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Russia's stock market rally at the start of Trump's presidency fueled by hopes for at least partial relief from sanctions have hit hard reality. Russia is now again forced to face its fundamental economic problems, which have only worsened on many fronts, including:

- The rapid cooling of the economy, with industrial output growth falling to near zero in February;
- High inflation which has prompted the Central Bank to confirm a protracted period of high interest rates, dashing hopes for notable rate cuts anytime soon;
- An explosive budget deficit risks the rapid erosion of the state's remaining financial reserves

Much attention has been given to the rapid appreciation of the ruble since the beginning of 2025. However, this has not translated into a slowdown in consumer prices. This is largely due to a sharp collapse in imports—an unfavorable sign for the Russian economy (see below for more details).

"Soft landing": a euphemism for "stagflation"

At her press conference following the Central Bank's decision on the key interest rate on March 21, Governor Elvira Nabiullina used the phrase 'soft landing'[1] —apparently for the first time—to describe the current state of the Russian economy. This is notable, as Russian authorities appear to be searching for new terminology to describe the ongoing economic slowdown, while deliberately avoiding the more accurate term 'stagflation' for propaganda reasons.

By most objective measures, stagflation has arrived in Russia. In February 2025, industrial output growth slowed to just 0.2% year-on-year, down from 2.2% in January. These are the weakest figures in two years—since February 2023. For comparison, annual industrial output growth stood at 4.3% in 2023 and 4.6% in 2024. While the high base effect from February 2024, a leap year, partly explains the slowdown, it doesn't tell the whole story: seasonally adjusted growth remains just slightly above zero and falls well short of the 1.1% forecast by economists surveyed by Interfax[2].

There should be no illusions: an industrial output growth rate of just 0.2% implies a contraction in most sectors, especially against the backdrop of 20–30% growth in military-related industries.

1 https://www.interfax.ru/business/1015930
2 https://www.interfax.ru/business/1016733

Table 1. Russian industrial output growth in February 2025 by sectors[3]

	Growth in February 2025, % vs February 2024
"Other transport facilities and equipment" - military aircraft, tanks, and armored vehicles	33,6 %
"Finished metal products other than machinery and equipment" - production of weapons and ammunition	22,5 %
"Computers, electronic and optical products" - radar devices, radio electronics	16,9 %
Textile products	8,9 %
Pharmaceuticals	4,3 %
Tobacco	4,3 %
Chemicals	2,7 %
Clothing	2,2 %
Furniture	1,0 %
Rubber and plastic products	-1,0 %
Wood excluding furniture	-1,4 %
Food products	-1,9 %
Paper	-3,5 %
Coke and refined products	-4,0 %
Steelmaking	-4,5 %
Extractive industries	-4,9 %
Motor vehicles	-9,4 %
Drinks	-11,3 %

There is plenty of additional data supporting the assumption of a sharp and rapid cooling of the Russian economy. For example:

- Russian Railways reported a 7.2% year-on-year decline in cargo loading in March, compared to -1.4% in December, -1.8% in January, and -6,0% in February[4];
- Rolled steel production fell by 8% year-on-year in February[5];
- Passenger car sales were down 25% year-on-year in February, while truck sales dropped by 50%[6].

Meanwhile, inflation remains very high—exceeding 10% annually[7]. The Central Bank has ruled out lowering the key interest rate of 21% in the foreseeable future, stating: "Price pressures remain high, and inflation

3 https://rosstat.gov.ru/storage/mediabank/42_26-03-2025.html
4 https://www.interfax.ru/business/1017618
5 https://www.interfax.ru/business/1016737
6 https://www.autostat.ru/news/59613/
7 https://www.interfax.ru/business/1017957

expectations are still elevated. Therefore, we need to maintain tight monetary conditions for an extended period.” [8]

Persistent high inflation alongside near-zero output growth is the textbook definition of ‘stagflation’—an uncomfortable term for the Kremlin. Unsurprisingly, Russian economic officials prefer the much softer phrase ‘soft landing.

This situation is unlikely to improve any time soon, as investment activity is also cooling rapidly. In the fourth quarter of 2024, year-on-year investment growth fell below 5%, down from nearly 15% in the first quarter of the same year (see table below). This downward trend is expected to continue into the first quarter of 2025, as corporate profits decline—net corporate profits dropped by 7%[9] in 2024—credit remains expensive, and budget funds for investment are becoming increasingly scarce.

According to the government-affiliated Center for Macroeconomic Analysis and Short-Term Forecasting (CMAKP), the private sector is showing virtually no investment growth[10]. Economic Minister Maxim Reshetnikov acknowledged in his mid-March speech at the Congress of the Russian Union of Industrialists and Entrepreneurs that businesses are cutting investments due to high interest rates[11].

Table 2. Russia’s fixed investment growth slowdown[12]

	Q1 2024	Q2 2024	Q3 2024	Q4 2024
Fixed investment growth, % year-on-year	14,8 %	8,7 %	5,7 %	4,9 %

With shrinking profits, rising taxes, and high interest rates, most hopes for reviving investment now rely on increased government spending—but the government’s financial resources are rapidly being exhausted.

Explosive budget deficits

In January–February 2025, Russia’s federal budget deficit amounted to RUB 2.7 trillion—2.3 times greater than the full-year target of RUB 1.17 trillion. This follows a deficit of RUB 3.5 trillion in 2024, which also exceeded the initial projection by a factor of 2.2.

The substantial early-year deficits are primarily attributable to significant

8 https://cbr.ru/eng/press/event/?id=23474
9 https://www.rbc.ru/economics/05/03/2025/67c83ca59a7947ad36ab4c21
10 https://www.kommersant.ru/doc/7603790
11 https://expert.ru/news/maksim-reshetnikov-tempy-rosta-rossiyskoy-ekonomiki-zamedlyayutsya/
12 https://www.interfax.ru/business/1012581

advance expenditures, largely directed toward the military and defense sectors. While the government may implement measures to narrow the deficit over the course of the year, final outcomes have consistently exceeded projections during the period of full-scale military operations in Ukraine from 2022 to 2025.

Table 3. Russia's federal budget deficit in 2022-2025[13]

	2022	2023	2024	2025
Deficit planned during the budget adoption stage (October-December of preceding fiscal year), RUR trillion	1,33	2,93	1,60	1,17
Actual deficit during the relevant fiscal year, RUR trillion (* - first two months of 2025)	3,30	3,23	3,49	2,70*

While advance payments alone do not fully reflect the overall balance of budget revenues and expenditures, they do signal mounting pressure on the Russian government to finance the war in Ukraine. This pressure is intensifying. In January–February 2025, total federal budget spending reached RUB 8 trillion—an increase of 29% compared to the same period in 2024. By contrast, in January–February 2024, year-on-year spending growth relative to 2023 was just under 13%. This sharp acceleration in expenditure underscores the growing fiscal strain associated with sustaining Russia's current military operations. **Maintaining the present level of combat activity will require not just the continuation, but a significant increase in military spending.**

Table 4. Russia's federal budget early years advance payments driven by war[14]

	2018	2019	2020	2021	2022	2023	2024	2025
Russia's federal budget January-February spending over the years, RUR trillion	2,3	2,5	3,0	3,3	3,8	5,5	6,2	8,0

The sharp rise in federal spending—clearly linked to the war—is a major factor driving high inflation. Since the full-scale invasion of Ukraine in 2022, the money supply has grown rapidly: the M2 aggregate has doubled, from RUB 62 trillion in December 2021 to RUB 118 trillion in February 2025,

13 https://www.interfax.ru/business/1013041
14 https://www.kommersant.ru/doc/7565242

increasing from 46% to 56% of GDP.

As Andrey Gangan, the Russian Central Bank's Director of Monetary Policy, put it: 'In the last 25 years, there hasn't been a single episode of such a sharp increase in the money supply over such a short period"[15].

With this backdrop, inflation isn't likely to ease anytime soon. The Russian Central Bank has pointed to the 'output gap' as a key driver of inflation—meaning supply, limited by Western sanctions, can't keep up with demand fueled by the surge in money supply. But with industrial output now rapidly slowing, the output gap isn't going away—it's very likely to get worse.

Russia's financial reserves are also running low: only RUB 3.27 trillion remains in the liquid portion of the National Wealth Fund (NWF) as of April 1, 2025[16], which is about the same as one year's federal budget deficit. As we discussed in our February brief on the Russian economy[17], there aren't many options left to fund the ongoing war effort—apart from turning to money printing, which would only push inflation higher and slow economic growth further.

Russia can't borrow either. It's cut off from international financial markets due to Western sanctions, and the domestic bond market is practically frozen by high interest rates and soaring government bond yields. At current yields of over 15%, government borrowing was actually negative in January–February 2025: the government spent about $1 billion more on debt repayment and interest than it raised from issuing new debt[18].

The budget revenue outlook isn't looking good for Russia either. The price of Russia's Urals crude oil blend recently stood at $56–57 per barrel[19], heavily discounted compared to major international benchmarks due to sanctions.

Meanwhile, non-oil tax revenue growth has slowed significantly because of the rapidly cooling economy. Year-on-year growth is now at 11%, compared to 26% in 2024 and a planned 18% for all of 2025. VAT revenue growth, in particular, has dropped to just 8%, down from 22% in 2024 and well below the 17% projected for this year[20].

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15 https://www.kp.ru/online/news/6129781/

16 https://www.interfax.ru/business/1017937

17 Free Russia Foundation, "Can Donald Trump Save The Russian Economy? Economy and Sanctions Brief - February 2025" (https://thinktank.4freerussia.org/economics/can-donald-trump-save-the-russian-economy/)

18 Russian Ministry of Finance, "Key indicators of federal budget execution in terms of domestic government borrowing of the Russian Federation" (https://minfin.gov.ru/ru/perfomance/public_debt/internal/data/)

19 https://www.interfax.ru/business/1014005

20 See footnote 13

This slowdown in tax collection reflects weaker economic activity and poses a risk of further widening the 2025 budget deficit. The drop in non-oil tax revenue growth—from the planned 18% to the actual 11% recorded in January–February—translates to roughly RUB 2 trillion in under-collected revenue compared to the government's forecast.

Sudden strengthening of the ruble: bad sign for the economy

Many Russia watchers have noted the sharp strengthening of the ruble in the first quarter of 2025: since the New Year, it has appreciated by about a third, rising from over 100 rubles to around 85 rubles per U.S. dollar. Initially, this was attributed to the so-called 'Trump effect'—the ruble's rally coincided with a surge in the stock market, driven by optimism over renewed Putin–Trump contacts and the prospect of a potential ceasefire in Ukraine.

However, later statistics pointed to a different reason behind the ruble's sharp appreciation: a sudden drop in imports. According to customs data, Russian imports contracted by 13% year-on-year in February 2025[21], with imports from China down nearly 11% in January–February[22]. According to Russian importers, high interest rates are a major factor[23]—many simply cannot afford trade financing under current conditions.

In this context, the ruble's strengthening is not the positive sign some commentators suggest. Rather, it's yet another indicator of the economy's rapid cooling. As imports shrink, Russian industry will find it increasingly difficult to maintain output. The ruble's sharp appreciation, therefore, is not a sign of economic strength—it's more accurately a reflection of weakness, echoing similar dynamics seen in the first half of 2022.

What impact might Trump's policies have?

Donald Trump's return to the presidency was initially met with strong optimism in Russian markets. The Moscow Exchange Index (IMOEX) surged by over a third from its mid-December lows, climbing from around 2,400 to over 3,300 points. However, once it became clear that peace talks in Ukraine would not bring a quick resolution, markets began to pull back. By the end of March, the IMOEX had fallen back to around 3,000 points, with downward pressure continuing. The Trump-driven rally ultimately failed to withstand the

21 https://www.interfax.ru/business/1013489
22 https://tass.ru/ekonomika/23332377
23 https://www.moscowtimes.ru/2025/03/17/ne-katastrofa-no-zametno-import-ruhnul-v-nadezhde-na-vozvraschenie-normalnih-tovarov-a158181

reality of Russia's weakening economic fundamentals.

What if the U.S. significantly eases its sanctions policy toward Russia?

We explored this scenario in detail in a recent publication for The Insider[24]. Below are some key takeaways:

- The U.S. has never been—and is unlikely to become—a major trade or investment partner for Russia on the scale that Europe once was. Even a complete lifting of U.S. sanctions would have only a limited positive effect; European sanctions are far more consequential.
- The broader perception of Russia as a high-risk, "toxic" market is unlikely to change, even if some or all U.S. sanctions are lifted. Russia will remain sanctioned by a range of Western democracies, including major economies such as the EU, the UK, Canada, Japan, Australia, and Switzerland. Most international businesses would still be reluctant to re-engage with Russia due to fear of penalties from Western governments maintaining independent sanctions regimes.
- Beyond sanctions, Russia remains an unattractive destination for investment due to structural challenges: a weak economy, an unpredictable regulatory environment, limited protection of property rights, and the absence of an independent judiciary.
- That said, targeted U.S. sanctions relief in certain areas—such as easing restrictions on international financial operations, the metals and LNG sectors, Russia's shadow oil tanker fleet, or the import of critical dual-use or military technologies—could offer Moscow some breathing room.

Easing sanctions could throw Putin a lifebuoy, but it won't pull him out of the water. In 2021—before the full-scale invasion of Ukraine—the U.S. accounted for just 4% of Russia's exports and less than 1% of its total foreign direct investment stock. By contrast, Europe accounted for approximately 50% of exports and 67% of accumulated FDI.

To truly get its economy back on track, Russia would need to normalize relations with Europe—its main market and natural investment partner, due to both economic integration and geographical proximity. Around 85% of Russia's population lives—and the bulk of its gross regional product is generated—in Greater European Russia, including the Urals and Western

24 Vladimir Milov, The Insider, "Trump's Russian reset: The far-reaching implications of potential sanctions relief" (https://theins.ru/en/opinion/vladimir-milov/279825)

Siberia.

Economic ties between the U.S. and Russia have remained weak since the collapse of the USSR—and are unlikely to improve anytime soon. Ed Verona, nonresident senior fellow at the Atlantic Council and former president of the U.S.-Russia Business Council, notes that under current conditions, American businesses "may not rush back to Russia." [25]

According to a survey by The Bell, an independent Russian media outlet in exile, the vast majority of the 60 largest Western companies that exited Russia following the full-scale invasion of Ukraine in February 2022 show no interest in returning to the Russian market[26].

Notably, the UNCTAD FDI database[27] shows that Russia has lost about half of its accumulated foreign direct investment (FDI) stock since the end of 2021. As of the end of 2023—the most recent reporting date—Russia's total FDI stock stood at less than $280 billion, representing under 1.4% of GDP. The investment exodus is ongoing: many Western companies that have already left are still awaiting government approval to repatriate their funds, as capital withdrawal remains tightly controlled by Russian authorities.

Even in the most optimistic for Putin scenario—where U.S. sanctions are significantly lifted—a potential return of investors would still not offset the massive outflow of international capital from Russia since 2022.

There has been much speculation about possible joint projects between Russia and the U.S., particularly in the Arctic or involving the development of Russia's critical mineral deposits. However, most of these deposits are costly to develop and located far from existing infrastructure—precisely why neither the USSR nor modern Russia has been able to exploit them over the past several decades. Even if some of these initiatives were to progress, they are unlikely to provide the Russian economy with the substantial boost it needs.

A more concerning trend is the inconsistent enforcement of key sanctions, such as those targeting Russia's shadow oil tanker fleet, as reported by Bloomberg and other outlets.

As part of the recent Black Sea ceasefire proposal, Russia has once again requested that Rosselkhozbank be reconnected to the SWIFT international payments system. This push is not new—Russia has been advocating for it since early 2022, presenting the move as a step to support "international

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25 https://www.atlanticcouncil.org/blogs/ukrainealert/trump-and-putin-seek-economic-reset-but-businesses-may-not-rush-back-to-russia/

26 The Bell, "No one is ready to return: The Bell surveyed the largest Western companies about returning to Russia" (https://thebell.io/vernutsya-ne-gotov-nikto-the-bell-oprosil-krupneyshie-zapadnye-kompanii-o-vozvrashchenii-v-rossiyu)

27 https://unctadstat.unctad.org/datacentre/dataviewer/US.FdiFlowsStock

food security," given the bank's key role in financing the country's agricultural and food sectors.

However, the underlying motivation is more strategic. Rosselkhozbank is one of Russia's largest financial institutions, ranked fifth by total assets. Reconnecting it to SWIFT would significantly ease Russia's ongoing challenges with cross-border financial transactions, especially with partners in the Global South.

Russia's banking system is highly concentrated, with the top 20 banks controlling about two-thirds of total banking sector assets. Smaller banks lack the scale, international account networks, branch coverage, and digital infrastructure needed to handle multi-billion-dollar international transactions. As a result, they cannot effectively replace the major players cut off from SWIFT.

At the same time, many banks in China, India, and other Global South countries are deeply integrated into the SWIFT system. This makes it difficult for Russian banks disconnected from SWIFT to work with them efficiently—further motivating Russia's push to get at least one major bank reconnected.

Russia's Economic Trajectory: Key Takeaways

Since the start of its full-scale invasion of Ukraine in February 2022, Russia has worked to offset the devastating impact of Western sanctions by injecting trillions of rubles into the economy—primarily to support the military sector and import substitution. While this resulted in record-breaking growth of the money supply and high inflation, it failed to produce substantial output growth outside of military-related industries.

The post-2022 economic recovery was largely fueled by massive injections of state financial reserves. This led some to prematurely describe the Russian economy as "resilient" and claim that Western sanctions were "not working." In reality, this so-called resilience was driven exclusively by unsustainable state spending. Now that most of those reserves have been depleted, that illusion of resilience has faded. Russian output growth has officially stalled, and the much-praised **"Putin's economic miracle" has come to an end. Stagflation has arrived.**

These developments are a direct consequence of Russia's military aggression and the resulting economic isolation. The sanctions have significantly reduced Russia's export revenues, drained government reserves, and constrained industrial output. Of course, sanctions could have been implemented faster and more effectively. Europe, for example, delayed its oil embargo until late 2022, providing Putin with substantial extra revenue.

Had that not occurred, Russia might have entered its current stagflationary state much sooner. Nonetheless, the sanctions are progressing toward their intended goals. Additional pressure now could quickly undermine Putin's capacity to continue his war against Ukraine—and reduce its military threat to Europe.

Russia's military-related advance payments in January–February 2025 increased by nearly one-third year-on-year. This indicates that sustaining current levels of military engagement will require an even greater increase in defense spending. Simply maintaining existing budget levels will not be enough, and there are no significant financial resources left to draw on. However, any relief in Western sanctions at this critical moment could provide critical support for the Kremlin's war effort.

Key signals to watch in the coming weeks include the upcoming release of economic data expected by the end of April—likely to highlight ongoing inflation and slowing growth—as well as the Central Bank's Board of Directors meeting on the key interest rate, scheduled for April 25, 2025