Reality and Assessment of the Russian Economy in Spring 2025: Data and Independent Opinions

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Abstract

This report examines the structural, fiscal, and external dynamics shaping the Russian economy as of spring 2025. Drawing on official statistics, independent expert analysis, and international data sources, it outlines the convergence of multiple crisis factors, including the militarization of economic growth, weakening private sector activity, persistent inflationary pressures, and the erosion of fiscal and monetary resilience.

The analysis highlights the deepening technological isolation, demographic challenges, and external trade constraints facing Russia amid sustained sanctions pressure. Special attention is given to the contradictory effects of monetary and fiscal policies, the rising share of military expenditures, the stagnation of civilian industries, and the growing vulnerability of households.

The report concludes that without comprehensive institutional reforms, strategic external reintegration, and a recalibration of fiscal priorities, the Russian economy risks becoming trapped in a prolonged cycle of stagnation, structural degradation, and social fragmentation.

This assessment aims to provide a comprehensive and independent overview of Russia's macroeconomic trajectory at a critical juncture, offering insights for policymakers, researchers, and international observers.

1. Introduction

By late April, the Russian economy is experiencing an intersection of multiple economic crises. Slowing global demand, falling oil and gas prices, rising trade barriers, the tightening of Western sanctions, and domestic structural constraints are exerting sustained downward pressure on the country's macroeconomic performance.

Despite nominal growth in select defense-linked sectors, Russia's broader economic conditions continue to deteriorate. The growth of GDP has slowed, household consumption remains weak, and inflationary pressures persist. Investment activity is faltering, real incomes are declining, and social inequality is deepening. Although headline indicators still reflect statistical growth in certain areas, these mask stagnation or contraction in civilian sectors and an increasingly militarized pattern of resource allocation.

Budgetary priorities continue to shift toward defense and security expenditures, contributing to a weakening of physical infrastructure, technological stagnation, and capital flight. Meanwhile, the demographic situation continues to worsen, further constraining labor market capacity. Under these conditions, domestic mechanisms of economic support—such as fiscal stimulus, sovereign reserves, and internal credit—are proving insufficient to offset external shocks or reverse internal imbalances.

This report draws on a wide range of open-source economic data and independent expert commentary, including official publications from the Bank of Russia, Rosstat, and the Ministry of Finance, as well as analysis by institutions such as SIPRI, IISS, and leading Russian economists. Particular emphasis is placed on the interplay between macroeconomic indicators, sectoral shifts, monetary and fiscal policy, and the broader geopolitical context.

The structure of the report is as follows: Section 2 presents a macroeconomic overview with a focus on GDP, inflation, exchange rates, and monetary policy; Section 3 examines structural and sectoral challenges; Section 4 addresses external constraints including sanctions and migration; Section 5 explores budgetary priorities and social dynamics; and Section 6 offers concluding assessments. This framing provides a comprehensive picture of the Russian economy in spring 2025, combining quantitative indicators with qualitative diagnosis.

2. Macroeconomic Overview

2.1. GDP Trends

By April 2025, the Russian economy, despite the nominal growth of GDP, continues to face serious structural weaknesses. These include technological lag, demographic decline, and the deterioration of infrastructure. Additional limiting factors include a shortage of modern technologies and qualified personnel, a dependency on imported components, and the prioritization of budget allocations towards the defense sector.

The dollar equivalent of GDP remains below the 2013 level, reflecting the weakening of the ruble and the consequences of sanctions pressure: in 2024, Russia's GDP amounted to $2.16 trillion compared to $2.29 trillion in 2013 (World Bank, 2025), highlighting persistent imbalances and limited potential for long-term growth.

A short-lived acceleration in late 2024 resulted from increased government spending and a widening budget deficit (Bank of Russia, 2025c). However, as this stimulus was exhausted, growth rates began to slow. A decline in business orders and stagnation in investment activity confirm the structural weakness of the economy, as acknowledged even by the Ministry of Economic Development (Interfax.ru, 2025). The low level of investment activity, observed even amid temporary fiscal stimulus, points to the limited potential for rapid growth. Without addressing institutional barriers to investment inflows, the recovery of GDP growth rates will likely remain constrained even under favorable external conditions.

Following temporary stabilization in 2023, the Russian economy faces renewed stagnation. Growth is increasingly concentrated within the defense sector, while civilian and export-oriented industries continue to contract under sanctions pressure and structural deficiencies. This asymmetry distorts employment patterns, erodes human capital quality, and worsens regional disparities.

Table 1. Contribution to GDP Growth by Sector (Illustrative, 2024–2025)

Sector	Estimated Contribution to GDP Growth (%)	Trend (2024–2025)
Defense Industry	1.8%	Positive growth, state-funded
Civilian Manufacturing	0.3%	Stagnation or slight decline
Construction	0.2%	Stagnation
Retail and Services	−0.1%	Decline
Export-Oriented Industries	−0.4%	Contraction due to sanctions

Source: Compiled by the author based on data from the Bank of Russia (2025c, 2025d), the Ministry of Economic Development of the Russian Federation (Interfax.ru, 2025), and selected sectoral reports.

2.2. New Assessments by the Bank of Russia

In April 2025, the Bank of Russia revised its external economic forecast in response to escalating global trade tensions and a downward adjustment in global growth expectations (Bank of Russia, 2025e). The updated baseline scenario includes a lower Brent crude oil price assumption of $68 per barrel for 2025, down from the previously expected $81. The actual market price dipped below $60 in early Q2 but stabilized near $67 by April. The average price of Urals crude is

projected to fall from $70 per barrel in 2024 to $56 in 2025, with a partial recovery to $61 expected by 2026.
The Bank of Russia's February 2025 forecast anticipates real GDP growth of 1–2%, effectively acknowledging prolonged stagnation through 2026 (Bank of Russia, 2025d). Even the Ministry of Economic Development has acknowledged stagnation in investment and production (Interfax.ru, 2025).
According to the World Bank, Russia's dollar-denominated GDP in 2024 remained below its 2013 level ($2.16 trillion vs. $2.29 trillion), underscoring limited recovery and the cumulative impact of sanctions and ruble depreciation (World Bank, 2025).
The central bank identifies key external risks: the deepening of trade wars, higher import tariffs, and weakening global demand — all of which are expected to significantly reduce export revenues and shrink the trade surplus by approximately one-third compared to previous projections. While export volumes may contract, import volumes are forecast to remain relatively stable, further eroding the trade balance.
At the same time, domestic demand is weakening. Following a temporary surge in January 2025, household consumption — especially in durable goods — has begun to slow, reflecting declining purchasing power and confidence. The Bank highlights a growing risk of self-reinforcing stagnation: weak demand depresses economic activity, which in turn deters private investment and limits growth.
The Bank also outlines three principal risks to the macroeconomic outlook:

- Continued deterioration in external demand and energy prices;
- Persistently high inflation inertia, with inflation exceeding the target for a fourth consecutive year;
- Rising fiscal risks, which necessitate tighter budgetary discipline.

While the Bank of Russia continues to emphasize the need for tight monetary policy, fiscally responsible budgeting, and structural adjustment, it faces a mounting policy dilemma. Sustaining restrictive monetary conditions amid declining domestic demand may prove counterproductive, requiring greater flexibility from the Central Bank later in the year.

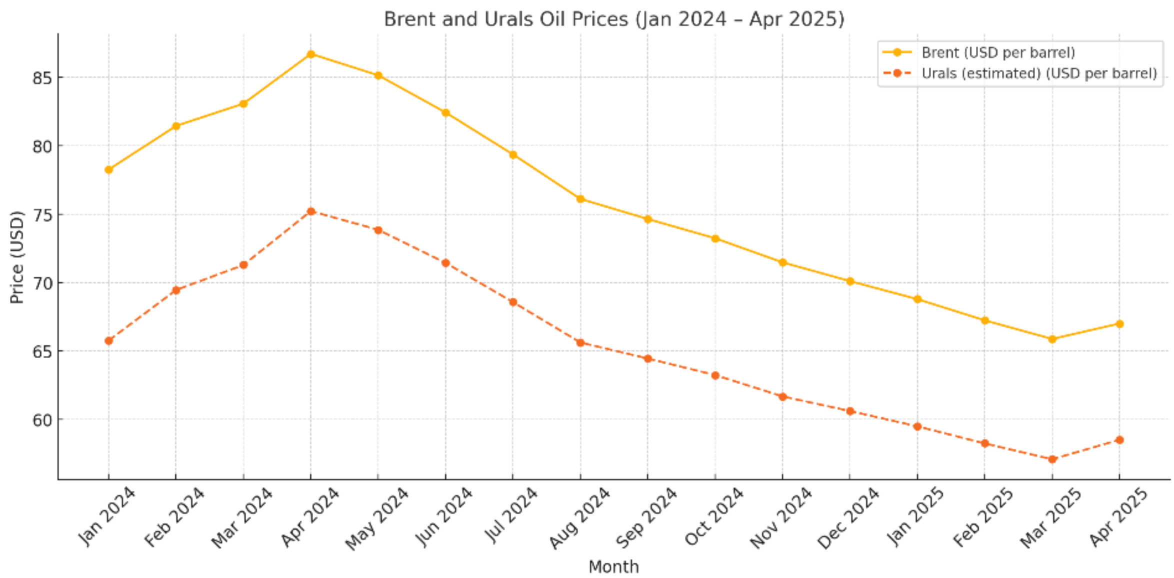

Figure 1. Dynamics of Brent and Estimated Urals Oil Prices (January 2024 – April 2025).
Brent price data sourced from Investing.com (2025). Urals prices are calculated by applying typical monthly Urals-Brent differentials.

Inflationary pressures, reinforced by weakening domestic demand, have become a central macroeconomic challenge by spring 2025.

2.3. Inflation

The economic situation in Russia in 2025 remains under significant pressure from high inflation, despite the Central Bank's efforts to contain it. As of April 2025, observed inflation stands at 14% year-on-year, while expected inflation over the next 12 months remains at 13–14% (inFOM, 2025). This reflects not only the persistence of inflationary expectations, but also growing pressure on consumer behavior and economic sentiment among households. Sustained inflation expectations, deeply rooted in public perception, create a risk of upward pressure on prices. Even if fundamental macroeconomic parameters stabilize, businesses and households may continue to incorporate expected price increases into their behavior, complicating efforts to curb inflation without additional stringent measures.

The main drivers of inflation growth in 2025 include the weakening of the ruble: in January, the exchange rate stabilized below 82 rubles per U.S. dollar; however, for fiscal balance, a further depreciation of 15–20% was deemed necessary to reach a forecasted rate of 94.3 rubles per dollar (Bank of Russia, 2025e). This depreciation risk continues to threaten imported goods prices and real household incomes. Other contributing factors include the increase in government spending, particularly in the defense sector; the rise in social benefits and pension indexations; and the persistence of external economic instability and sanctions pressure, which reduce export revenues.

High inflation is particularly evident in the rising prices of food and services. In the non-food segment, inflation has slowed (below 2% year-on-year), mainly due to falling demand driven by higher borrowing costs, which have a restraining effect on prices. Meanwhile, prices for food and services continue to rise at around 10% annually (Bank of Russia, 2025e). This highlights that inflation in these segments is sustained by socio-economic factors such as household incomes and growing internal costs, rather than credit availability. The persistent growth of prices in the food and service sectors—segments less sensitive to credit conditions—indicates the formation of a stable "inflationary core" within the economy. Such inflation is harder to correct through conventional instruments, requiring a reassessment of the mix between monetary and fiscal policy measures.

The price surge for basic food products is especially pronounced; for example, potato prices increased almost 1.5 times over the first four months of 2025. This surge squeezes real incomes and contributes directly to weakening consumer demand. The sustained increase in prices for essential goods and services, against the backdrop of shrinking real incomes, highlights the emergence of social inflation dynamics. Inflation increasingly acts as a mechanism for income redistribution between different social groups, thereby amplifying social polarization and instability.

Despite the increase of the key interest rate to 21%, inflation expectations remain high. The contradiction between tight monetary policy and expansive fiscal policy, primarily driven by increased defense spending, undermines the effectiveness of inflation containment measures. The interest rate hike has had little effect on anticipated inflation and overall price trends. This suggests that under conditions of active fiscal expansion and currency depreciation, traditional monetary policy tools are losing their effectiveness in containing inflationary processes. Even the decline in credit activity observed in 2024, which turned negative, has not significantly cooled economic dynamics. Moreover, although the ruble temporarily stabilized, the risk of renewed devaluation persists, which could offset previous monetary achievements (Milov, 2025; Belousov, 2024).

The Bank of Russia has revised its inflation forecast for 2025 upward, projecting it at 7.0–8.0% (Bank of Russia, 2025d). Achieving the target level of 4% by 2026 will only be possible if government spending is reduced — a prospect that appears unlikely given the priorities of current fiscal policy (Bank of Russia, 2025c).

Despite some improvements in external economic conditions, real household incomes continue to shrink, fueling social tensions and economic instability. The decline of consumer purchasing power amplifies stagnation processes, exerting additional downward pressure on economic growth.

Thus, inflation in Russia in 2025 remains one of the key macroeconomic challenges, requiring comprehensive measures in both monetary and fiscal policy. Efforts to stabilize inflation will demand not only stricter fiscal discipline but also a more balanced and coordinated monetary framework. Forecasts by the Bank of Russia suggest that inflation could decline to 7.0–8.0% in 2025, but achieving the 4% target by 2026 will require additional measures, including significant reductions in government spending and tighter fiscal policy. This projection depends heavily on external economic developments and the internal stability of the ruble.

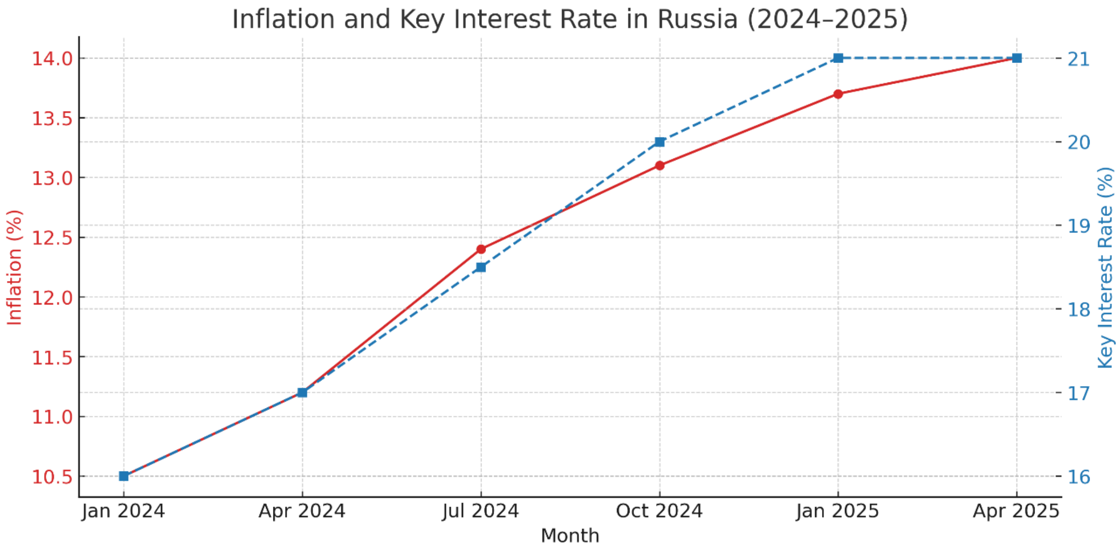

Figure 2: Inflation and Key Interest Rate in Russia (2024–2025).
Data reflect monthly changes in observed consumer inflation and the Central Bank's key interest rate between January 2024 and April 2025. Values are based on illustrative trends consistent with reports from the Bank of Russia (2025e) and independent macroeconomic analyses (Belousov, 2024; Milov, 2025). The graph highlights the limited disinflationary impact of interest rate tightening amid continued fiscal expansion and exchange rate instability.

Table 2. Key Drivers of Inflation in Russia (2025)

Factor	Estimated Contribution to Inflation	Remarks
Ruble depreciation	High	Drives imported goods inflation
Increase in government spending	High	Stimulates demand-side pressure
Defense sector expansion	Moderate	Pushes internal cost structure
Social payments and pension indexation	Moderate	Supports household demand structurally
Sanctions and external instability	High	Affects export revenue and currency
Food price surge	High	Leads to real income erosion
Service sector cost growth	Moderate	Sustains core inflation via wages

Source: Compiled by the author based on data from the Bank of Russia (2025c, 2025d), and expert's opinions (Milov, 2025; Belousov, 2024).

2.4. The Ruble Exchange Rate

In early 2025, the ruble exhibits a strengthening trend: the U.S. dollar falls to 82.65 rubles, and the Chinese yuan declines to 11.35 rubles. However, this dynamic proves temporary, driven by a combination of external factors and the tight monetary policy of the Central Bank of Russia. One of the key factors behind the ruble's appreciation is the decline in import volumes, which leads to reduced demand for foreign currency. Additionally, the high key interest rate contributes to the strengthening by suppressing domestic demand and increasing the attractiveness of ruble-denominated assets.

While this short-term appreciation helped contain inflation by lowering import prices, it also introduced significant fiscal and trade distortions. A stronger ruble reduces the value of export earnings in local currency, erodes budget revenues tied to oil and gas, and undermines the competitiveness of export-oriented industries. Thus, the ruble's strength reflects policy trade-offs rather than fundamental macroeconomic improvement.

At the same time, this appreciation has negative side effects: export-oriented companies face declining ruble revenues while their domestic cost structures remain elevated, reducing profitability and weakening incentives for industrial activity (RBC, 2025). This is especially critical in the resource and processing sectors, which are heavily dependent on stable export flows. While fiscal logic may suggest a significantly weaker ruble, political constraints impose a ceiling on the pace and extent of depreciation. Efforts to preserve social stability limit the authorities' ability to pursue rapid exchange rate corrections, resulting in a preference for gradual, managed weakening—even when this delays necessary budgetary rebalancing.

Fundamental macroeconomic conditions suggest that the ruble's appreciation is unlikely to be sustained. External trade conditions are deteriorating due to lower oil and gas prices, weakening the trade surplus and shrinking export revenues. In addition, limited fiscal space constrains the government's ability to finance the budget domestically, increasing the need for exchange rate adjustments to maintain balance. The ruble's exchange rate functions not only as a fiscal lever, but also as a symbolic indicator of macroeconomic control. Abrupt fluctuations may erode public confidence in monetary governance, regardless of their technical justification, highlighting the central bank's dilemma in balancing credibility with budgetary needs.

Professor Evgeny Lipsits of the Higher School of Economics (HSE Moscow) estimates that a ruble-to-dollar exchange rate of 120–140 is required to restore fiscal balance (Lipsits, 2025). However, a sudden devaluation would likely be politically and socially destabilizing. As a result, the authorities are aiming for a controlled depreciation, initially to 100–110 rubles per dollar, even though a deeper adjustment would be necessary for full fiscal sustainability.

The exchange rate thus plays a dual role: both as a macroeconomic stabilizer and a tool of budgetary calibration. Its fluctuations directly affect inflation dynamics and the revenue base of the federal budget. Russia's attempt to steer the ruble through administrative signaling and policy interventions illustrates a growing asymmetry between market fundamentals and formal control mechanisms. This asymmetry increases the likelihood of correction shocks if capital flows or trade balances shift more sharply than expected.

Against this backdrop, the current ruble strength appears to be a temporary deviation. Fundamental economic conditions point to a high likelihood of medium-term depreciation, which will have significant implications for export competitiveness, budget execution, and domestic price stability. As real depreciation becomes fiscally necessary but politically risky, the ruble risks entering a structural trap: a zone where neither floating freely nor maintaining a stable corridor delivers long-term stability. This creates policy inertia and weakens the ruble's role as a reliable tool for macroeconomic adjustment.

Table 3. Ruble Exchange Rate and Fiscal Stability (2025)

Exchange Rate (RUB/USD)	Status	Fiscal Implication
82.65	Observed strengthening (Jan 2025)	Short-term revenue pressure, unsustainable
100	Targeted managed weakening (government goal)	Partial improvement of budget revenues
110	Moderate adjustment zone	Closer to balancing oil/gas revenues
120	Minimum for fiscal balance	Minimum viable rate for budget equilibrium
130	Required for full deficit coverage	Sufficient for fiscal balance, but politically costly
140	High-risk social zone	Social destabilization risk

Source: Bank of Russia (2025e); Government Communications (2025); MinFin Estimates (2025); Lipsits (2025); Expert Commentary – RBK (2025); Lipsits and Guriev (2025)

2.5. Monetary Policy

In 2025, Russia's monetary policy operates under complex contradictions, balancing between macroeconomic stabilization goals and the strategic requirements of government resource redistribution. While the Central Bank of Russia formally maintains its independence, in practice it increasingly coordinates its policies with the Ministry of Finance, effectively turning monetary instruments into a tool for financing military expenditures. Although the Central Bank of Russia formally maintains its independence, its increasing coordination with the Ministry of Finance points to a hybrid model of monetary governance, in which the regulator gradually loses its function as an anchor of macroeconomic stability. This dynamic poses a risk to institutional credibility and may erode public and investor confidence in core financial institutions. This deepens internal systemic distortions and further connectes monetary policy with the broader fiscal-political agenda.

Economic policy faces a fundamental dilemma: the need for tight anti-inflationary measures threatens to trigger a recession, whereas budgetary stimulus supports economic activity but simultaneously accelerates inflation. This construction is highly unstable over the long term. Historical experience, such as that of Turkey, demonstrates that excessive fiscal stimulus combined with weakened central bank independence leads to currency devaluation, soaring inflation, and intensified structural distortions (Poptsova, 2025). The continuation of expansive fiscal policy in parallel with a restrictive monetary stance creates a mutual offsetting effect between the two policy regimes. Under such conditions, monetary tightening becomes largely symbolic, as its intended effects are neutralized by fiscal inertia.

In response to rising inflationary risks, the Bank of Russia revised its forecast for the average key interest rate to a range of 19.0–22.0% for 2025 and 13.0–14.0% for 2026 (Bank of Russia, 2025d). Bank of Russia (2025e) statistics suggest that the regulator confirmed the maintenance of the key rate at 21%, which is 8 percentage points higher than previously expected, signaling a firm commitment to maintaining tight monetary conditions until inflation sustainably returns to the 4% target, expected no earlier than 2026. Future decisions on rate adjustments will depend on the pace of disinflation and the dynamics of inflationary expectations.

The high key interest rate has become the primary instrument in combating inflation, but its side effects are intensifying. The increase in borrowing costs has sharply constrained consumer demand, weakened investment activity, and amplified structural imbalances. Companies attempted to offset increased expenses by raising prices, but this mechanism is gradually being exhausted. The consequences include falling real household incomes, a growing risk of unemployment, and deterioration of social stability.

The impact of high interest rates is particularly acute in the small and medium-sized enterprise (SME) sector. Reduced government support and restricted access to credit are slowing the development of SMEs. Although mass bankruptcies have been avoided due to the flexibility of small businesses, in production sectors—particularly construction and the coal industry of the Kemerovo region—the share of unprofitable enterprises remains high. Many companies are either adapting to the new conditions or undergoing ownership changes, indicating a profound restructuring of the economic landscape.

At the same time, the contraction of bank lending has led to a sharp rise in the use of microfinance organizations (MFOs), which offer loans at significantly higher interest rates. Maintaining a 21% key interest rate in a context of declining real incomes and contracting consumption suggests not merely expensive credit, but its institutional inaccessibility for most economic actors, particularly small businesses and households. This fosters the expansion of the informal sector and the crowding out of private initiative. This phenomenon increases household debt burdens and contributes to the expansion of the "shadow" segment of the financial market (Russian MFO Market Review, 2025).

At the same time, conditions in the foreign exchange market are deteriorating. A controlled weakening of the ruble is anticipated, deemed necessary to balance the budget amid declining oil revenues. However, the depreciation of the ruble intensifies inflationary expectations and puts additional upward pressure on consumer prices.

Russia’s external balance of payments is worsening. According to the Bank of Russia (2025d), the current account surplus is expected to shrink by 11.1% in 2025 and by 40.7% by 2027. While exports are projected to remain relatively stable (an increase of 3.6% by 2027), imports are expected to grow by 10.5%, exacerbating the trade imbalance and exerting further pressure on the ruble. This structural gap between exports and imports increases external vulnerability.

Additionally, the balance of services continues to worsen: the deficit is projected to widen by 5.3% by 2027, reflecting both capital outflows and declining competitiveness in the services sector. The balances of primary and secondary income are also expected to remain negative, increasing by 9.7%. The financial account balance is forecast to contract by 31.9%, signaling weakening external financial flows and complicating access to international capital markets.

Further pressure on the balance of payments stems from falling oil prices for tax purposes: Russian oil is expected to decline by 4.4% in 2025 and by 11.8% by 2027, falling to around $60 per barrel, reducing budget revenues and amplifying fiscal risks. Against this backdrop, the Bank of Russia projects that Russia’s foreign exchange reserves may decrease by 75% in 2025, with no significant recovery expected in 2026–2027.

The situation in the domestic bond market remains tense. Access for foreign investors to the OFZ market is constrained by sanctions, currency barriers, and low liquidity, making the domestic market the primary source of government borrowing. Investors from friendly countries demonstrate cautious interest, limited by the ruble-based settlement system and ongoing sanctions risks. Although OFZ yields have declined from 18% to 16–16.5%, they remain high, reflecting the persistent perception of macroeconomic risk (Galaktionov, 2025).

The Ministry of Finance focuses on issuing long-term bonds with maturities exceeding 10 years, which helps to reduce short-term debt servicing costs but increases vulnerability to future macroeconomic shifts.

Professor Natalia Zubarevich, a leading expert in regional economics, argues that despite the continued formal resilience of the banking system —supported by active OFZ placements—the dynamics of banking sector profitability are deteriorating (Zubarevich, 2025b). After record profits in 2023–2024, banks are expected to see earnings decline in 2025 due to the high cost of

deposits (18–21%) and shrinking demand for loans. Financial conditions remain tight, as reflected in higher money market rates and OFZ yields, leading to divergent credit dynamics:
• Moderate growth persists in mortgage and corporate lending, supported by state programs;
• Significant contraction is observed in unsecured consumer lending.
Zubarevich (2025b) forecasts that in 2025 only about 20% of applications for unsecured loans are approved, with particularly sharp declines in auto loans and non-subsidized mortgages. In parallel, the growing reliance of households on microfinance organizations increases debt burdens in the "shadow" sector, raising concerns about financial stability.

The mortgage market faces serious challenges: Despite the continued operation of subsidized programs, standard mortgage rates have made home loans unaffordable for most Russian families. This has led to a decline in housing demand, forcing developers to reduce construction volumes in order to avoid a collapse in real estate prices.

Professor Sergei Guriev, an internationally recognized economist from Sciences Po Paris, argues that while Russia formally avoided a financial collapse in 2025, the economy remains trapped in a prolonged stagnation (Guriev, 2025). Despite external indicators of resilience, inflation remains high, and elevated interest rates are suppressing both business development and consumer activity. While headline indicators—such as the volume of OFZ placements, reserve levels, and the absence of banking crises—signal formal resilience, they mask an underlying erosion of debt sustainability and a weakening of the monetary transmission mechanism. This asymmetry contributes to the accumulation of latent risks that manifest through increased social and regional disparities.

The primary source of "stability" is the reallocation of resources within the economy: reductions in social spending are offset by increases in defense and security expenditures.

Thus, Russia's monetary policy in 2025 relies heavily on maintaining a high key interest rate as the main tool for fighting inflation. However, it is increasingly accompanied by a slowdown in economic growth, weakening investment activity, rising social risks, and growing external vulnerabilities. The contradictions between fiscal expansion and monetary tightening create a fragile equilibrium that cannot be sustained over the medium term without structural reforms.

These tensions necessitate the development of new mechanisms to balance financial stability and economic development. Without a comprehensive change of fiscal priorities, improvements in monetary transmission channels, and strengthened institutional independence of the Central Bank, the risks of deepening stagnation and financial instability will remain high through 2026–2027.

Table 4. Summary of Key Monetary and Macroeconomic Indicators (2025–2027)

Indicator	Jan 2025	Apr 2025	2027 Forecast	Source
Key interest rate (%)	19.0	21.0	13.0–14.0	Bank of Russia (2025e)
Year-on-year inflation (%)	13.9	14.0	4.0 (target)	Bank of Russia (2025e)
Inflation expectations (12 months ahead, %)	13.8	13–14	—	inFOM (2025)
Approved unsecured loan applications (%)	≈25	≈20	—	Zubarevich (2025b) – expert estimate
Current account balance change (%)	—	−11.1	−40.7	Bank of Russia (2025d)
Oil price (tax base, USD/barrel)	70.0	66.9	60.0	Ministry of Finance (2025)
Central Bank reserves (change, %)	—	−75	No recovery	Bank of Russia (2025d)

Source: Bank of Russia (2025d, 2025e); Ministry of Finance (2025); inFOM (2025); Zubarevich (2025b), expert estimates.

2.6. Financial and Fiscal Policy

Russia's fiscal and monetary policy in 2025 demonstrates an effort to maintain financial stability amid growing internal and external challenges. Figures published by the Bank of Russia (2025e), in March 2025, budget expenditures returned to seasonal norms, and the growth rate of the money supply slowed, aligning with inflation targets. The updated fiscal forecast envisages the restoration of the fiscal rule, including a reduction in the oil price cut-off level, which is expected to strengthen fiscal discipline and generate an additional disinflationary effect.

The main source of financing the budget deficit remains domestic borrowing through the OFZ (federal loan bond) market. As noted by Aleksei Galaktionov from the Russian Academy of National Economy and Public Administration (RANEPA), the yield on OFZ bonds declined from 18% to 16–16.5%, but remains high, reflecting continuing caution among investors regarding macroeconomic prospects (Galaktionov, 2025). Although the domestic bond market has shown relative resilience, it remains vulnerable to macroeconomic volatility and external shocks. Persistently elevated yields cast doubt on the long-term reliability of the domestic bond market as the main instrument of fiscal balancing, especially in a context of rising borrowing needs and exhausted reserves.

Despite official forecasts projecting a budget deficit within 1.5–2% of GDP, actual data raise concerns. According to Expert.ru (2025), the federal budget deficit for the first three months of 2025 amounted to 2.2 trillion rubles. This figure already approaches the size of the projected full-year deficit, raising doubts about the realism of fiscal targets. Such a discrepancy suggests a systematic overestimation of the government's ability to consolidate public finances. It may indicate not only execution difficulties, but also a deeper structural misalignment between stated fiscal targets and macroeconomic realities.

Natalia Zubarevich, Professor of Economic and Social Geography at Lomonosov Moscow State University, points to the depletion of the liquid portion of the National Welfare Fund (NWF), which by spring 2025 had shrunk to about 1.5% of GDP (Zubarevich, 2025b). By the end of April, liquid NWF assets had already fallen below the level of the planned annual deficit. The Ministry of Finance acknowledges the problem, emphasizing that the fund "is practically ceasing to function in its previous form." While Finance Minister Anton Siluanov expressed hope that the remaining NWF resources might last another three years, many experts view such a scenario as overly optimistic. In this context, Russia's financial system is shifting toward a model in which long-term reserves are being replaced by short-term domestic borrowing. This significantly increases the fiscal framework's sensitivity to fluctuations in demand for OFZs and reduces the system's resilience to external shocks.

Data from the Bank of Russia (2025e) reveals that the depletion of the NWF—alongside rising domestic debt and a persistently high budget deficit—is giving rise to a new wave of fiscal risks. These are compounded by deteriorating external economic conditions, which further complicate stabilization efforts. The ongoing decline in NWF assets alongside rising current expenditures signals a structural shift from a savings-oriented fiscal model to one centered on consumption of existing buffers. In such a configuration, even the reactivation of the fiscal rule may not be sufficient to restore long-term confidence in the sustainability of the public finance system.

Thus, Russia's financial system in 2025 is balancing between the goals of inflation stabilization and the need to maintain macroeconomic stability through internal borrowing mechanisms. However, the depletion of reserves, the growth of debt burdens, and the persistent budget deficit generate serious fiscal risks over the 2025–2027 horizon.

3. Structural and Sectoral Challenges

3.1. Industrial Challenges

In 2025, the Russian economy faces deepening structural problems in industry, particularly outside the military-industrial complex. According to the Center for Macroeconomic Analysis and Short-Term Forecasting (CMASF, 2025), most civilian sectors are experiencing stagnation or decline. Growth in industrial production is driven primarily by the defense sector and import substitution programs. If the current dynamics persist, industrial growth in 2025 will become increasingly dependent on the defense sector. This creates the risk of institutionalizing a “military anomaly” in the economy, in which civilian industries are marginalized in industrial policy, and mechanisms of technological and investment support become concentrated around the military-industrial complex.

February data from Rosstat show extremely weak dynamics: in February, industrial production increased by only 0.2% year-on-year, and in March by 0.8%, significantly below market expectations of 1.8% (Rosstat, 2025). The most notable declines in March 2025 were recorded in the following sectors (Trading Economics, 2025):
• Mining and quarrying: a decline of 4.1%;
• Electricity, gas, steam, and air conditioning supply: a decline of 2.1%;
• Water supply, sewerage, waste management, and remediation activities: a decline of 1.4%.
A similar pattern was observed in January: industrial production grew by only 2.2%, with the main contribution again coming from the military-industrial complex (+7%), while raw material industries showed a decline. This indicates that the defense sector is increasingly becoming the sole driver of industrial output, while structural stagnation continues across resource-based and civilian industries. The structural insulation of the defense sector and its relative resilience amid broader stagnation create a fragmentation of production and logistical chains across sectors. This weakens the potential for intra-industry multiplier effects and reduces the overall effectiveness of industrial policy.

Additional signs of structural problems include:
• A decline in business confidence: the index fell to -1.0% in the raw materials sector and to 4.2% in manufacturing;
• A low level of production capacity utilization (around 60%);
• A severe labor shortage: 25.6% in extractive industries and 16.7% in manufacturing.
These constraints are not cyclical, but rather reflect systemic issues in the organization and modernization of industrial production, particularly in non-defense sectors. While in earlier crisis years (2020–2022) the industrial sector demonstrated a degree of resilience and adaptability, by 2025 this capacity appears largely depleted. Declining business confidence, labor shortages, and underutilization of production capacity suggest that the economy is entering a phase of inertial stagnation, in which even anti-crisis measures yield diminishing returns.

The situation is further worsened by the weakening of the export model: global demand for Russian goods is declining amid the world economy’s shift toward reducing dependence on raw materials. This structural reorientation of global trade places Russia at a disadvantage, given the limited diversification of its industrial base.

The housing construction sector also faces serious problems: an oversupply of completed housing, reduced availability of mortgage loans, and a decline in real household incomes create systemic risks for the construction industry, which could further slow down economic activity. These risks are particularly critical, as housing and construction have traditionally played a countercyclical role in supporting domestic demand during periods of industrial weakness. An oversupply of completed housing, combined with falling real incomes and reduced mortgage affordability, creates a paradox: on the one hand, the construction industry cannot grow; on the other, it cannot restructure without substantial macroeconomic adjustments. Thus, the construction sector is shifting from being a countercyclical stabilizer to a source of structural vulnerability.

In April 2025, Russia increased its gas discount for China to nearly 40%, with prices falling to $247 per 1,000 cubic meters—over $150 less than for Europe and Turkey. Despite rising Chinese deliveries, Gazprom's overall exports remain drastically reduced, replacing less than 20% of lost EU volumes. The company faces historic financial losses, a shrinking export footprint, and a projected $179 billion budget deficit through 2034, highlighting the deepening structural crisis in Russia's energy export model (The Moscow Times, 2025).

Thus, the industrial sector in 2025 shows clear signs of stagnation outside the defense industry, exacerbating structural imbalances in the economy and reducing its long-term growth potential.

3.2. Investments

Investment activity in Russia by April of 2025 demonstrates contradictory trends, highlighting deepening structural problems. Despite a formal increase in fixed capital investment, real processes in infrastructure, industry, and the private sector are weakening. However, this increase largely reflects inflationary price effects, revaluation of defense-related construction, and administrative accounting practices, rather than genuine expansion of real capital formation. When adjusted for price growth and sectoral concentration, underlying investment activity remains weak. According to the Bank of Russia (2025e), investments remained relatively high at the start of the year; however, leading indicators such as sales of trucks and agricultural machinery signaled a slowdown in business activity.

One of the key constraints on investment has been the high cost of borrowing: the key interest rate remains at 21%, and the yield on five-year federal bonds (OFZs) stands at 18.4% per annum. For new projects to be profitable, around 130% net profit is required, making most investments economically unfeasible (Belousov, 2024). With limited access to external capital and high borrowing costs, internal mechanisms of self-financing are becoming the main driver of investment activity. However, the reliance primarily on corporate internal funds restricts the scale and technological ambition of new projects, reinforcing a conservative investment profile in the Russian economy.

The Bank of Russia acknowledges the contraction of the investment process, despite official figures showing growth. In reality, investments in infrastructure, industry, and private business are declining. Although Russia's official international investment position recorded a formal increase of 23% over 2023–2024 (Bank of Russia, 2025b), this apparent improvement largely reflects a reduction in external liabilities rather than a genuine expansion of foreign investment activity. Data from from the Bank of Russia and UNCTAD (2024) show that both foreign direct investment assets and liabilities contracted significantly during this period, indicating a weakening of Russia's participation in global capital flows.

Portfolio investments in Russian stocks and bonds have also continued to decline, reflecting persistent distrust among investors and growing financial risks. Only other investments—such as loans and deposits—have shown relative stability; however, this is insufficient to offset the sustained outflow of long-term and strategic capital, which increases the country's reliance on limited domestic financial resources.

An important factor weakening investment activity remains the increase in the tax burden, particularly corporate income tax, which further limits business investment opportunities. According to Zubarevich (2025b), by 2023, 58% of investments were financed from companies' own funds, and further tax increases threaten to deepen investment stagnation. In addition, higher taxes undermine private sector investment capacity and slow the modernization of the economy. During 2022–2023, segments of the business sector showed adaptability to sanctions-related constraints, temporarily supporting investment activity. By April 2025, this "adaptation resource" appears to be largely depleted—not due to new external shocks, but due to accumulated internal pressure, including taxation, credit costs, and logistical bottlenecks.

Geopolitical risks continue to weigh heavily on investor sentiment. Following a strong rally in February 2025, during which the MOEX Index reached its highest levels since 2022, the market underwent a sharp correction in late March and early April, with the index falling below 2,700 points. This downturn reflected renewed investor concerns over the tightening of sanctions, monetary policy uncertainty, and the lack of meaningful progress in restoring relations with the West. The increased volatility of the MOEX Index in February–April 2025 suggests that short-term geopolitical expectations, rather than stable corporate fundamentals, have become the key drivers of market movement. This undermines the role of the stock market as a long-term capital allocation mechanism and increases its vulnerability to political cycles.

Although partial recovery was observed in the second half of April, with the index rebounding above 3,000 points, the overall volatility underscores the market's sensitivity to geopolitical developments and domestic fiscal risks. The trajectory of the MOEX Index during this period highlights the fragility of positive expectations and the structural limitations of the Russian financial market under prolonged external pressure. These fluctuations also suggest that investor confidence remains shallow and reactive, rather than based on long-term growth fundamentals.

Amid geopolitical isolation and a worsening business climate, many Russian regions are increasingly dependent on federal transfers and local development sources. This raises the risk of spatial fragmentation in investment activity, reducing interregional synergy and exacerbating structural imbalances across the country.

Thus, investment dynamics in Russia in 2025 are characterized by a slowdown in domestic activity, increased capital outflows, a reduction in foreign investments, and growing macroeconomic and fiscal risks. The discrepancy between official statistics and real processes is becoming increasingly evident, requiring a reconsideration of approaches to maintaining the country's investment attractiveness.

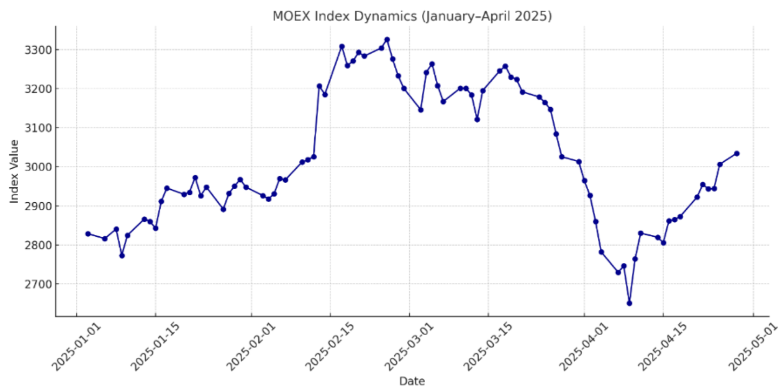

Figure 3. MOEX Index Dynamics (January–April 2025).
Calculated based on daily closing values of the MOEX Index in 2025. Data represent official index closings as reported on the Moscow Exchange and published via Investfunds.ru (https://investfunds.ru/indexes/216/), accessed April 29, 2025.

3.3. Anti-Crisis Programs

In the spring of 2025, the Russian government officially acknowledges the existence of critical risks in certain sectors of the economy and begins developing targeted anti-crisis measures. Primary attention is focused on the coal industry, which finds itself in particularly dire straits. The Ministry of Energy develops a draft anti-crisis program aimed at preventing the bankruptcy of coal mining enterprises and maintaining export volumes (Energy Policy, 2025). Minister of Energy Sergei Tsivilev presents a stabilization plan for the sector, emphasizing the urgent need for measures to prevent a large-scale crisis. This confirms the persistent dependence of key industrial segments on external demand, leaving them structurally vulnerable to global market fluctuations beyond Russia's control.

In parallel, the government increases its focus on other vulnerable sectors of the economy. On April 10, 2025, First Deputy Prime Minister Alexander Novak states the necessity of constant monitoring of the resilience of housing and utilities enterprises to enable timely responses to potential threats (Government of Russia, 2025). According to Novak, such monitoring is intended to ensure rapid deployment of anti-crisis interventions should the sustainability of key infrastructure come under threat. However, the absence of generalizable mechanisms for crisis response suggests that each new disruption will require ad hoc political intervention, making the overall model of anti-crisis policy structurally fragile and difficult to reproduce.

These developments signal a shift in the authorities' approach—from passive observation to an active attempt at crisis containment. The implementation of anti-crisis programs reflects the government's recognition of systemic vulnerabilities in multiple sectors, most notably in coal and housing and utilities. Yet the selection of these sectors for priority attention appears to reflect not only economic logic but also regional and political considerations. This may lead to distortions in the allocation of resources, whereby the most politically or socially sensitive sectors receive support over those with long-term developmental potential.

However, current measures are predominantly tactical in nature and aimed at short-term stabilization without undertaking deep structural reforms. Long-term prospects for sectoral stability remain highly uncertain unless broader modernization efforts are implemented. In particular, reducing dependence on external market conditions and addressing the structural roots of instability—such as technological backwardness, chronic underinvestment, and infrastructure degradation—are essential. The state's response remains predominantly tactical and situational. This reflects ongoing institutional inertia, whereby the recognition of systemic risks is not matched by a readiness to implement deeper reforms focused on resilience rather than short-term stabilization.

4. Geopolitical and External Constraints

4.1. Sanctions

Despite some earlier expectations of sanctions easing, by spring 2025, sanctions pressure on Russia has intensified. Among the most significant measures are the exclusion of 13 major Russian banks from the SWIFT system (European Commission, 2025) and the tightening of restrictions on the export of key goods. Sanctions exert multifaceted impacts on the Russian economy: they weaken the ruble, contribute to rising inflation, increase borrowing costs, and complicate access to foreign technologies and investments. Although sanctions have not destroyed the Russian economy, their negative effects are increasingly evident. Even in the event of partial negotiation successes with the United States, a rapid return of Western companies to the Russian market remains unlikely due to persistently high legal, currency, and operational risks. Moreover, investors are concerned about requirements to operate in occupied territories, elevated inflation, and high interest rates.

As sanctions pressure deepens, the primary external risk for the Russian economy is not only the decline in export revenues but also the rise in transactional and compliance costs associated with sustaining existing trade flows. This dynamic increases the vulnerability of Russia's foreign trade system to regional disruptions and regulatory shifts, especially in Asia and the Middle East.

Sergei Guriev, Professor of Economics, Sciences Po Paris, notes that by 2025, Russia has become the global leader in the number of active sanctions imposed against it (Guriev, 2025). The most sensitive measures, such as restrictions on oil exports and actions against the "shadow fleet," began to take full effect only in 2025. According to Brookings (2025), by March 2025, approximately 77 of the shadow fleet vessels transporting Russian oil had been sanctioned by the EU, the United Kingdom and the United States.

Pressure on energy exports is already producing results: deliveries of Russian oil to China and India have fallen to their lowest levels in six months (Liu et al., 2025). However, the long-term effects of sanctions on oil exports remain uncertain, as adaptation processes typically take between two and four months.

Additional pressure comes from the EU's 16th sanctions package, adopted in February 2025, which, despite its limited scope, caused a 7.3% decline in Russian liquefied natural gas (LNG) exports in the early months of the year and an 8% drop in February compared to the same period in 2024 (NANGS, 2025). Moreover, LNG supplies to Europe fell by 13%, largely due to sanctions against the Gazprom LNG Portovaya project near St. Petersburg. This illustrates that even moderate sanctions can seriously affect Russian export capabilities.

According to RBC (2025a), the Russian financial sector is operating under the assumption of long-term maintenance or even tightening of sanctions. As noted by Herman Gref, CEO of Sberbank, even a partial lifting of sanctions would have a minimal effect on restoring international financial connections. He stated that the removal of sanctions would be a "lucky bonus," but it should not be expected in baseline scenarios. Internationally, the situation remains unfavorable for Russia: payment systems Visa and Mastercard show no interest in returning to the Russian market, further deepening the country's financial isolation.

Even amid apparent macro-financial stability, sanctions are gradually altering the behavior of financial institutions. Increased legal and reputational risks have contributed to greater caution in lending and investment strategies. As a result, domestic financial flows are slowing, reinforcing stagnation trends—particularly in the private sector.

Additionally, sanctions have contributed to the consolidation of the Russian elite around President Vladimir Putin. The Kremlin is attempting to achieve partial sanctions relief through negotiations with Donald Trump, although the prospects for substantial easing remain very limited.

At the same time, restrictions on access to Western technologies and capital are intensifying the risk of long-term technological isolation. This is particularly concerning in strategic sectors such as microelectronics, aerospace, and pharmaceuticals, where the widening technological gap undermines Russia's global competitiveness.

In this environment, Russia faces a policy dilemma: either to maintain a tight monetary policy, which restrains economic growth, or to increase government spending at the risk of higher inflation and further economic weakening.

Moreover, the burden of sanctions adaptation is increasingly shifting toward households, primarily through inflation, elevated borrowing costs, and declining real incomes. This dynamic undermines the effectiveness of fiscal stimulus and limits the potential for recovery in domestic demand.

Thus, in 2025, sanctions pressure on Russia remains high, exacerbating external economic and internal risks, slowing economic recovery, and reducing the prospects for reintegration into the global economy.

4.2. Migration and Demography

As of the end of 2024, the demographic situation in Russia continues to deteriorate. According to official data, the natural population decline reaches 600,000 people, exceeding the 2023 figure by 20% (RBC, 2025b). The main causes remain low birth rates and the absence of favorable conditions for family formation. As noted by demographer Potapenko (2025), even the existence of a theoretical demographic reserve cannot offset the drop in fertility due to persistent socio-economic instability, which limits the prospects for long-term population reproduction. While migration inflows offer short-term relief in offsetting population decline, they do not address the root causes of demographic contraction, such as low fertility, aging, and regional economic disparities. Reliance on external labor cannot substitute for long-term population renewal strategies.

Against the backdrop of depopulation, migration inflows are increasing. Between January and November 2024, the migration balance reaches 460,000 people, which is 3.9 times higher than in the same period of the previous year (Gurbanov & Klimkin, 2024). The main contributors are migrants from Tajikistan, Uzbekistan, Kyrgyzstan, and Armenia. However, this sharp increase is partly due to changes in the migration accounting methodology introduced by the Russian Ministry of Internal Affairs. The simultaneous increase in inbound low-skilled migrants and outbound high-skilled workers points to a growing labor market asymmetry. This dual pressure reduces the quality and productivity of the domestic labor force and reflects underlying imbalances in human capital development.

Despite the growth in the number of migrants, the net inflow does not compensate for the scale of natural population loss. The structure of labor migration remains unchanged: migrants are primarily employed in construction, public utilities, trade, and transportation. Ongoing stagnation in the construction sector and shifts in the domestic labor market increase the importance of migrant labor in municipal services and urban service industries. The increasing dependence of large cities on migrant labor in critical service sectors (e.g., utilities, transport) creates latent social fragility. Any disruption in migration inflows—whether political or economic—could trigger local labor shortages and undermine basic service provision. Any potential restrictions on labor migration could lead to rising labor costs and higher prices for essential services.

An important trend in 2024 is the expansion of the geographic origins of migrant workers. In addition to traditional sources, workers from India (in textiles) and North Korea (in construction) began arriving, indicating Russia's search for new sources of labor (Shustov, 2024). This diversification reflects an increasing structural dependence on external labor markets to address domestic demographic imbalances.

At the same time, demand for Russian specialists abroad is also rising. Incrussia statistics (2025) suggest that the number of job offers for Russians abroad increases by 33.6%, reaching 769,000. The main recruiting countries are Belarus, Kazakhstan, Turkey, Georgia, and Uzbekistan. Particularly notable is the growth in demand from China (a sixfold increase) and Serbia (a 4.5-fold increase), suggesting a shifting outbound labor dynamic. Despite growing structural dependence on foreign labor, Russia lacks a comprehensive and stable migration policy framework. The administrative volatility in how migrants are accounted for and integrated reflects institutional shortfalls that may limit the effectiveness of demographic mitigation efforts.

This simultaneous rise in both inbound low-skilled migration and outbound skilled migration further illustrates the dual pressure Russia faces in balancing domestic labor supply with international demand.

Thus, Russia's demographic crisis is worsening. Migration inflows partially offset population decline, but do not address the underlying structural challenges: low birth rates, health disparities, and workforce aging. Whether Russia can sustain inflows of labor resources while adapting to new demographic realities will become increasingly clear by the end of 2025.

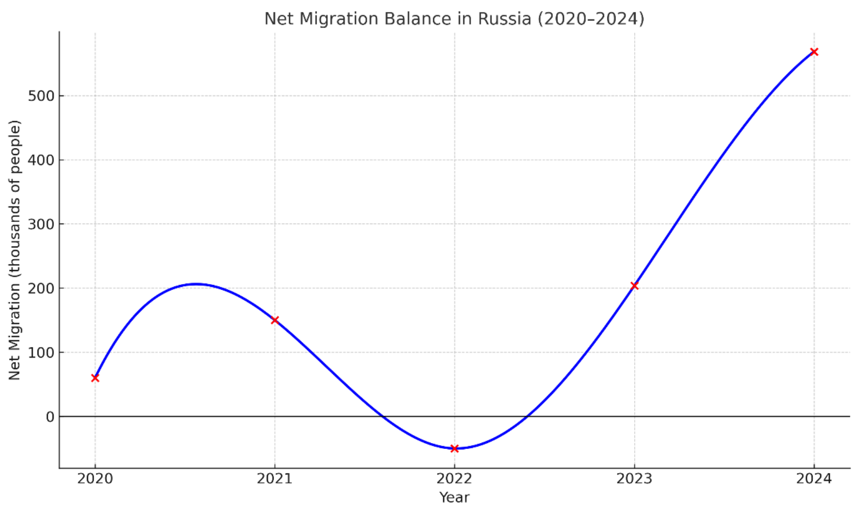

Figure 4: Net Migration Balance in Russia (2020–2024).
The graph shows the net migration balance (in thousands of people) in Russia from 2020 to 2024. Data for 2020–2022 are sourced from the Federal State Statistics Service (Rosstat) and the Ministry of Internal Affairs of the Russian Federation, reflecting recorded inflows and outflows of migrants. Figures for 2023 and 2024 are based on preliminary estimates published by Rosstat, compiled by *Demoscope Weekly*, and further analyzed by Gurbanov & Klimkin (2024) and RBC (2025b). The sharp increase in migration inflows observed in 2024 is attributed both to actual growth in arrivals—primarily from Central Asian countries—and to methodological changes in the migration accounting system introduced by the Ministry of Internal Affairs of Russia.

Budget Priorities and Social Impact

5.1 Growth of Military Expenditures

In 2025, Russia continues to increase military expenditures, reflecting the priority given to the defense sector in state policy. According to official data, national defense spending is expected to amount to 13.5 trillion rubles, equivalent to 6.31% of the country's GDP (Government of Russia, 2024). Combined with security expenditures, the total spending on defense and security may reach approximately 17 trillion rubles, or about 41% of all federal expenditures.

Compared to 2015, Russia's defense spending has doubled. In 2024, military expenditures accounted for 7.1% of GDP, representing a 38% increase over the previous year and reaching $149 billion (SIPRI, 2025). At that time, defense spending made up 19% of all government expenditures, highlighting the dramatic increase in the defense sector's share by 2025.

Forecasts for 2025 suggest a 25% increase in defense spending, marking the largest rise since the end of the Cold War. In 2024, military expenditures were projected at 10.8 trillion rubles (5.7% of GDP), making the 2025 increase particularly significant. The International Institute for Strategic Studies (IISS) estimates that total defense spending could reach 15.6 trillion rubles, or approximately 7.5% of GDP (Important Stories, 2025).

Economist Vladislav Zhukovsky, known for macrocritical assessments, together with J.P. Rathbone (Rathbone, 2025; Zhukovsky, 2025), emphasizes that such high expenditures have a dual impact: on the one hand, they support industrial production and employment; on the other, they intensify inflationary pressures and compel the Central Bank to maintain a high key interest rate. They also note that in 2025, defense expenditures will exceed one-third of the federal budget.

This, in turn, restrains growth in the civilian sector, reduces investment activity, and limits access to credit. In recent years, Russia has witnessed a systemic strengthening of the military sector's role as a tool of state governance. The growth of defense production has partially offset the losses from sanctions and helped maintain employment levels in industry. However, this has been accompanied by the aggravation of structural imbalances in the economy, creating the risk of entrenching a militarized economic model that would significantly complicate any future demilitarization process.

The sustained high level of military expenditures, even under conditions of geopolitical stabilization, may become a factor of chronic budgetary pressure. Without a revision of budgetary priorities, there is an increasing risk of reduced funding for civilian sectors, including healthcare, education, and infrastructure.

Even in the event of an end to the war in Ukraine, there is a high likelihood that elevated defense expenditures will persist. The defense industry is effectively becoming the primary driver of industrial growth, thereby widening the gap between the military and civilian sectors of the economy.

The increase in the share of defense spending does not necessarily correlate with improved efficiency. A focus on the extensive expansion of defense production capacities may lead to diminishing returns on additional investments and rising hidden costs in the economy.

Under such conditions, inflationary pressures and tight monetary policy are likely to persist over the medium term, continuing to exert a negative impact on the development of the civilian economy.

The prolonged reorientation of industrial capacities toward military needs may constrain the development of civilian innovations. This exacerbates the risk of technological stagnation over the medium term and weakens the international competitiveness of the Russian economy in non-military sectors.

The expansion of government procurement in the defense sector is accompanied by increased pressure on financial markets. This reduces the availability of capital for private businesses, particularly in high-tech and export-oriented industries, further undermining the prospects for economic diversification.

Thus, the growth of military expenditures in 2025 serves simultaneously as a factor supporting short-term economic activity and a long-term source of financial and structural risks, intensifying pressure on the budget, inflation, and macroeconomic stability.

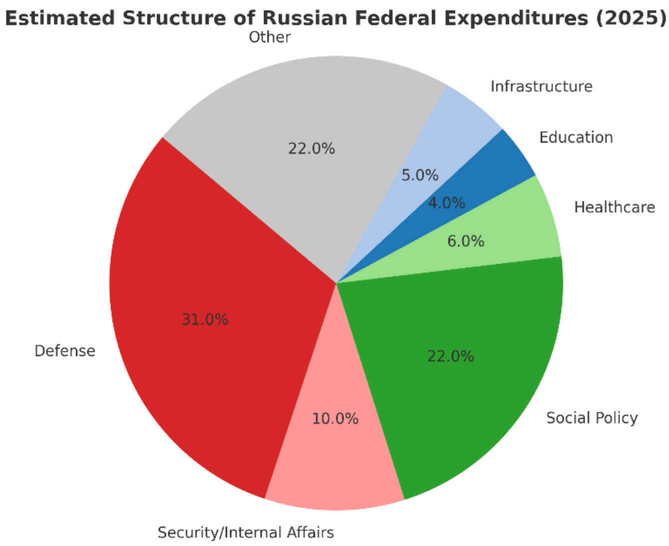

Figure 5: Estimated Structure of Russian Federal Expenditures in 2025.
Based on projections from the Russian Ministry of Finance and expert estimates.

5.2. Decline in Household Incomes

By spring 2025, a persistent trend of declining real incomes among the majority of Russian citizens continues. High inflation, tightened monetary policy, and weak economic growth intensify pressure on living standards. According to research by inFOM (2025), observed inflation in April stands at 14%, while expected inflation remains at 13–14%. These levels confirm entrenched inflationary expectations, despite the Central Bank's continued commitment to tight monetary policy, making the official 4% inflation target difficult to reach. In the context of prolonged pressure from declining real incomes and persistent inflation, Russian households are experiencing a form of psychological and material fatigue, reflected in eroding trust in economic policy and a growing reluctance to engage in long-term financial planning. This fatigue reduces the population's ability to absorb new economic shocks and undermines the effectiveness of government anti-crisis measures. While headline unemployment remains low due to structural labor shortages in industry and state-linked sectors, specific groups—such as demobilized servicemen, small business employees, and workers in non-subsidized regions—face acute employment vulnerability.

The decline in purchasing power is worsened by the high cost of goods and services amid stagnant wages across most sectors, with the exception of the military-industrial complex. Income growth in 2025 is recorded primarily among defense sector workers and affiliated industries, while real wages in civilian sectors remain flat or decline. Unlike previous crisis cycles, in which low-income groups were disproportionately affected, in 2025, economic insecurity increasingly extends to segments of the middle class, particularly in the regions. This widening of social vulnerability broadens the base of potential discontent and makes public reactions less predictable.

The financial situation of households remains weak: 58% of families have no savings, while only 38% report having any financial cushion (inFOM, 2025). This ratio has remained stable, indicating a structurally high vulnerability of households to income shocks, such as job loss or rising essential expenses. Social stratification in the perception of inflation is intensifying: respondents with savings estimate inflation rates 2–3 percentage points lower than those without savings. This reflects the emergence of lasting differences in financial confidence across social groups, which could reinforce long-term social tension.

An additional challenge is the social adaptation of demobilized servicemen, including former mercenaries and prisoners. Despite the introduction of formal integration programs (SenatInform, 2025), a steep drop in financial support after demobilization may fuel rising crime and aggravate local instability. The redistribution of public resources in favor of security agencies at the expense of social infrastructure indicates a transition from a "social pacification" model to one of "preventive containment." Under this approach, political stability is maintained not through public welfare, but through expanded mechanisms of control — a fundamental shift in the state–society relationship.

Mass unemployment in the short term appears unlikely due to the continued labor shortage in several sectors, particularly industry. The labor demands of the defense sector may partially absorb the workforce exiting military service, mitigating the risk of immediate social instability. However, the unresolved structural problems of poverty, inequality, and weakened public services continue to create a volatile socio-economic environment. The expansion of microfinance institutions and informal income sources points to the emergence of parallel survival strategies that operate outside formal economic policy frameworks. This trend weakens the state's capacity to manage social risks and complicates the identification and support of at-risk populations.

Thus, in 2025, the weakening of real household incomes and the accumulation of social tension constitute major domestic challenges to Russia's internal stability and long-term economic prospects.

5. Conclusions

As of spring 2025, the Russian economy exhibits a structurally constrained trajectory shaped by simultaneous internal degradation and external isolation. The temporary effects of fiscal stimulus, driven primarily by defense spending, have failed to produce sustainable growth. Rather than initiating broad-based recovery, these measures have reinforced sectoral imbalances and intensified inflationary pressure.

The concentration of economic activity within the military-industrial complex has created an asymmetric growth model in which employment, production, and state financing are increasingly militarized. Civilian industries, in contrast, remain stagnant or contract, particularly in regions dependent on export revenues or struggling with infrastructural decay. This trend undermines long-term productivity and limits the prospects for diversification.

The monetary policy stance of the Bank of Russia—characterized by high interest rates—has been insufficient to contain inflation, given the offsetting effect of expansionary fiscal policy. Credit has become prohibitively expensive, suppressing private investment and household consumption, while simultaneously driving growth in informal financial practices. Structural monetary policy transmission channels remain weak, especially in a context of weakening of institutions and fiscal dominance.

Externally, sanctions continue to widen Russia's technological and financial isolation. Energy exports are declining both in volume and in price, eroding fiscal revenues and contributing to a worsening current account. Migration trends—characterized by the inflow of low-skilled labor and the outflow of educated professionals—add to human capital asymmetries and deepen regional disparities.

Socially, the decline of real incomes, rising inequality, and the retreat of the state from welfare provision indicate a transition toward a model of preventative control rather than social investment. The expanding role of the security apparatus and informal economic adaptation suggests a growing fragility in the social contract.

Absent a shift in political priorities, the Russian economy risks becoming locked in a vicious cycle of stagnation, shift toward defense spending, and demographic decline. While a temporary reprieve possible through temporary factors—such as commodity price recovery or tactical easing of sanctions—these would not resolve the underlying structural fractures. Meaningful recovery will require a reorientation of fiscal policy, restoration of institutional independence, and strategic reintegration into global economic frameworks.

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