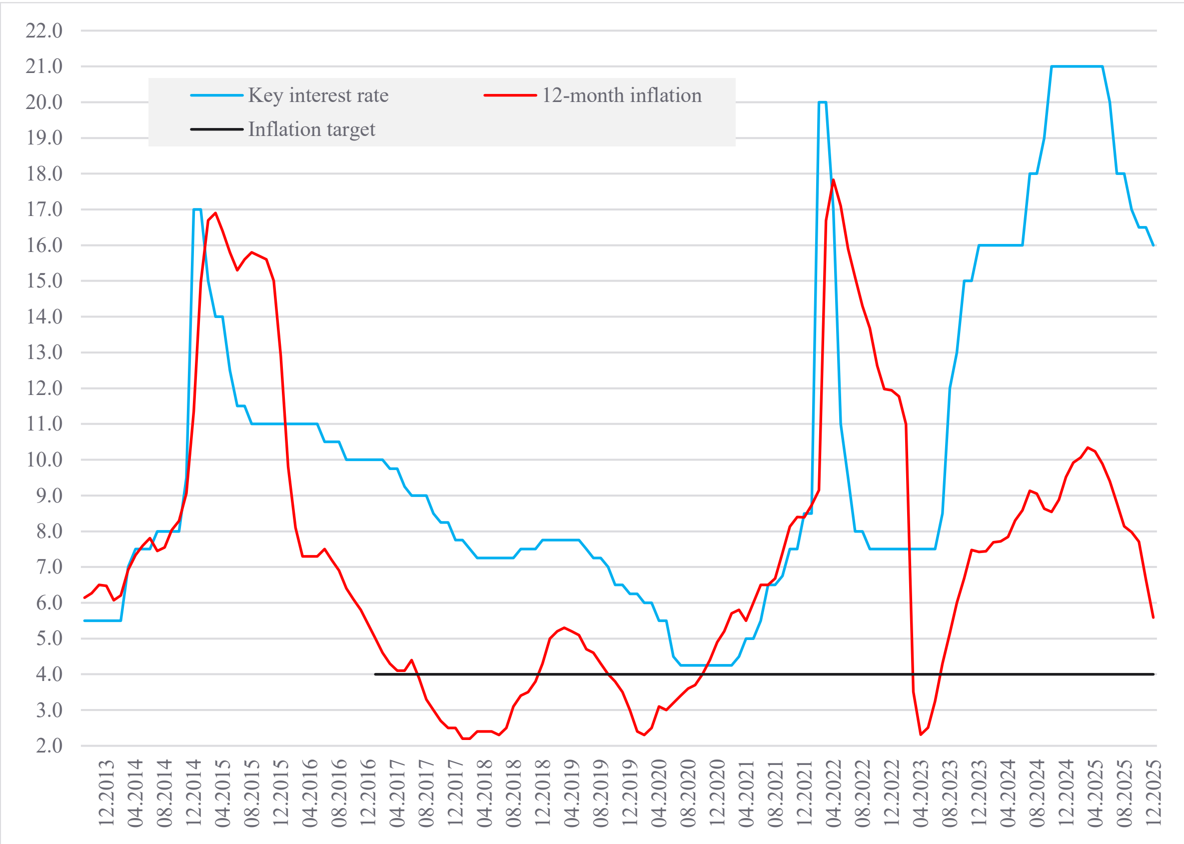
4.4 Inflation and monetary policy

High inflation has been a major macroeconomic challenge since the beginning of Russia's post-communist transition (Dabrowski, 2023b). Only occasionally (for example, in 2017 and 2019) has it been brought down to a low single-digit level (Table 3.1). The post-COVID-19 global inflation surge (2021–2022), followed by the war in Ukraine and its accompanying sanctions, made anti-inflationary policy even more difficult. This is clearly illustrated by the inflation data in Table 4.1.1 and Figure 4.4.1.

When the war in Ukraine began, inflation had already been rising since March 2020. In February 2022, it stood at 9.2%. The shock of war, the unprecedented package of Western financial sanctions, and the resulting collapse of the RUB exchange rate (see Section 4.3) accelerated inflation, which peaked at 17.8% in April 2022.

Reversing this trend was made possible by a sharp increase in the BoR's key interest rate (from 8.5 to 20.0%) and the introduction of capital controls, which partly halted capital outflows from Russia (see Section 4.3). This helped curb RUB liquidity and strengthen the RUB exchange rate. As a result, inflation began to decline, reaching one of its historic lows of 2.3% in April 2023.

Figure 4.4.1 Russia: 12-month inflation and the key interest rate of the BoR, September 2013 – December 2025



Source: https://www.cbr.ru/hd_base/infl/; downloaded on 23.01.2026

Since then, inflation has resumed its upward trend, reaching 10.3% in March 2025, fuelled by the expansion of GG expenditure and quasi-fiscal operations (QFOs) (see Sections 4.5 and 4.9), despite aggressive hikes in the BoR's key interest rate (to 21% in October 2024).

At the end of 2024, the BoR and its governor came under public criticism from business leaders, parliamentarians, and the media for maintaining its high policy rate (Aslund, 2024; Fabrichnaya and Bryanski, 2025). As a result of this pressure, the BoR refrained from further increases to the policy rate, which had been expected amid mounting inflationary trends.

Inflationary pressure has started to ease since the second quarter of 2025. The 12-month CPI decreased to 9.4% in June 2025 and 5.6% in December 2025, which allowed the BoR to gradually cut the key interest rate to 16% (from 22 December 2025).

There are two factors sustaining the continuous inflationary pressure. First of all, the BoR's tolerance of the RUB's depreciation trend (see Section 4.3), most likely with the aim of helping the federal budget increase (or prevent decline) in oil-related revenue in RUB (see Chapter 3). Secondly, subsidised interest rates for a large share of mortgage borrowers and some corporate borrowers – particularly those involved in war-related needs (see Section 4.9) – have partially offset the impact of high interest rates on aggregate demand.

Both factors have undermined the inflation-targeting strategy and reduced the effectiveness of monetary policy. The BoR's declared inflation target of 4%, already higher than in many other economies and currency areas, has rarely been achieved.

Unsurprisingly, the BoR's key interest rates exceeded inflation for most of the period in question (Figure 4.4.1). This reflected limited trust in the national currency (caused, among other things, by the repeated episodes of currency crises, high inflation, and high dollarisation), as well as the above-mentioned contradictions in monetary policy.

It is also worth noting that the macroprudential policy, introduced gradually since 2013, has occasionally been used as a tool to combat inflation, in addition to its primary objective of maintaining financial stability (Bank of Russia, 2025b).

4.5 Fiscal variables and the factors driving them

Total GG expenditure increased from 34.9% of GDP in 2021 to 35.2% in 2022, 35.7% in 2023, and 36.9% in 2024 (Table 4.1.1). This appears to represent only a moderate increase in total expenditure, despite the rise in war-related spending. Two potential explanations may account for such a paradox. For a start, war-related spending crowded out certain non-war-related items (see Section 4.7). Secondly, some types of expenditure are quasi-fiscal, that is, they are not included in the officially recorded GG spending (see Section 4.9).

Despite the rise in GG expenditure, GG revenue has remained broadly stable, fluctuating between 33% and 36% of GDP, despite tax increases in 2023–2025 (see Subsection 4.6.3). To a large degree, revenue remains dependent on changes in hydrocarbon revenue (see Subsection 4.6.2).

As a result, the GG fiscal balance (GG net lending/borrowing in IMF WEO nomenclature) deteriorated from a surplus of 0.8% of GDP in 2021 to a deficit of 1.3% in 2022, 2.2% in 2023, and 1.6% in 2024. These are modest imbalances by international standards, but given Russia's restricted access to international financial markets (as a result of sanctions), further expansion of the GG deficit could pose a serious financing challenge.

The same applies to GG gross debt, which has followed a slowly increasing trend: it amounted to 16.5% of GDP in 2021, 18.5% in 2022, 19.5% in 2023, and 20.3% in 2024. Furthermore, beyond the officially reported GG deficit, the growing scale of QFOs in the banking sector may give rise to additional hidden public debt (contingent fiscal liabilities) in the future. On the other hand, the NWF's engagement in financing various government-supported investment projects – effectively another form of QFO – has diminished its stock of liquid assets that could otherwise be used to finance GG debt (see Section 4.8).

Two major factors determine Russia's GG balance.

On the expenditure side, this consists of war-related spending in the broad sense. This includes not only direct military expenditure but also various social entitlements for the families of military staff engaged in combat, as well as for the dead and wounded; recruitment bonuses; the costs of administering and reconstructing the occupied territories; various security and law-enforcement agencies; war-related propaganda; support for the military industry; and more. Such expenditures are concealed within various spending items in the federal budget, as well as in regional budgets. Many are difficult to identify, for example, the "voluntary" assistance provided by "old" regions (that is, those that were part of the Russian Federation before February 2022, including Crimea and Sevastopol, illegally annexed in 2014) to the "new" ones, meaning Ukrainian territories occupied during the ongoing war and illegally annexed by the Russian Federation in 2022.

On the revenue side, the federal budget's participation in oil rent plays a key role (see Subsection 4.6.2 for details). Its participation in natural gas rent has always been less important, and it declined further in 2022–2024 due to the sharp drop in Gazprom's exports to Europe. The termination of natural gas transit through Ukraine's pipelines at the end of 2024 caused a further decline.

4.6 Structure of GG revenue and changes in tax policy

In this section, we analyse the structure of GG revenue (Subsection 4.6.1), the role of oil and natural gas revenue (Subsection 4.6.2), and the most important non-hydrocarbon tax adjustments during the ongoing period (Subsection 4.6.3).

4.6.1 Structure of GG revenue

Table 4.6.1 presents a breakdown of GG revenue into the individual revenue items, using the IMF Government Finance Statistics (GFS) methodology (GFSM, 2014) and database. We have omitted some items (such as grants), which have recorded no revenue inflows in the analysed period. The aggregated revenue figures differ from the figures reported in Table 4.1.1 and analysed in Section 4.5 due to different methodologies.

Table 4.6.1 Detailed GG revenue breakdown (selected items), % of GDP, 2013–2023

Revenue item	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	39.4	39.3	37.4	36.4	35.8	38.5	40.7	38.6	37.5	38.6	42.5
Taxes	21.0	21.2	18.9	18.0	19.2	20.5	20.0	19.4	20.8	20.0	22.7
Taxes on income, profits, & capital gains	6.6	6.6	6.9	6.3	7.5	7.8	8.0	7.9	8.3	8.6	10.7
Taxes on income, profits, & capital gains: individuals	3.4	3.3	3.3	2.5	3.4	3.3	3.5	3.7	3.5	3.7	4.7
Taxes on income, profits, & capital gains: corporations	2.8	2.9	3.2	3.4	3.7	4.0	4.1	3.7	4.4	4.3	5.1
Taxes on income, profits, & capital gains: other	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.5	0.4	0.5	0.9
Taxes on property	1.1	1.1	1.1	1.2	1.2	1.2	1.1	0.5	0.9	0.9	1.4
Taxes on goods & services	6.5	6.7	6.8	7.5	7.7	8.0	8.2	9.2	9.0	8.3	9.0
General taxes on goods & services	4.9	5.1	5.3	5.6	5.7	5.9	6.5	6.9	6.9	6.4	7.0
Excise taxes	1.4	1.4	1.3	1.7	1.7	1.5	1.2	1.8	1.5	1.5	1.4
Taxes on international trade & transactions	6.8	6.8	4.1	3.1	2.8	3.6	2.8	1.7	2.6	2.2	1.5
Social contributions	6.3	6.6	6.6	8.0	7.0	7.2	7.4	7.7	6.5	5.1	7.7
Social security contributions	6.3	6.6	6.6	8.0	7.0	7.2	7.4	7.7	6.5	5.1	7.7
Other revenue	12.1	11.5	12.0	10.3	9.6	10.8	13.3	11.5	10.2	13.6	12.0
Property income	4.7	4.9	5.5	5.6	5.7	7.2	7.4	5.4	7.1	10.1	8.1
Sales of goods & services	2.3	4.1	4.2	2.4	2.1	1.8	1.8	1.6	1.6	1.4	1.5
Fines, penalties & forfeits	0.5	0.7	0.5	0.4	0.3	0.4	0.3	0.3	0.4	0.5	0.2
Other transfers	4.6	1.8	1.7	2.0	1.4	1.2	3.8	4.2	1.1	1.6	2.1

Source: IMF GFS, downloaded on 24 April 2025

Between 2013 and 2023, the ratio of total revenue to GDP fluctuated in line with changes in Urals oil prices, indirectly confirming the role of hydrocarbon-related budget revenue (see Subsection 4.6.2). In 2023, the revenue-to-GDP ratio increased significantly compared to earlier years,[15] due to higher revenue from direct

[15] However, the IMF World Economic Outlook database statistics does not confirm such growth – Table 4.1.1.

taxation (on individuals and corporations) and social security contributions. We will come back to changes in the taxation system in Subsection 4.6.3.

The fiscal importance of taxes on international trade and transactions has gradually declined due to lower import tariffs and a reduction in export taxation (export tariffs), both a consequence of Russia's commitments made upon accession to the World Trade Organisation. The most significant change has been the diminishing role of export taxation on oil and natural gas products, which has gradually been supplanted by other forms of hydrocarbon revenue taxation (see Subsection 4.6.2).

Since the start of the war in Ukraine (and the introduction of Western sanctions), export taxes (tariffs) have regained popularity.[16] In 2024, several goods other than hydrocarbons – such as fertilisers, rubber, fur, leather, selected food products, paper, precious stones, and gold – were subject to export customs duties. These were applied when the exchange rate exceeded 80 RUB for 1 USD, and their rates ranged from 4% to 7% (and up to 10% for fertilisers), depending on the exchange rate. This structure of customs duties suggests they serve primarily as an industrial policy tool (decreasing domestic prices of various commodities purchased by Russian enterprises) rather than constituting a source of additional revenue for the federal budget (except for hydrocarbons, where they continue to play a certain fiscal role).

However, even in their role as an industrial policy tool, such duties are not always effective. Quite often, they have been circumvented through re-exports via other member states of the Eurasian Economic Union. For example, in 2023, Armenia emerged as a significant re-exporter of Russian gold (Fanyan et al., 2024), which was subject to export tariffs in Russia.

4.6.2 The role of oil and natural gas revenue

The size of oil-related budget revenue depends on the volume of oil production and exports, the price on international markets, and oil-related taxation in Russia.

Between 2022 and 2024, Russia's volume of crude oil production oscillated around 9–10 billion barrels per day (Figure 4.6.1), with most of it exported (Figure 4.6.2). The volume of oil production is regulated by OPEC+ agreements, although in the 2020s, Russia has systematically exceeded its OPEC+ quotas (Paraskova, 2025).

Figure 4.6.2 shows that the volume of Russia's oil exports peaked in 2022 (ca. 8 million barrels per day, on average), followed by a slight decline over the next two years. However, the geographical structure of these exports changed dramatically. The previous dominance of the EU gave way to China, India, and Turkey taking the leading roles. The US and the United Kingdom virtually disappeared as importers of Russian oil. This geographical reorientation was the result of G7 sanctions; however, due to the incomplete geographical coverage of the sanctions coalition, Russia's oil exports have not fallen meaningfully. Only their destinations have changed.

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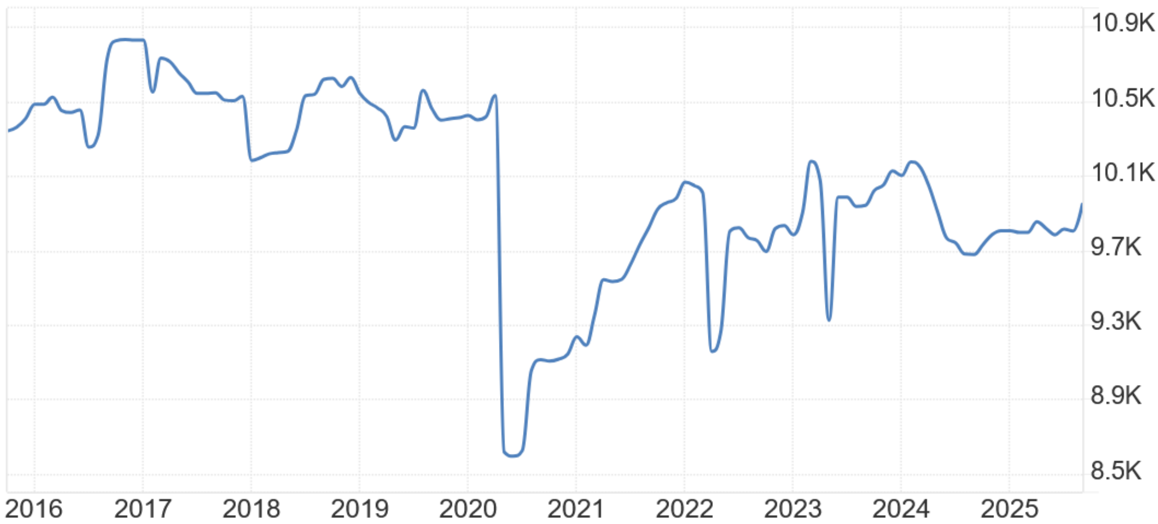
[16] See, e.g. Postanovleniye Pravitel'stva RF ot 27.11.2021 No. 2068 (red. ot 22.01.2025) "O stavkakh vyvoznykh tamozhennykh poshlin na tovary, vyvozimyye iz Rossiyskoy Federatsii za predely tamozhennoy territorii Yevraziyskogo ekonomicheskogo soyuza" (Resolution of the Government of the Russian Federation of 27.11.2021 No. 2068 (as amended on 22.01.2025) "On the rates of export customs duties on goods exported from the Russian Federation outside the customs territory of the Eurasian Economic Union") - https://www.consultant.ru/document/cons_doc_LAW_401724/540db87e71ba8e36a3a3b6c46d496f05d1902c0a/

Figure 4.6.1 Russia: crude oil production, billion barrels a day, October 2015 – September 2025



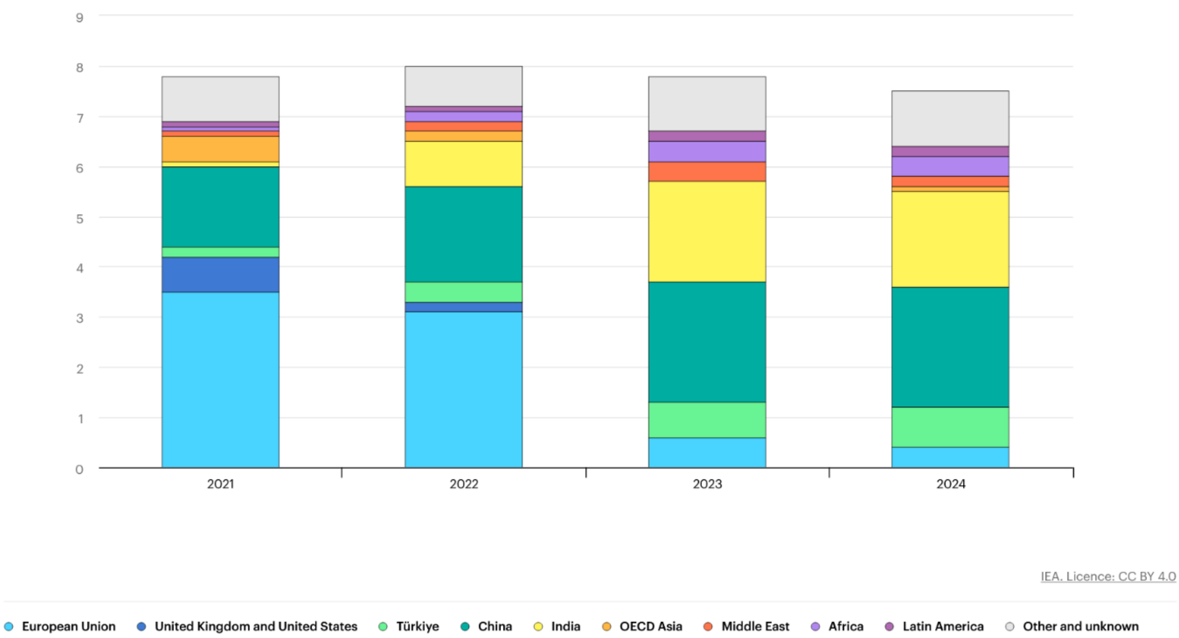
Source: Trading Economics based on the US Energy Information Administration; downloaded on 23.01.2026

Apart from the volume of oil production and exports, oil prices are another – and perhaps the most important – factor determining the level of oil-related revenue. Various sanctions, particularly the oil price cap of USD 60 per barrel introduced by the G7 on 5 December 2022,[17] have sought to bring down the effective price obtained by Russian exporters (and, indirectly, the revenue received by Russia's budget).

Figure 4.6.3 compares the Brent and Urals crude oil prices from 2020 to 2025. The substantial discount on Urals crude relative to Brent, which amounted to USD 20–30 per barrel in 2022 and the first half of 2023, has been gradually shrinking. Occasionally, upon the introduction of new sanction packages, it has increased somewhat, but not for long. Once again, this points to the ineffectiveness of the oil-related sanctions, owing to the geographically limited sanction coalition (Hilgenstock et al., 2023; Ribakova et al., 2023).

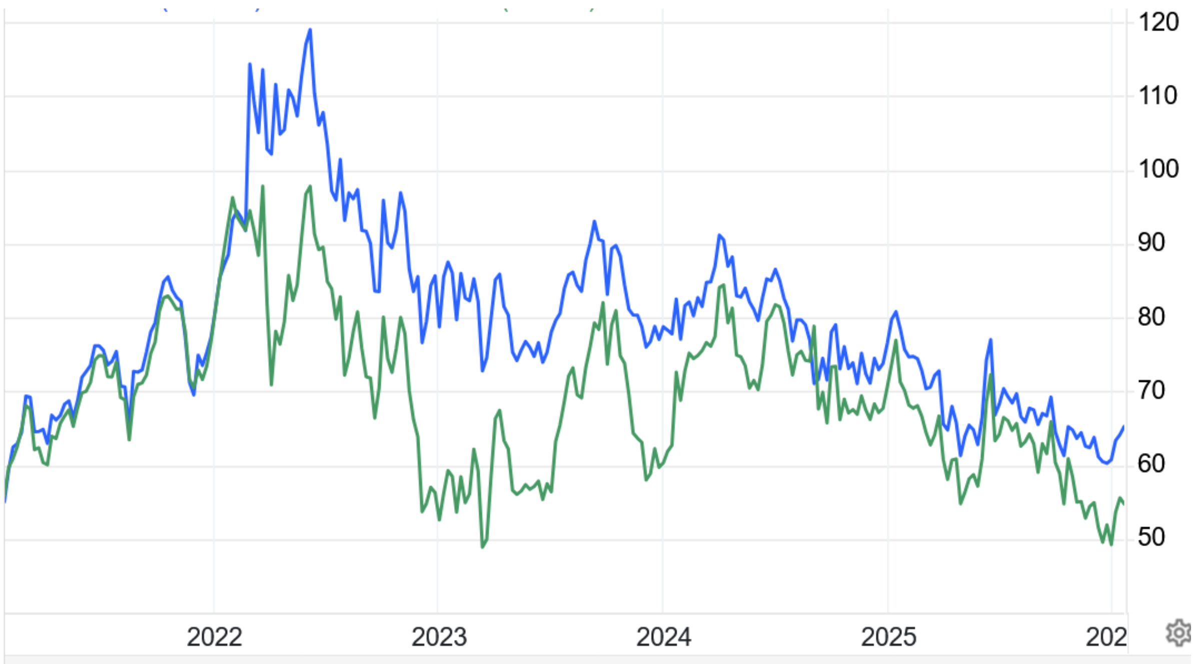
[17] https://ec.europa.eu/commission/presscorner/detail/it/ip_22_7468

Figure 4.6.2 Average Russian oil exports by country and region, billion barrels per day, 2021–2024



Source: IEA (2024)

Figure 4.6.3 Brent Crude Oil (blue line) vs. Urals Crude Oil (green line) prices, USD per 1 barrel, 25.01.2021 – 19.01.2026



Source: Trading Economics; downloaded on 23.01.2026

The taxation of hydrocarbon rent is the third factor that determines the level of hydrocarbon-related budget revenue. Apart from export customs duties (see Subsection 4.6.1), oil and natural gas production is subject to two other taxes: (1) the mineral extraction tax (*nalog na dobychu poleznykh iskopaemykh*),[18] and (2) the tax on additional hydrocarbon income (*nalog na dopolnitel'nyi dokhod ot dobychi uglevodorodnogo syr'ya*).[19]

Table 4.6.2 Disaggregation of hydrocarbon revenue by tax instruments, RUB billion, 2018–2024

Indicator	2018	2019	2020	2021	2022	2023	2024
Hydrocarbon revenue total	**9,017.8**	**7,924.3**	**5,235.2**	**9,056.5**	**11,586.2**	**8,822.3**	**11,131.1**
of which							
Mineral extraction tax	6,009.8	5,971.7	3,819.7	7,110.9	10,643.7	9,465.3	12,234.2
of which							
- Oil	5,232.3	5,175.5	3,198.3	6,295.7	8,391.5	7,786.6	10,111.0
- Natural gas	630.6	627.0	482.2	577.8	1,872.1	1,219.3	1,448.7
- Gas condensate	147.0	169.3	139.1	237.4	380.1	459.4	674.5
Export customs duties	3,007.9	2,276.0	1,131.5	2,224.6	2,506.4	976.8	486.3
of which							
- Oil	1,550.0	1,115.5	436.0	707.8	607.2	283.9	-3.4
- Natural gas	809.2	695.7	439.1	1,125.4	1,630.1	566.0	490.0
- Oil products	648.7	464.9	256.4	391.4	269.1	126.8	-0.3
Correction for excise tax		-424.6	135.0	-1,287.6	-3,248.9	-2,912.5	-3,638.3
Tax on additional hydrocarbon income		101.1	149.0	1,008.7	1,685.0	1,292.6	2,049.0

Source: MoF (https://minfin.gov.ru/common/upload/library/2025/05/main/Svedenya_may.xlsx) and the author's calculation

Table 4.6.2 shows that the mineral extraction tax plays an increasingly dominant role in extracting oil and natural gas rents for budgetary purposes. In the case of hydrocarbon production, this tax is charged at specific rates (set in RUB per ton of output). The amount of tax on additional hydrocarbon income is also taken into account.

The tax rate on additional hydrocarbon income is set at 50%. This income is calculated as the difference between the estimated revenue and the sum of actual and estimated costs. Estimated revenue is the sum of estimated oil revenue, natural gas revenue, and associated gas revenue. Oil revenue is calculated based on the quantity of oil and gas condensate produced each month, the average monthly Urals price, and the average monthly RUB/USD exchange rate. Gas revenue is calculated using the monthly production volume and the administrative or contractual price in RUB. Estimated costs include export customs duties and

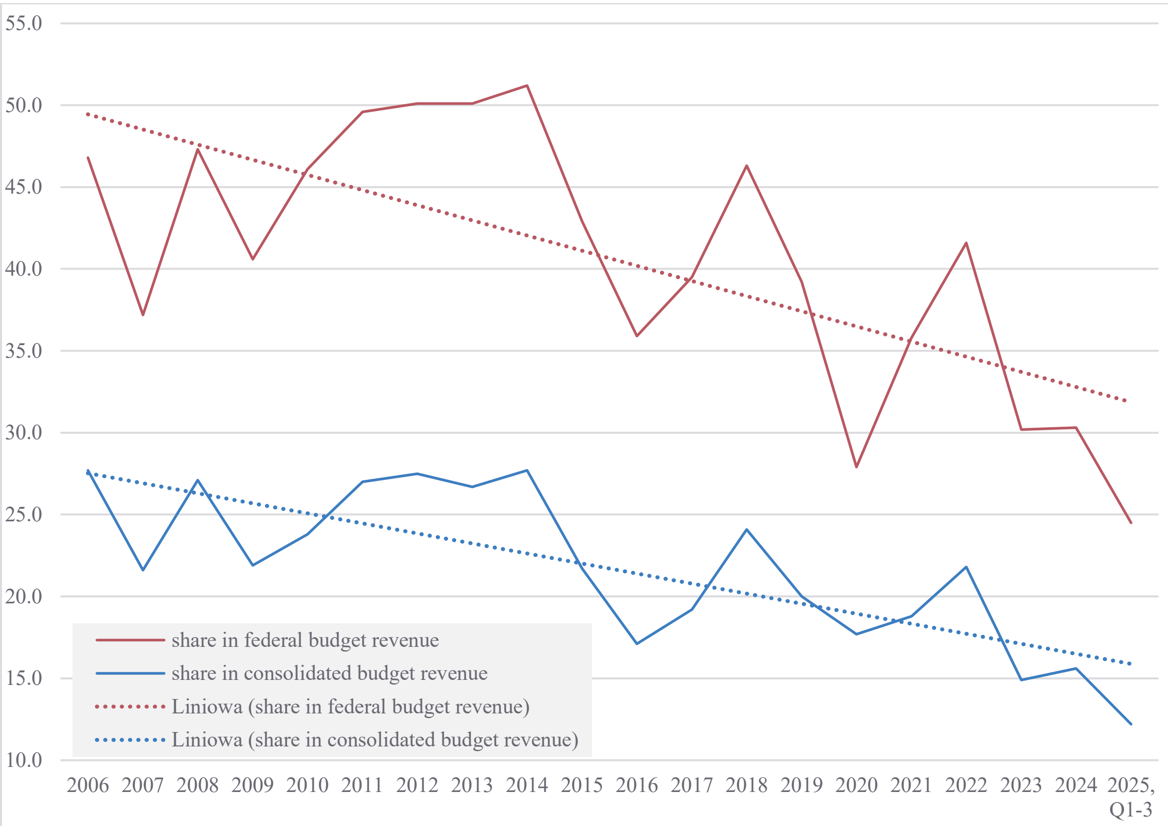
[18] https://www.nalog.gov.ru/rn04/taxation/taxes/ndpi/
[19] https://www.nalog.gov.ru/rn04/taxation/taxes/ndd/

transportation costs (depending on the region of production). The latter component has been a source of dispute between oil and gas companies and the federal government due to changes in export geography (Serikov et al., 2024).

Table 4.6.1 and the IMF GFS statistics do not allow for estimation of the share of oil- and natural gas-related revenue in total GG revenue or federal government revenue, as these are spread across various revenue items. Therefore, we rely on MoF statistics and expert estimates (see e.g. Yermakov, 2025; Sokolov, 2025).

Figure 4.6.4 presents estimates of the share of oil- and natural gas-related revenue in the total revenue of the federal and consolidated budgets (the latter serving as a proxy for GG revenue). In any given year, this share depends on fluctuations in oil and natural gas prices. However, despite such volatility, it has followed a downward trend since the first half of the 2010s, when it accounted for approximately 50% of federal budget revenue and around 27% of consolidated budget revenue. In 2023–2024, it stood at approximately 30% and 15%, respectively. This decline reflected lower Urals oil prices, lower volumes of natural gas exports and their lower export prices, as well as the development of non-hydrocarbon sources of budget revenue (see Subsection 4.6.3).

Figure 4.6.4 Oil and natural gas revenue, % of total revenue in the federal and consolidated budget, 2000–2014



Note: for 2025, preliminary data for the first three quarters

Source: MoF, https://minfin.gov.ru/common/upload/library/2025/11/main/Prilozhenie_3_dannye_109-111_—_kvartal.xlsx, https://minfin.gov.ru/common/upload/library/2025/11/main/Prilozhenie_8_dannye_115-117_—_kvartal.xlsx, and author's calculation; data downloaded on 25.11.2025

Our estimates are practically the same as Yermakov's (2025) for the federal budget (he does not provide figures for the share in consolidated budget revenue). Sokolov's (2025) estimates of the share of oil- and natural gas-related revenue in total federal revenue differ slightly from ours and Yermakov's, but remain within a similar range: 28.7% in 2023 and 33.6% in 2024 (4.5 and 6.8% of GDP, respectively).

The volume of oil and natural gas production, along with their prices, determines not only hydrocarbon-specific revenue items. Indirectly, they also impact the level of other tax receipts, such as corporate income tax (CIT), personal income tax (PIT), and value-added tax (VAT).

4.6.3 Changes in other taxes in the 2020s

The increase in GG expenditure, combined with the volatility and ex-ante uncertainty of hydrocarbon revenue, pushed the Russian authorities to raise non-hydrocarbon revenue.

In the first instance, this led to a gradual departure from the proportional PIT (the Russian name: *nalog na dokhody fizicheskikh lits* – the tax on income of physical persons), which had featured a single tax rate of 13%, a flagship policy measure introduced in 2001. Changes already started during the COVID-19 pandemic: in 2021, a second rate of 15% was introduced for annual income from a single source exceeding RUB 5 million. From 2024, the same second rate was applied to total annual income exceeding RUB 5 million. Since 2025, the PIT scale has become more progressive, with the following rates:[20]

- 13% on total annual income up to RUB 2.4 million
- 15% on total annual income between RUB 2.4 and 5.0 million
- 18% on total annual income between RUB 5.0 and 20.0 million
- 20% on total annual income between RUB 20.0 and 50.0 million
- 22% on total annual income above RUB 50.0 million

At the same time, a less progressive scale was introduced for income among those participating in the "Special Military Operation" (the war in Ukraine, as referred to in official government terminology).

Since the beginning of 2025, other taxes have also been modified:[21]

- CIT (the Russian name: *nalog na pribyl' organizacii* – the tax on an organisation's profit); its rate has been increased from 20% to 25%, although companies in the information technology sector continue to pay only 5%.
- Turnover thresholds for the simplified tax regime (for small businesses) have been tightened.
- Certain enterprises using the simplified tax regime must now also pay *nalog s dobavlennoi stoimosti* (VAT) at rates of 5% and 7%, from which they were previously exempt.
- The land tax has been raised from 0.3% to 1.5%, and the real estate tax from 0.3% to 2.5% of the cadastral value when the latter exceeds RUB 300 million.
- Excise taxes have also been increased.

Together, these measures were expected to increase federal budget revenue in 2025 by RUB 3.6 trillion, which was approximately 1.5% of projected GDP.

[20] https://www.nalog.gov.ru/new2025/
[21] https://www.nalog.gov.ru/new2025/

Further changes in tax rates and rules were introduced from 1 January 2026[22]. Most importantly, the basic VAT rate was increased from 20 to 22%. The revenue criteria for the application of simplified tax rules (for small businesses) were further tightened.

4.7 Functional structure of GG total expenditure

A detailed analysis of government expenditure in Russia during the ongoing war is not possible due to a lack of data. The IMF GFS figures (Table 4.7.1) end in 2020, and the MoF data in 2021. Since 2022, the MoF has ceased publishing statistics on federal and consolidated budget expenditure by function of government and by economic classification. As a result, analysts must rely solely on fragmentary expert estimates and imperfect proxy sources.

Table 4.7.1 Detailed GG expenditure breakdown, functional classification, % of GDP, 2013–2020

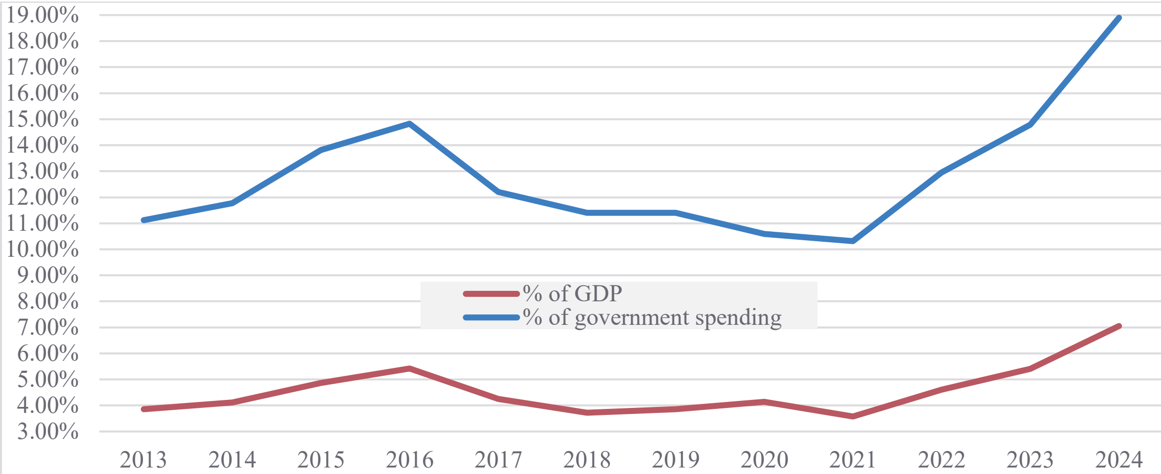
Expenditure item	2013	2014	2015	2016	2017	2018	2019	2020
Expenditure	38.69	40.33	39.57	37.82	36.63	34.32	37.79	41.32
General public services	8.73	10.17	15.28	7.86	6.66	5.66	8.25	9.91
Defence	2.27	2.42	2.12	2.32	2.05	1.78	1.86	1.95
Public order and safety	2.73	2.59	2.34	2.26	2.33	2.20	2.17	2.32
Economic affairs, of which:	3.65	5.21	2.62	3.48	3.83	4.39	4.31	4.65
Agriculture, fishing, forestry, and hunting	0.54	0.45	0.37	0.51	0.49	0.46	0.45	0.40
Mining, manufacturing, and construction	0.00	0.05	0.04	0.04	0.03	0.03	0.03	0.03
Transport	0.73	0.93	0.43	0.46	0.46	0.47	0.56	2.20
Communication	0.12	0.11	0.09	0.11	0.11	0.13	0.14	0.19
Fuel and energy	0.04	0.04	0.05	0.07	0.04	0.04	0.05	0.05
Environmental protection	0.06	0.08	0.05	0.10	0.14	0.15	0.22	0.25
Housing and community amenities	1.24	1.10	0.80	1.05	1.03	1.07	1.21	1.28
Health	3.13	3.14	2.73	3.62	3.02	3.17	3.35	2.20
Recreation, culture, and religion	1.13	0.90	0.37	0.86	0.94	0.90	0.98	0.97
Education	3.87	3.70	0.87	3.63	3.48	3.45	3.51	3.69
Social protection	11.87	11.01	12.41	12.64	13.16	11.54	11.93	14.10

Source: IMF GFS; downloaded on 24 April 2025

[22] https://www.nalog.gov.ru/new2026/

Given the purpose and thematic outline of this study (see Chapter 1), the dynamics of military expenditure are the most important. Expert estimates from the Stockholm International Peace Research Institute (SIPRI) can be used here. According to this source, Russia's military expenditure increased from 3.6% of GDP in 2021 to 4.6% in 2022, 5.4% in 2023, and 7.1% in 2024 (Figure 4.7.1). Total military expenditure in current prices and current exchange rates increased even more rapidly, more than doubling between 2020 and 2024 (Figure 4.7.2).

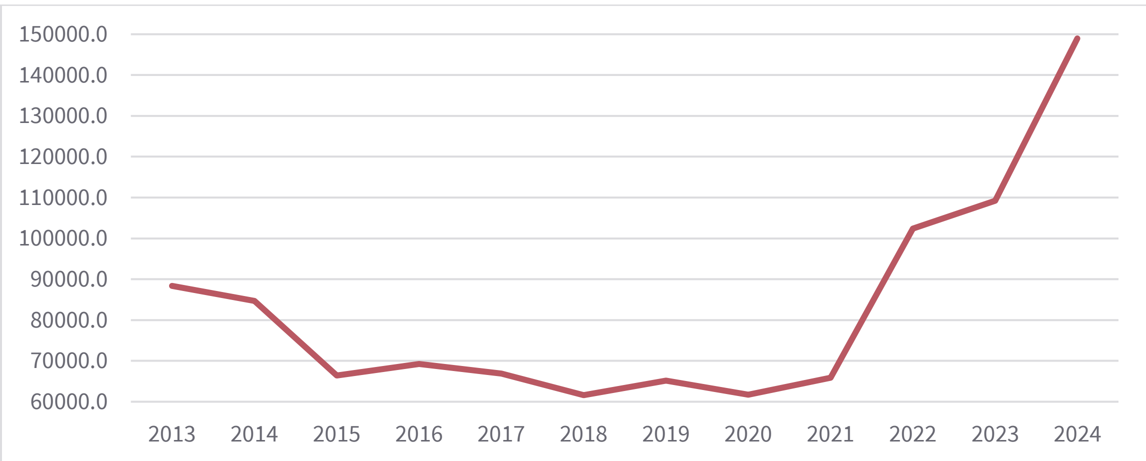
Figure 4.7.1 Russia: military expenditure, 2013–2023, as % of GDP and GG expenditure



Source: SIPRI Military Expenditure Database, https://www.sipri.org/databases/milex, downloaded on 20 May 2025

However, likely, the increase in war-related expenditure in the broader sense (beyond direct military expenditure) is even stronger. A substantial portion of such spending is likely "hidden" within other expenditure items, such as social spending, economic affairs, public order and safety, general public services, transfers to regions, and others. The discrepancy between the GFS defence spending, evidently underestimated (Table 4.7.1), and SIPRI estimates up to 2020 may support such a hypothesis.

Figure 4.7.2 Russia: military expenditures, 2013–2023, in current prices and current exchange rates, USD millions



Source: SIPRI Military Expenditure Database, https://www.sipri.org/databases/milex, downloaded on 20 May 2025

Table 4.7.2 Comparison of allocations in the federal budget acts for 2024 and 2025, selected functional expenditure items, in RUB billion, and % of total expenditure.

Expenditure item	Budget for 2024, after corrections		Budget for 2025, original version	
	in RUB billion	in % of total	in RUB billion	in % of total
Total	37,182.6		41,469.5	
social policy	7,896.0	21.2	6,881.5	16.5
national defence	10,374.7	27.9	13,087.4	31.5
national security and law enforcement	3,301.6	8.8	3,438.4	8.2
national economy	4,295.3	11.5	4,377.4	10.5
general transfers to regions	1,371.7	3.6	1,403.1	3.3
general public services	2,409.6	6.4	2,464.7	5.9
servicing public debt	2,293.9	6.1	3,181.7	7.6
healthcare	1,650.1	4.4	1,884.2	4.5
education	1,608.9	4.3	1,597.0	3.8
housing and communal services	1,073.1	2.8	1,815.5	4.3
environment	492.6	1.3	891.1	2.1

Source: https://minfin.gov.ru/common/upload/library/2024/12/main/BDG_2025-2027.pdf, and author's calculation; data downloaded on 02.06.2025

One proxy method for assessing changes in the functional structure of budget expenditure is to compare expenditure allocations in successive annual budget acts, which disaggregate spending by sector, government programme, and other categories. Such an analysis is far from perfect, for several reasons. Firstly, the disaggregation of expenditure in budget acts differs, sometimes significantly, from the GFS expenditure classification by government function. Secondly, budgets are frequently revised during implementation, and actual execution may differ from the planned figures. Thirdly, an analysis of budget spending allocations can be conducted in nominal RUB values rather than in real terms or shares of GDP.

Nevertheless, a comparison of the shares of selected functional expenditure items in the federal budget acts for 2024 (final version) and 2025 (original November 2024 version) in Table 4.7.2, reveals evidence of national defence crowding out non-war related spending – for example, on social policy, education, general transfers to regions, and general public services – as well as leading to stagnation in other areas, such as healthcare. Wisniewska (2024), who compares nominal allocation values, reaches similar conclusions. Table 4.7.1 suggests that stagnation in healthcare and education expenditure was evident long before the war began.

4.8 Deficit and debt financing

The GG deficit and debt are largely financed by the Russian financial sector (banks and non-banking financial institutions). At the end of 2023, Russian banks held 59% of the stock of federal government bonds (OFZ); non-state pension funds (*negosudarstvennye pensionnye fondy*) held 10%; other financial institutions 7%; insurance institutions 4%; and investment funds 2%. The general population held 4% of small-denomination OFZ, sometimes referred to as "people's" (*narodnye*) bonds. Non-financial institutions and various state-owned organisations each held 1%. 12% of OFZ were held by non-residents (Vasilieva, 2024).

OFZ have become the main source of deficit financing in 2025. On 1 November 2025, Russian commercial banks held 62.2% of the domestic public debt. However, OFZ accounted for only 8.4% of total banking assets[23].

The BoR does not finance GG debt. This is explicitly prohibited by Article 92.5 of Federal Law No. 145-FZ of 31 July 1998 on the Budget Code of the Russian Federation.[24] The BoR's net credit to GG is consistently negative (Bank of Russia, 2025a, Table 1.12), which is a result of its holding the government's accounts.

The role of non-residents is marginal and steadily declining due to Western financial sanctions and the capital control measures that the BoR introduced in 2022 (see Section 4.3). According to the IMF Fiscal Monitor, in 2024, non-residents (including official creditors) held only 7.4% of GG debt in Russia (IMF, 2025, Table A24), down from the 2023 figure provided by Vasilieva (2024). A financial market news service reports a further decline to 3.9% as of 1 March 2025 (Rusbonds, 2025). While the above-quoted non-resident shares in the government bond market show a consistent downward trend, the exact numbers may not be fully comparable, as they originate from different sources.

The average term to maturity of OFZs is projected to be 6.9 years in 2025, matching the average for emerging-market and middle-income economies (IMF, 2025, Table A24). Gross financing needs (comprising the projected overall deficit and maturing government debt) have been estimated at 1.8% of GDP in 2025, according to the same source. This remains a manageable level, even with the continued lack of access to international debt markets.

[23] Author's estimation based on https://cbr.ru/collection/collection/file/59437/razv_bs_25_10.xlsx and https://minfin.gov.ru/common/upload/library/2025/11/main/debtDynamics_ru_01.11.2025.xlsx

[24] See https://ivo.garant.ru/#/document/12112604/paragraph/6660:2

Figure 4.8.1 Yields on 1-year and 10-year federal government bonds, in %, January 2019 – January 2026

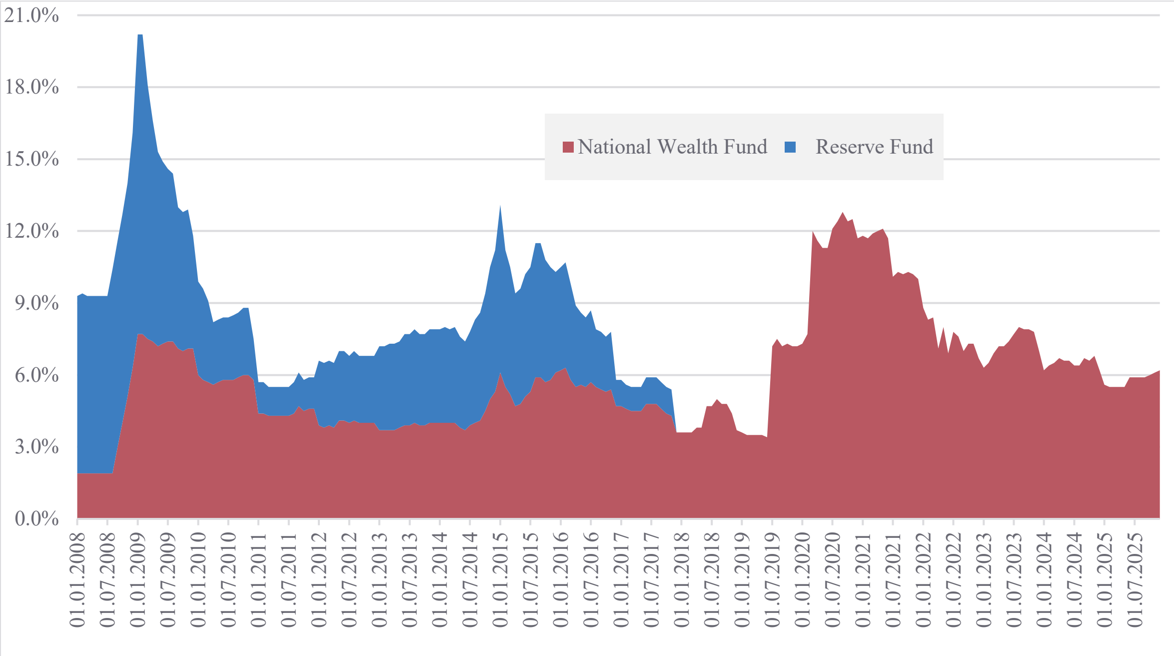
Source: Bank of Russia, https://cbr.ru/hd_base/zcyc_params/; data downloaded on 23 January 2026

Figure 4.8.1. shows that debt servicing has been growing increasingly expensive. Despite some short-term fluctuations, bond yields followed a growing trend through the end of 2024, exceeding the inflation rate from at least mid-2022. Moreover, in the second half of 2024, the yields on short-term 1-year bonds surpassed those on long-term 10-year bonds, which could be interpreted as an indication of rising risk perception and growing uncertainty. However, in 2025, long-term yields declined by a certain degree, and short-term ones fell even more sharply, converging toward the former (Figure 4.8.1).

Historically, the NWF and its institutional predecessors played an important role in financing the GG's fiscal deficit. However, since the beginning of the war in Ukraine, both total and liquid NWF assets have declined, despite some short-term fluctuations (the latter driven by changes in Urals oil prices and the RUB/USD exchange rate). This decline has been caused by ongoing fiscal deficits and new domestic investment projects financed from the fund (see Section 4.9.1). If this trend continues, the NWF's budget stabilisation function could disappear during 2025–2026. The NWF would then be able to continue its activity as a government investment fund engaged in various long-term projects.

Figure 4.8.2 shows the size of the SWF's total assets between January 2008 and December 2025. They reached their highest share in GDP (20.2%) in December 2008 and January 2009. The next peaks (although lower – at 13.1% and 12.8% of GDP, respectively) came in December 2014 and August 2020. On 1 January 2026, total NWF assets amounted to 6.2% of GDP.

Figure 4.8.2 SWF total assets, in % of GDP, January 2008 – December 2025



Source: https://minfin.gov.ru/common/upload/library/2018/01/main/Rezervnyy_fond__01-01-2018.xlsx; https://minfin.gov.ru/common/upload/library/2026/01/main/Dannye_na_01.01.2026_.xlsx, data downloaded on 23.01.2026

Figure 4.8.3 NWF liquid assets, RUB trillion, January 2019 – December 2025

Source: https://minfin.gov.ru/common/upload/library/2026/01/main/Dannye_na_01.01.2026_.xlsx and author's calculation; downloaded on 23.01.2026

Liquid assets peaked at the end of 2020 and have been in steady decline since then (Figure 4.8.3). In 2025, they slightly recovered. On 1 January 2026, they amounted to RUB 4.085 trillion, the equivalent of 1.9% of GDP forecasted for 2025.

4.9 Quasi-fiscal operations

The Russian war economy has reverted to large-scale QFOs, well known from the first stage of the post-communist transition in the 1990s. These operations are carried out by the NWF, the banking sector (particularly state-owned banks), and state-owned or state-controlled corporations.

4.9.1 QFOs conducted by the NWF

Since it was established in 2008, the NWF has been engaged in financing investment projects deemed strategically important by the government. However, following the outbreak of full-scale war in Ukraine in February 2022, the scale of such financing increased rapidly (see Box 4.9.1). By the end of 2025, its illiquid assets, including those engaged in investment projects, accounted for 4.3% of GDP (compare data presented in Figures 4.8.2 and 4.8.3)

Box 4.9.1 Domestic investment activities of the NWF

As of 1 March 2025, the NWF's assets were engaged (RBK, 2025), among other things, in:

- Shares of Sberbank (RUB 3.5 trillion), Russian Railways (RUB 722 billion), VTB Bank (RUB 214 billion), Aeroflot (RUB 172 billion), Gazprombank (RUB 165 billion)
- Corporate bonds of the State Company "Russian Highways" (Rosavtodor) (RUB 572 billion), the state-owned defence conglomerate Rostec (RUB 358 billion), leasing company NLK-Finans (RUB 277 billion), and GTLK – State Transport Leasing Company (RUB 175 billion)
- Deposits and subordinated deposits of the State Development Corporation VEB.ru (RUB 1 trillion)

Examples of investment projects financed by the NWF include (Belkin, 2024):

- Leasing of planes, ships, and land transport vehicles
- Construction of new aircraft
- Construction and modernisation of highways (e.g. Central Ring Highway; Moscow–Nizhniy Novgorod–Kazan and Kazan–Yekaterinburg highways)
- Modernisation of railways (e.g. Trans-Siberian Railway, Baikal-Amur Mainline, central railway junction)
- Processing of liquefied natural gas
- Development of oil-processing production capacity

4.9.2 QFOs conducted by the banking sector

The rapidly expanding volume of corporate credit, partly directed and subsidised by the federal government, has become the second – and increasingly important – channel of QFOs. Once again, government-directed corporate credit is not a new policy tool in the Russian economy. Such credit existed earlier (in the 2000s and 2010s), particularly to finance projects the government considered "strategically important", including those in the defence industry.[25] However, since mid-2022, there has been a marked acceleration in corporate credit growth (Figure 4.9.1), despite the high interest rates set by the BoR to curb inflation (see Section 4.4 and

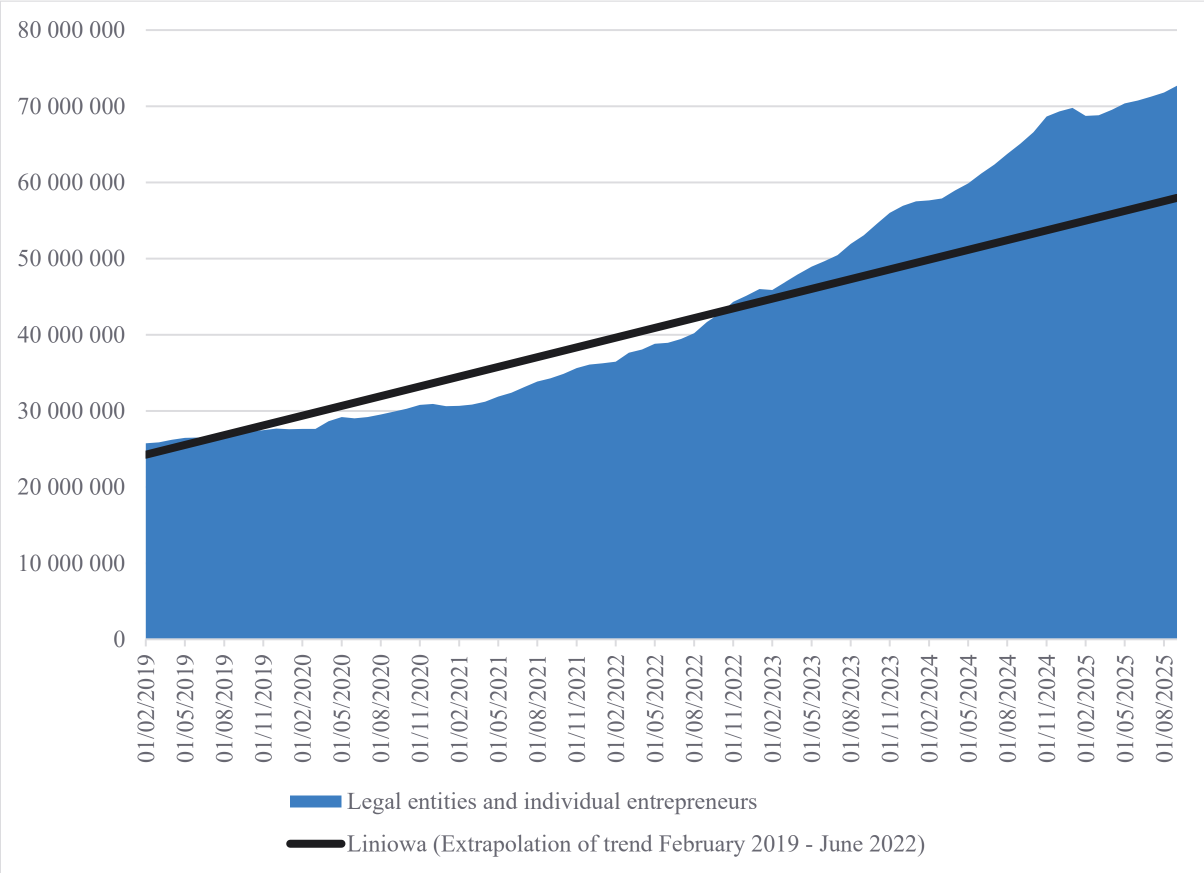
[25] See Kennedy (2025) for the historical analysis.

Figure 4.4.1). In such a tight monetary policy environment, the rapid increase in corporate credit appears to reflect government intervention in the credit market.

This may be interpreted as a hidden, quasi-fiscal way of financing the war effort (in a broad sense, including infrastructure projects and import-substitution), a way of compensating for underpriced government procurement or investment support aimed at increasing the production capacities of certain goods and services (see Kennedy, 2025). However, it is not easy to find explicit evidence or accurate figures.

Figure 4.9.2 presents a sectoral breakdown of corporate credit dynamics (according to the Russian Classification of Economic Activities (OKVED2)) between 1 February 2022 and 1 October 2025. We have chosen sectors that can potentially produce for the needs of war (along with civilian output), provide war-related services, and benefit from government support due to war or sanction-related damage.

Figure 4.9.1 Outstanding total amount of loans granted to resident legal entities and individual entrepreneurs, RUB million, February 2019 – August 2025



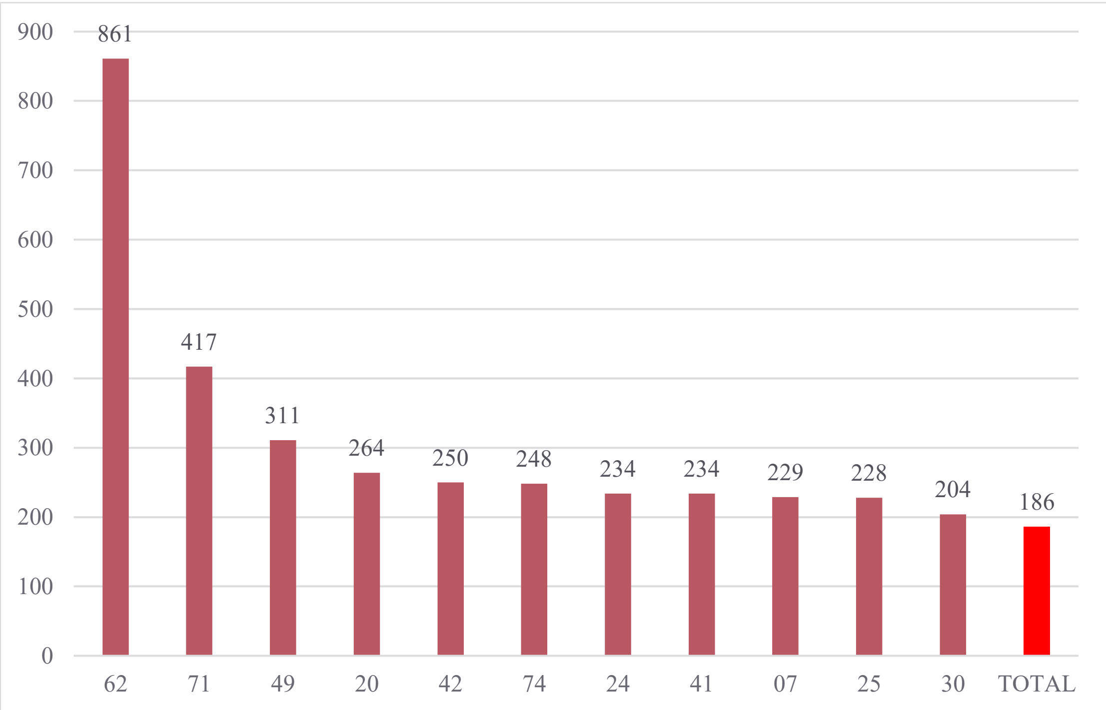
Source: author's estimation based on https://www.cbr.ru/vfs/eng/statistics/BankSector/Loans_to_corporations/01_02_A_Debt_corp_by_activity_e.xlsx, downloaded on 20 November 2025.

While the total amount of corporate loans increased by 86% in the examined period, several sectors recorded faster growth. These included: computer programming, consultancy, and related activities (by 761%); architectural and engineering activities; technical testing and analysis (by 317%); land transport and transport via pipelines (by 211%); manufacturing of chemicals and chemical products (by 164%); manufacturing of basic metals (by 134%); civil engineering (by 134%); manufacturing of fabricated metal products, except machinery and equipment (by 128%); and manufacturing of other transport equipment (by 104%).

Some of the above-listed sectors may be directly involved in war-related production of goods and services: manufacturing of chemical products; electrical equipment; basic metals; computers, electronic and optical products; other transport equipment; and computer programming. Others – for example, architectural and engineering activities; construction of buildings; civil engineering; information service activities; and mining of metal ores – may be partly or indirectly involved. Finally, lending to the transportation sector (including pipelines) signals an effort to develop and upgrade infrastructure, which is important for both civilian and military purposes, as well as for the structural and geographical reorientation of the Russian economy and trade (developing trade links with Asian economies at the expense of Europe, due to sanctions).

Kennedy (2025, Figure 15) also analyses a shorter period (between August and October 2024) when the BoR increased its key policy rate from 16% to 21%. According to his findings, sectors that are or are suspected to be involved in war-related efforts borrowed more than others.

Figure 4.9.2 Dynamics of corporate indebtedness (resident legal entities and individual entrepreneurs) on 01.10.2025, in selected sectors (OKVED2 classification), 01.02.2022 = 100



Note: The X-axis presents numbers of sectors, according to the Russian Classification of Economic Activities (OKVED2): 62-Computer programming, consultancy and related activities; 71-Architectural and engineering activities; technical testing and analysis; 49-Land transport and transport via pipelines; 20-Manufacture of chemicals and chemical products; 42-Civil engineering; 74-Other professional, scientific and technical activities; 24-Manufacture of basic metals; 41-Construction of buildings; 07-Mining of metal ores; 25-Manufacture of fabricated metal products, except machinery and equipment; 30-Manufacture of other transport equipment

Source: author's estimation based on https://www.cbr.ru/vfs/eng/statistics/BankSector/Loans_to_corporations/01_02_C_Debt_corp_by_activity_e.xlsx, downloaded on 20 November 2025

An important caveat to our and Kennedy's (2025) sectoral analyses concerns the imperfect methodology of sectoral identification. Firstly, the OKVED2 classification covers relatively broad and heterogeneous aggregates, and no further sectoral breakdown of corporate credit statistics is available. Secondly, many enterprises currently delivering goods and services for war-related purposes previously had a civilian profile. Others produce dual-use goods and services. Thirdly, conglomerates are classified under OKVED2 based on their original or main profile, which can sometimes be far removed from war-related activities, but does not preclude their involvement in war-related procurement. Fourthly, during the analysed period, there were also government-supported credit schemes unrelated to the war in Ukraine. Some were introduced during the COVID-19 pandemic and were temporary, though they were still active in 2022 and 2023, while others, such as support for small and medium-sized enterprises (SMEs),[26] had a more permanent character.

To summarise, it is practically impossible to identify precisely what portion of the rapid corporate credit growth is directly or indirectly related to the war in Ukraine. For our study, the aggregate analysis of QFOs is more important. We look at the scale and pace of corporate credit growth from mid-2022, when it had become clear that the so-called Special Military Operation – originally planned to take a few weeks – had failed and would last much longer, requiring greater resources.

It is also difficult to estimate the size of QFOs conducted through the banking sector after the outbreak of the war. Figure 4.9.1 suggests one possible method is to estimate the additional growth in corporate indebtedness from mid-2022 above the earlier trend. This methodological approach relies on several important assumptions. The most contentious of these concerns the benchmark trend – specifically, the extrapolation of credit growth from 2019 to 2022 and the assumption that this represents "natural" growth, free from government intervention. The government had interfered in the corporate credit market before (Kennedy, 2025), albeit on a smaller scale. Furthermore, in an environment of high interest rates (real and nominal – see Section 4.4), demand for corporate credit free of government intervention would likely have grown more slowly than it did between 2019 and mid-2022. This suggests that the actual scale of QFOs conducted via the banking sector may be larger.

The method suggested in Figure 4.9.1 gives the amount of RUB 13.6 trillion, which is approximately 6.2% of GDP forecasted for 2025 in the original federal budget. However, the volume of additional corporate credit should not be interpreted as additional public debt, since at least part of it may be repaid by the corporate borrowers. Only the portion that cannot be repaid (difficult to assess at the time of writing) will constitute a contingent fiscal liability (see Section 4.10).

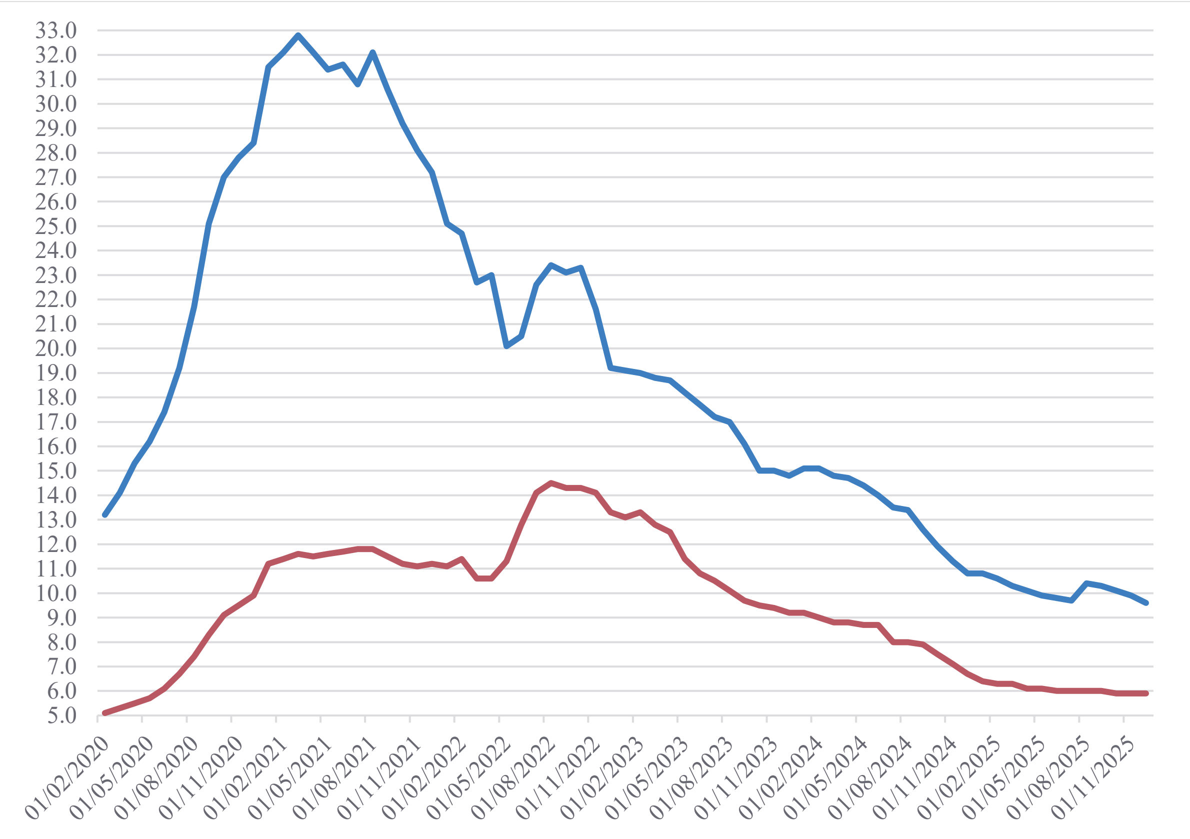
Another issue concerns the policy tools used to pressure or encourage banks to lend (and enterprises to borrow) beyond their microeconomic calculus. Interest rate subsidies are one such instrument. However, the share of preferential loans in the total corporate RUB-denominated loan portfolio reported by the BoR (Figure 4.9.3) is not high. It peaked at 14.5% on 1 August 2022, after which it went into a steady decline. As of 1 December 2025, its share stood at only 5.9%. Higher shares of preferential credit have been recorded by the BoR for SME lending, although these too have been declining since their peak of 32.8% on 1 March 2021. Overall, the figures provided by the BoR point to the legacy of earlier preferential programmes, and those from the COVID-19 period, rather than war-related initiatives.

[26] The so-called 1764 Programme – see https://мойбизнес.рф/anticrisis/antikrizisnye-programmy-lgotnogo-kreditovaniya-msp-ot-banka-rossii/

RE: RUSSIA (2024) provides significantly higher figures, stating that "*with the key interest rate at 19%* [that is, in September 2024 – MD]*, half of the corporate loan portfolio is serviced at rates below 10%*." However, it does cite an exact statistical source.

Subsequent federal budget laws set upper limits on government guarantees for corporate credits or bonds that serve to advance government objectives. In the 2024 budget,[27] this ceiling was RUB 329 billion (0.9% of the outstanding amount of corporate credit at the end of 2024, and 0.16% of GDP in 2024). In the 2025 budget,[28] it amounts to RUB 286 billion, or 0.13% of the forecasted GDP. Again, these are relatively small numbers.

Figure 4.9.3 Share of outstanding RUB loans granted to resident legal entities and individual entrepreneurs at a preferential interest rate (blue line), including SMEs (orange line), in total loans of the respective category, %, February 2020 – December 2025



Source: https://www.cbr.ru/vfs/eng/statistics/banksector/loans_to_corporations/02_05_concessional_loans_e.xlsx; author's estimations, downloaded on 24 January 2026

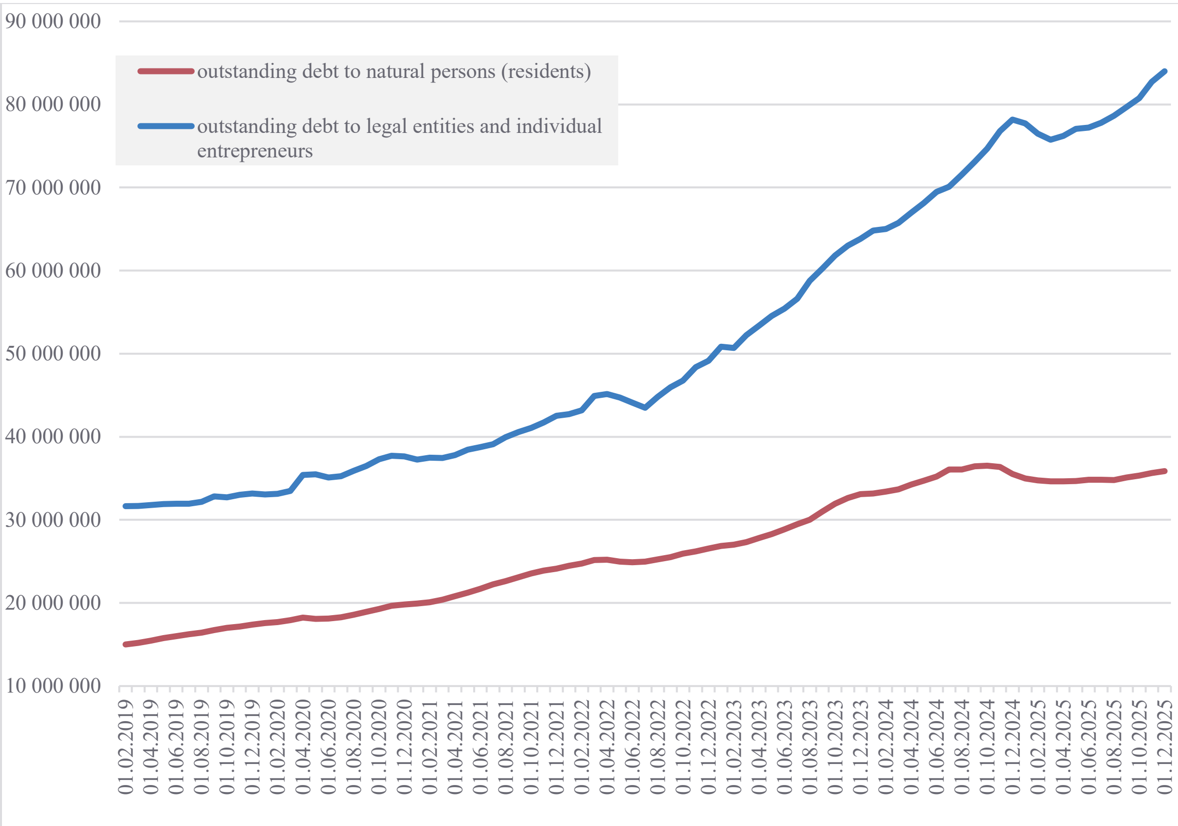
It is also worth drawing attention to the institution of the "authorised" bank, introduced by Federal Law No. 275-FZ of 29.12.2012 on the state defence order (with several later changes). Such a bank performs the role of financial monitoring and enforcement of defence contracts on behalf of the government or the Ministry of

[27] Federal Law No. 540-FZ of 27.11.2023 on the federal budget for 2024 and planning period of 2025–2026 – https://www.consultant.ru/document/cons_doc_LAW_462891/ec387a020ff3bec7d4154a26c81d1c38f905d219/
[28] Federal Law No. 419-FZ of 30.11.2024 on the federal budget for 2025 and planning period of 2026–2027 – https://www.consultant.ru/document/cons_doc_LAW_491969/4b0d3bba45f339d18759b6f792e143dcadc06194/

Defence. This resembles the role that banks used to play in a centrally planned economy, rather than the provision of financial services to enterprises in a market economy. Article 8.2, paragraph 9.1[29] of this law obliges "authorised" banks to provide concessionary financing to enterprises engaged in fulfilling defence and other government contracts, on terms determined by the federal government.

The law does not specify whether "authorised" banks[30] are financially compensated for concessionary lending, or in what form. One possibility is that they are not compensated and must offer concessional loans at their own expense. Such a conclusion may be indirectly inferred from Kennedy's (2025) study. If that is indeed the case, these "authorised" banks are likely to offset losses and risks associated with such loans by charging other clients higher interest rate margins, a form of cross-subsidisation and QFO.

Figure 4.9.4 Outstanding total amount of loans granted to resident legal entities and individual entrepreneurs (orange line) and natural persons (blue line), RUB million, February 2019 – December 2025



Source: Author's estimation based on https://www.cbr.ru/vfs/statistics/BankSector/Loans_to_corporations/01_02_A_Debt_corp_by_activity.xlsx and https://www.cbr.ru/vfs/statistics/BankSector/Mortgage/02_05_Debt_ind.xlsx, downloaded on 24 January 2026.

The rapid growth of corporate credit driven by QFOs has had several negative consequences. Firstly, it has blurred the boundaries between the government, the financial sector, and corporate finance, making fiscal statistics incomplete and, as a result, misleading. Secondly, it has introduced distortions in both the

[29] https://legalacts.ru/doc/FZ-o-gosudarstvennom-oboronnom-zakaze/glava-3.1/statja-8.2/
[30] An important role in the implementation and financing of defence orders is played by the state-owned Promsvyaz' Bank.

corporate and banking sectors, as market-based credit allocation to the most efficient borrowers has been partly replaced by government preferences. "Ordinary" borrowers must pay higher interest rates than "privileged" ones (Kennedy, 2025). Thirdly, it has contributed to increasing concentration in banking services, favouring large state-owned banks (Yakushkina et al., 2024). Fourthly, it could lead to a deterioration in the quality of banking assets and an increase in corporate failures (see Section 4.10). Fifthly, it helps explain the BoR's difficulties in containing inflation (see Section 4.4).

The federal government and the BoR have sought to offset the rapid growth of corporate credit, driven by the war and sanctions-related needs, by curbing growth in other segments of the credit market. For example, in mid-2024, a large programme of subsidised mortgage loans was terminated, leading to a deceleration and then decline in the volume of outstanding loans to resident natural persons at the end of 2024 (RE: RUSSIA, 2024), as seen in Figure 4.9.4.

4.9.3 QFOs carried out by the corporate sector

Burdening state-owned and state-controlled enterprises (and occasionally private corporations) with the financing and provision of public goods has also long been a tradition in Russia, dating back to the Soviet era. In the post-communist period, cross-subsidisation within the energy sector (in favour of retail consumers and at the expense of industrial users) has been the most prominent example.

As there are no available statistics on QFOs carried out in the corporate sector during the war in Ukraine, one must rely solely on anecdotal accounts. The financing and organisation of two battalions that fought in Ukraine by Gazprom in 2022–2023 (Ivanova et al., 2023) is the best-known and most striking case of such activities.

However, the aggregate scale of QFOs carried out by the corporate sector does not appear to be significant compared to those conducted via the banking sector or the NWF.

4.10 Contingent and implicit fiscal liabilities

The main source of contingent fiscal liabilities in Russia stems from the potential bailout of troubled financial institutions and non-financial corporations. Rapid corporate credit growth, despite high interest rates (see Subsection 4.9.2), may lead to a deterioration in the asset portfolios of banks and non-banking financial institutions.

While the share of non-performing loans in total gross loans (Figure 4.10.1) is low and declining (since its peak in the first half of 2020), this may not reflect all the potential risks associated with the corporate credit boom observed since mid-2022. The relaxation of micro- and macroprudential regulations and reporting requirements after the outbreak of the full-scale war in 2022 (Kennedy, 2025) may have encouraged banks and other financial institutions to turn a blind eye to increasing credit risks linked to the rapid expansion of corporate lending.

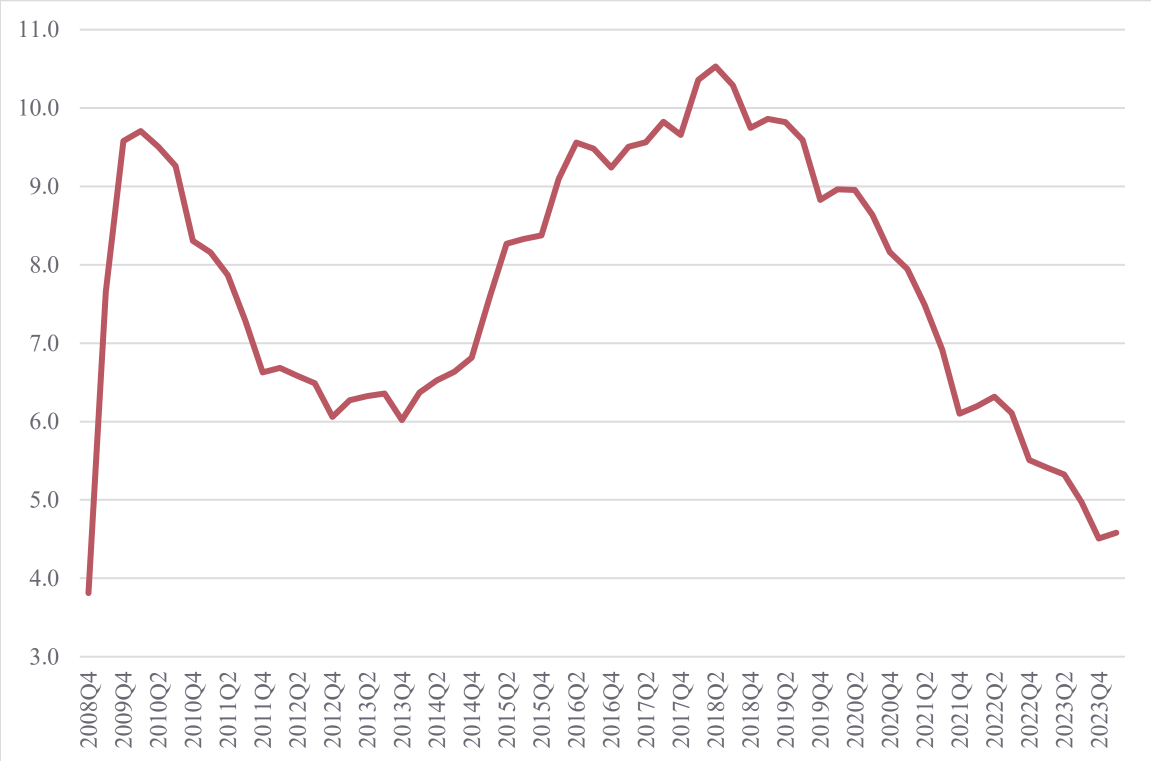
Corporate failures could be another source of future contingent fiscal liabilities. Gazprom, which has been severely affected by the loss of European markets, has probably become the most troubled large corporation. Its financial results and balance sheets have deteriorated since the beginning of the war.[31] From

[31] https://www.investing.com/equities/gazprom-balance-sheet. See also Stognei and Seddon (2025).

1 January 2025, Gazprom was exempted from paying a higher rate of mineral extraction tax,[32] which was introduced in 2022.[33]

Apart from Gazprom, other companies suffering from Western sanctions or involved in war-related efforts may also require government financial support or an explicit bailout in the future. For example, if the war comes to a definitive end, a large part of the military industry (mostly state-owned) may face problems in downsizing their government defence orders, and could require state aid for conversion (see Chapter 5).

Figure 4.10.1. Non-performing Loans to Total Gross Loans, %,



Source: IMF Financial Soundness Indicators, data downloaded on 23 April 2025

Implicit fiscal liabilities refer to future government obligations arising from existing legislation, and are not included in GG gross debt statistics, according to the IMF GFS standards (GFSM, 2014). In countries experiencing population decline and ageing (Russia belongs to this group), there are two major items: implicit public pension liabilities and implicit public healthcare and long-term care liabilities.

The IMF Fiscal Monitor (IMF, 2025, Table A24) estimates the net present value of the total cumulative increase in pension spending between 2024 and 2050 at 54.8% of GDP (close to the emerging-market and middle-income economies average of 55.8%), and healthcare spending for the same period at 32.8% of GDP (above the reference group average of 22.8%). Between 2024 and 2030, annual pension spending will increase by 1.6 pp of GDP, and healthcare spending by 0.6 pp (IMF, 2025, Table A24). This suggests that rising public pension and healthcare spending will pose a serious additional fiscal burden in the medium-to-long term, but not necessarily in the short term.

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[32] https://www.kommersant.ru/doc/7249349
[33] https://www.rbc.ru/economics/29/09/2022/6334b9219a79474099799e45

5. Short- to medium-term macroeconomic and fiscal prospects

Discussing Russia's macroeconomic and fiscal prospects, even in the short term, is a challenging task due to several uncertainties. The first and most significant concerns the ongoing war in Ukraine, which plays a decisive role on the expenditure side of the Russian budget, including QFOs. Despite diplomatic initiatives by the US administration, at the time of updating this study (January 2026), neither a peace agreement between Russia and Ukraine nor even a temporary ceasefire appears likely in the immediate future. However, such a development cannot be entirely ruled out in 2026.

The second major uncertainty is related to global economic conditions, which in turn affect global oil prices, the key parameter determining the revenue side of the Russian budget. Brent and Urals crude oil prices have been on a downward trend since April 2024 (Figure 4.6.3), which has been reinforced by the turbulence in the global trade system caused by the protectionist policies of the Trump administration. However, forecasting future oil prices, even just a few months ahead, is a risky exercise. They will depend on the future of global trade and, by extension, global growth, as well as factors such as OPEC+ production quota decisions and the security situation in the Middle East. In the case of the Urals price, the effectiveness of the G7 sanctions regime is another important factor.

The Federal Law of 30 November 2024 (No. 419-FZ) on the Federal Budget for 2025 and the planning period of 2026 and 2027[34] was based on the optimistic macroeconomic assumptions of real growth of 2.5%, end-of-year inflation of 4.1%, and average Urals oil price of USD 69.7 per barrel in 2025. These assumptions have been called into question by the actual macroeconomic developments in 2025.

According to the IMF (2026) estimates, the real GDP in Russia grew by only 0.6% in 2025. On the other hand, higher inflation offset this negative effect by increasing GDP in nominal terms. However, higher inflation also increases pressure for nominal expenditure.

The actual Urals price was lower and declining (see above and Figure 4.6.3). A stronger-than-expected rouble has also negatively affected hydrocarbon revenues in national currency terms, although it could benefit the expenditure side of the budget since it reduces the RUB price of imported goods and services.

At the time of updating this study (January 2025), there are no annual fiscal data for 2025. However, we estimate that the GG fiscal deficit will amount to above 2% of GDP, that is more than in the original federal budget law for 2025 (-0.5% of GDP) and its June 2025 revision (-1.7% of GDP)[35], closer to the forecast of the IMF World Economic Outlook, October 2025 edition (-2.7% - see Table 4.1.1).

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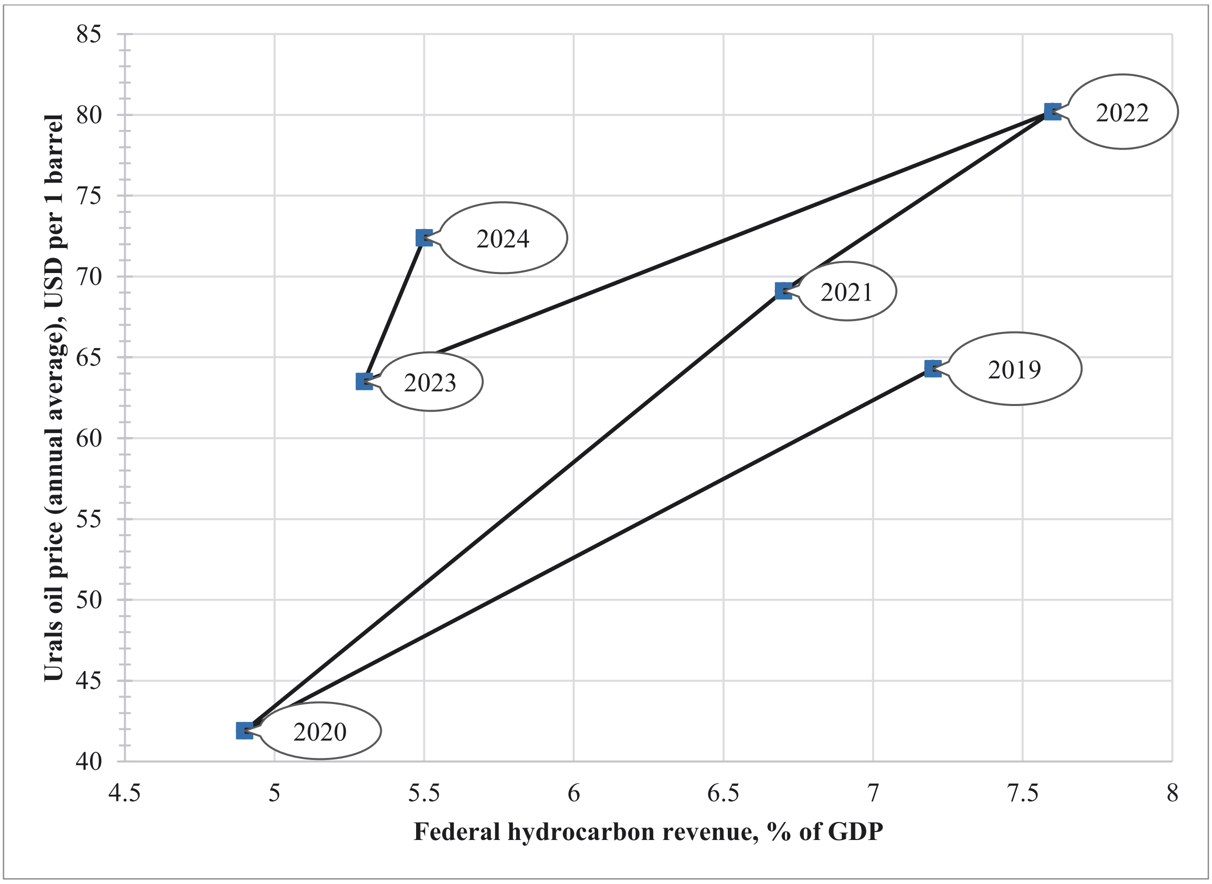
[34] http://publication.pravo.gov.ru/document/0001202412010001 It was revised twice – in June 2025 and November 2025

[35] https://www.interfax.ru/business/1023674

Looking ahead, despite the federal budget's decreasing reliance on hydrocarbon revenue (see Subsection 4.6.2 and Figure 4.6.4), its share in the total revenue remains significant enough to make it vulnerable to changes in the Urals oil price.

Figure 5.1 Changes in Urals prices and their impact on federal hydrocarbon revenue, 2019–2025



Source: see Figures 4.6.2 and 4.6.4, and author's calculation

Figure 5.1 shows how changes in the Urals price impacted the level of hydrocarbon revenue between 2019 and 2024. There was no and could be no linear dependence between the two due to changes in the exported oil volume, fixed production and transportation costs,[36] and changes in the tax system. After all, marginal rent (which is subject to taxation) increases disproportionally when the Urals price rises, and vice versa. However, based on the data presented in Figure 5.1, one can assume that a change in the Urals price by USD 10 per barrel results in a change in the federal revenue of around 1–1.5 pp of GDP.[37] For example, the June 2025 budget correction analysed above was calculated according to such an interrelation.

Looking ahead, if the downward trend in oil prices continues (regardless of the reason for such a decline) and the Urals price falls below 50 USD per barrel, it will further decrease the hydrocarbon revenue of the federal budget, other things being equal. If not offset by a corresponding increase in non-hydrocarbon revenue or

[36] Only the surplus over these fixed costs can be taxed.
[37] 2024 appears to be an exception. The increase in average annual Urals price by almost 9 USD per barrel generated additional hydrocarbon revenue of only 0.2% of GDP. Changes in the tax system may be among the potential causes of this deviation from the long-term relationship.

further expenditure cuts, this will lead to an even higher deficit and higher public sector borrowing requirements (given the low level of liquid NWF assets).

Conversely, if the Urals price recovers to a level close to USD 70 per barrel, the federal budget could gain additional breathing space, as happened in the first half of 2022 and the second half of 2023.

As mentioned earlier, the expenditure side of the Russian budget is determined primarily by war-related spending. Figure 4.7.1 shows that military expenditure increased by at least 1% of GDP in each year of the war. If the full-scale conflict continues, this spending can be expected to rise further, at a similar pace or even faster, given the depletion of old stocks of military equipment and ammunition, increasing marginal costs of military production and imports, and the need for military recruitment, among other things.

Even if the war does stop, that will not bring about an immediate decline in war-related spending. In the event of a temporary ceasefire (rather than a durable peace), military potential (personnel and material resources) will most likely be maintained, ready for the resumption of combat. However, even in the scenario of permanent and sustainable peace, a substantial share of war-related expenditure will continue – at least for some time – to rebuild war-affected and occupied territories, replenish depleted stocks of military equipment, provide social support to war veterans and their families, help demobilised military personnel return to the civilian labour market, assist the military industry in converting its production to civilian needs, and serve other related purposes. If government military procurement were reduced too fast, it could lead to mass bankruptcies in the military-industrial sector and deterioration of the loan portfolios of the banks serving these enterprises.

Many countries' experiences of post-war demobilisation and demilitarisation have demonstrated that it is a lengthy, economically costly, and socially painful process. Such was also the case with the demilitarisation of post-Soviet economies in the 1990s.

Given all the aforementioned circumstances, one can assume that a lasting peace or ceasefire agreement would halt any further increase in war-related spending (bringing about its stabilisation), and only after some time (most likely two or three years) triggers its gradual decrease.

However, peace or even a ceasefire could also bring fiscal benefits, for example, increased domestic demand for government bonds and their lower yields due to reduced uncertainty, or the gradual suspension or even removal of certain financial sanctions, enabling Russia's return to international financial markets.

In summary, the future of Russia's fiscal situation will depend on how the war unfolds (on the expenditure side of the budget) and on oil prices (on the revenue side).

In the worst-case scenario for the Russian budget, which would be the continuation of the full-scale war coupled with a further decline in oil prices, serious tensions would be possible in 2026. Another scenario, in which the war continues in an environment of improving Urals oil prices, for example, to the average 2024 level, could see the fiscal crisis postponed by some time (let us say one year), but cannot eliminate such a risk.

Fiscal policy in Russia still has some room for manoeuvre. It can continue raising direct and indirect non-hydrocarbon taxes, reducing non-war-related expenditure, and increasing domestic borrowing. However, each of these options has its limits. Higher non-hydrocarbon taxes could reduce private consumption and investment, further slowing economic growth. Tax avoidance would also be encouraged. The least economically painful way to increase revenue from non-hydrocarbon taxation would be to eliminate the many tax exemptions (tax expenditures). However, such a reform would face resistance from diverse and powerful sectoral, industrial, and regional lobbies that benefit from such exemptions. It would also require radical change in various industrial and regional policies, in which differentiated taxation serves as the primary policy tool.

The crowding out of non-war-related expenditure by spending on the war effort has a long tradition in Russia (see Section 4.7), but it too has clear limits. Further cuts to government expenditure on such fundamental public services as education and healthcare, or the incomplete indexation of public sector salaries, pensions, and social benefits, could undermine social and political stability.

More domestic borrowing is still possible, but most likely at increasing cost. Given the relative shallowness of the domestic financial market (as compared to most advanced economies), there are probably limits to government borrowing on market terms. Resorting to financial repression or the forced placement of government bonds in domestic financial institutions could lead to an accumulation of contingent fiscal liabilities and crowd out credit to the private sector. Similar effects could be produced through the continuation of QFOs in the banking sector, as analysed in Section 4.9.2.

6. Summary and conclusions

Every war brings an additional fiscal burden. Given the scale of Russia's military engagement in the war in Ukraine, this burden must be significant. During its first three years, the Russian economy and public finances demonstrated a high level of resilience despite the war's increasing costs and the extensive economic and financial sanctions imposed on Russia by the coalition of Western countries. The immediate economic and financial shocks that followed the outbreak of war and introduction of sanctions were more limited than anticipated by many Russian and non-Russian experts, and were short-lived. A shallow recession of 1.4% in 2022 was followed by solid growth in 2023–2024, partly facilitated by high oil prices, and partly fuelled by the rise in war-related spending and corporate credit growth. Although fiscal accounts deteriorated, they remained under control and in relatively safe territory. A consistent current account surplus has helped soften the impact of approximately half of Russia's international reserves being immobilised.

There are four main factors behind the resilience described above. First of all, despite the increased share of state ownership and government intervention in business activity (since the GFC), the Russian economy has retained sufficient microeconomic flexibility, which helped in its fast adaptation to the new conditions. Secondly, in retrospect, the Russian authorities had already begun preparing the economy and the country for the geopolitical confrontation with the US, EU, and their allies, at least since the annexation of Crimea in 2014. These preparations included the development of an independent payment system, the technical and administrative infrastructure to control the internet, import-substitution programmes, and many others (Dabrowski and Avdasheva, 2023). The conservative fiscal and monetary policies facilitated by a partial independence of the BoR, fiscal rules, and SWFs, and backed by President Vladimir Putin, may also be interpreted as an effort to strengthen the country's macroeconomic resilience. Thirdly, the international sanctions coalition has been geographically incomplete, embracing countries that represent approximately only half of the world's GDP. This left enormous room for the circumvention of sanctions and reduced their effectiveness. Finally, both the federal government and the BoR have demonstrated strong crisis management capabilities in the economic and financial spheres, especially in the critical period immediately following the start of the war and the imposition of sanctions.

Nevertheless, after more than three years of war, the associated fiscal and quasi-fiscal costs have grown significantly and started to challenge macroeconomic and financial stability.

Inflation has long been well above the BoR target of 4% annually. This is undermining the standard of living for a substantial portion of Russia's population, creating risks to social and political stability. Even if it is helping to collect more nominal revenue in the short term, it is also creating huge pressure for parallel expenditure adjustment. The national currency is on a depreciating path, even if the BoR or market developments occasionally manage to reverse this trend. Both inflation and RUB depreciation undermine confidence in the domestic currency, encourage currency substitution, and weaken financial stability.

Fighting inflation through the classical means applied by central banks (higher policy interest rates) is both difficult and economically costly, given the large share of preferential loans extended at below-market interest rates based on the government's political decisions rather than banks' assessments. The privileged borrowers are partially protected from higher BoR interest rates while non-privileged borrowers must bear the full burden of monetary tightening. In addition, large-scale corporate lending on concessionary terms and based on administrative decisions creates future default risks in both the corporate and financial sectors (even if not yet reflected in publicly available statistics).

The high growth rates associated with war-related public spending and corporate credit boom seem to be decelerating quickly, as seen in the preliminary estimates of GDP dynamics in 2025. Capacity constraints, including labour shortages, appear to be the primary causes behind slower growth in war-related sectors. In addition, geopolitical choices made in 2014 and the resulting economic decoupling from most advanced economies will hurt long-term growth potential. The high level of war-related spending imposes deadweight costs on social welfare.

For the Russian federal budget, growth deceleration means limited scope for increasing non-hydrocarbon revenue. On the other hand, the declining oil prices, underpinned (among other things) by the trade protectionism of the Trump administration and resulting in slower global growth, are dealing a serious blow to federal revenue, as reflected in the May 2025 budget revision. Unless this trend is reversed, the declining Urals prices could lead to fiscal stress sooner than expected.

Despite all these challenges, the Russian government still has some room to manoeuvre in the short term, that is, in 2026. It still holds some fiscal reserves (NWF liquid assets), can increase domestic borrowing, and attempt to increase non-hydrocarbon taxation – for example, by eliminating various tax exemptions. However, all these adjustment tools are limited in scope and could prolong survival for another year, perhaps two, without the risk of fiscal and macroeconomic crises.

The only way to ensure medium-to-long-term fiscal sustainability is to end the war – even if, as argued in Chapter 5, this cannot deliver an immediate peace dividend.

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