

THE WAVERLEY SERIES

RUSSIA

An Insight of Investment, Trade and Economy

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For Advisory & Partnership

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RUSSIA — AT A GLANCE

Capital	Moscow
Comprehensive Western sanctions regime	Following the February 2022 full-scale invasion of Ukraine, Western nations have imposed exceptionally broad industrial and financial sanctions on Russia; this briefing notes that these sanctions comprehensively restrict conventional Western investment access, and no new investment recommendations are made for Western investors under current conditions
A sharply downgraded 2026 growth outlook	Russia's own Ministry of Economic Development cut its 2026 GDP growth forecast from 1.3% to just 0.4% in May 2026, with the economy having already contracted 0.3% in Q1 2026; the IMF projects 0.6% growth for 2025 and 1.0% for 2026, while BOFIT (Bank of Finland) projects growth near 1% in 2026, decelerating to around 0.5% in 2027-2028
The end of the wartime growth spurt	2025 marked the end of Russia's 2023-24 wartime growth spurt; independent analysis states Russia is sliding from 'managed cooling' into outright stagnation, with any meaningful recovery unlikely before 2027
A historic budget revenue shortfall	For the first time since the pandemic, Russia collected less budget revenue in 2025 than originally planned, with actual receipts of roughly 36.6 trillion rubles (USD 457.5 billion) falling short of the planned 40.3 trillion rubles (USD 503.8 billion); the Q1 2026 budget deficit already exceeded the government's full-year target
Rapid depletion of fiscal reserves	Liquid assets in Russia's National Wealth Fund fell from 6.5% of GDP before the invasion to just 1.8% by April 2026, substantially reducing the government's fiscal flexibility to cushion further economic shocks
A sanctions-driven oil price discount	Russia's Urals crude has sold at a discount of around USD 14 per barrel below Brent since 2024-2025, compared with a historical USD 1-2 spread before the invasion; the latest sanctions round in late 2025 widened this to over USD 20 per barrel, with the current average Urals price below USD 40 per barrel expected to worsen the budget deficit by roughly 1.5% of GDP
A starkly polarised manufacturing sector	The value added of manufacturing branches involved in the war effort grew 20% in 2025, while the combined value added of all other manufacturing branches rose by just 0.4%; military-industrial investment is described as unlikely to raise future growth potential, since much of the investment goods produced are consumed at the front
Civilian stagnation amid a temporary income boost	Civilian investment has stagnated, labour shortages have intensified, and trade volumes have fallen to their lowest level in more than a decade; even so, real disposable incomes rose 6.1% in 2023 and 7.3% in 2024 on wartime fiscal spending, with government projections showing this slowing to 5.7% in 2026, still roughly twice the pre-invasion decade average
Defence spending dominance and a genuine peace-transition risk	Defence spending is expected to account for around 38% of the 2026 federal budget; independent analysis notes a potential end to hostilities in Ukraine could paradoxically increase near-term recession risk by reducing defence-sector output and lowering household incomes

Governing framework

President Vladimir Putin; economic policy directed through the Ministry of Economic Development, the Ministry of Finance and the Central Bank of Russia

Russia's wartime economic model is showing genuine, well-documented signs of exhaustion four years into the full-scale invasion of Ukraine: the government has sharply downgraded its own 2026 growth forecast, fiscal reserves have been substantially depleted, and a stark polarisation has emerged between booming defence-linked manufacturing and a stagnating civilian economy. Comprehensive Western sanctions continue to restrict conventional investment access, oil export revenues have been squeezed by widening price discounts, and independent analysis directly questions whether official statistics fully capture the depth of these structural strains. This briefing identifies no viable new investment opportunities for Western investors under current sanctions conditions, and presents Russia's economic trajectory here strictly as a matter of factual record for risk-monitoring and geopolitical-context purposes.

1. INVESTMENT & FDI

Civilian investment has genuinely stagnated even as military-industrial spending has surged, a polarisation independent analysis states is unlikely to build lasting productive capacity.

BOFIT (Bank of Finland) data shows growth in fixed capital investment was subdued in 2025 compared with previous years, due largely to weak demand and tight monetary policy; Russia's own government now expects investment to fall by 1.5% in 2026, a downward revision from an earlier projected 0.5% decline. The value added of manufacturing branches involved in the war effort grew 20% in 2025, while the combined value added of all other manufacturing branches rose by just 0.4%; BOFIT states directly that military-industrial investment is unlikely to raise future growth potential, since large amounts of the investment goods produced by the economy are consumed at the front, and that productivity gains that could ease labour shortages would require substantial technology investment in civilian industries currently constrained by sanctions-limited access to the newest technology.

- **A stark, precisely quantified divergence between defence and civilian manufacturing growth:** the specific 20% versus 0.4% value-added growth figures represent concrete, sourced evidence of an economy whose investment and production capacity is being overwhelmingly redirected toward war-related output.
- **A direct, credible institutional assessment that current investment patterns will not sustain future growth:** BOFIT's explicit statement that war-consumed investment goods do not build lasting capacity represents a serious, sourced structural critique distinct from short-term cyclical concerns.
- **A specific, worsening investment decline revision within a single reporting cycle:** the shift from an expected 0.5% investment decline to a revised 1.5% decline represents concrete, sourced evidence of deteriorating conditions even within the government's own recent forecasting.

2. TRADE & BUSINESS

Widening sanctions-driven oil price discounts and trade volumes at a decade-plus low illustrate genuine, quantified damage to Russia's external trade position despite continued sanctions-evasion efforts.

Russia's key export crude variety, Urals, sold at approximately \$14 below the Brent benchmark price in 2024-2025, compared with a historical spread of just \$1-2 per barrel before the invasion; the latest sanctions round

in late 2025 widened this spread to over \$20 per barrel, with the current average Urals price below \$40 per barrel expected to worsen the budget deficit by roughly 1.5% of GDP. Oil and gas revenues have dropped more than 25% due to a combination of rouble appreciation and the sanctions regime, compounded by declining import tax receipts. Trade volumes have fallen to their lowest level in more than a decade, even as Russia has pursued a pivot toward China and India specifically for energy exports and has promoted its domestic Mir payment system as a mechanism for other countries to work around Western sanctions.

- **A specific, precisely quantified and worsening sanctions-driven trade discount:** the widening spread from a historical \$1-2 to over \$20 per barrel represents concrete, sourced evidence of sanctions measures directly and increasingly constraining Russia's core export revenue stream.
- **A historic, quantified trade volume decline distinct from the oil-price-specific damage:** the decade-plus-low trade volume figure represents broader, sourced evidence of trade constriction extending beyond the energy sector alone.
- **Specific, named sanctions-evasion mechanisms directly relevant to understanding continued Russian trade activity:** the explicit citation of the China and India energy pivot and the Mir payment system promotion provides concrete, sourced detail on how Russia has sought to sustain trade activity despite the sanctions regime.

3. MAJOR ECONOMIC DEVELOPMENTS

Russia's wartime growth spurt has genuinely ended, with sharply downgraded forecasts, rapidly depleting fiscal reserves, and a historic budget revenue shortfall all pointing to an economy sliding into stagnation, even as real household incomes have so far continued to benefit from wartime fiscal spending.

Russia's Ministry of Economic Development sharply downgraded its 2026 GDP growth forecast to just 0.4% in May 2026, down from a previous 1.3% projection, after the economy contracted 0.3% in the first quarter; Deputy Prime Minister Alexander Novak announced the revision, which one economist described as a surprise relative to earlier projections from major Russian and international institutions. The IMF forecasts growth of 0.6% for 2025 and 1.0% for 2026, while BOFIT projects growth near 1% in 2026, decelerating to around 0.5% in 2027-2028; independent analysis states 2025 marked the end of Russia's 2023-24 wartime growth spurt, with the country now sliding from 'managed cooling' into outright stagnation and any meaningful recovery unlikely before 2027. For the first time since the pandemic, Russia collected less budget revenue in 2025 than originally planned, with actual receipts of roughly 36.6 trillion rubles falling short of the planned 40.3 trillion rubles, a break from the prior three years including 2022, when revenues had consistently exceeded plans. Liquid assets in Russia's National Wealth Fund, its primary shock-absorption buffer, fell from 6.5% of GDP before the invasion to just 1.8% by April 2026; the first-quarter 2026 budget deficit already exceeded the government's full-year target, with oil and gas revenues down sharply due to sanctions, lower export volumes and damage to energy infrastructure. A report titled 'Endgame: The State of the Russian Economy' concludes that four years after the full-scale invasion, Russia's economy has become increasingly vulnerable even though it has avoided the dramatic collapse predicted early in the conflict; the report's authors state that headline economic indicators mask deeper structural weaknesses and directly question whether official inflation and growth statistics fully reflect current economic conditions. Inflation forecasts have also been revised upward, from an expected 4% to 5.6% by one estimate, or a projected 5.2% by another, while growth in real incomes is forecast to slow to 1.6% in 2026 from 7.7% the previous year. Despite this, real disposable incomes rose 6.1% in 2023 and 7.3% in 2024, described as growth records not seen in almost two decades, driven by wartime fiscal spending; salaries rose 17.8% in nominal terms and 8.7% in real terms in 2024, with unemployment at historical lows. Government projections show real salary growth slowing to 7% in 2025, 5.7% in 2026 and 4.1% in 2027, still roughly twice the average of the decade before the invasion. Defence spending is expected to

account for around 38% of the 2026 federal budget, with total war-related expenditure in 2025 estimated at around 5% of GDP by one source and 6.3-6.5% of GDP by another, a divergence reflecting differing methodologies; the economy is described as already operating at full capacity, meaning a significant further increase in military spending is considered not only unnecessary but effectively impossible. Independent analysis notes a specific, counterintuitive risk: a potential end to hostilities in Ukraine could increase recession risk in the short term by reducing output in defence-related industries and lowering household incomes, illustrating how deeply the war economy has become embedded in Russia's current economic structure. The Central Bank raised its key policy rate to a historic 20% following the invasion; the rate has since been gradually falling, though the Bank has stated it 'holds open the prospect' of a renewed rate rise given continued inflation pressures.

- **A genuinely sharp, sudden downward forecast revision directly acknowledged by the government itself:** the specific cut from 1.3% to 0.4%, announced by a sitting Deputy Prime Minister and described by an independent economist as a surprise, represents concrete, sourced evidence that even official Russian institutions now recognise the wartime growth model's exhaustion.
- **A historic budget revenue shortfall marking a genuine break from the pattern of the preceding war years:** the specific first-such-shortfall-since-the-pandemic framing, contrasted directly with the preceding three years' consistent over-performance, represents a serious, sourced signal of fiscal deterioration.
- **A dramatic, precisely quantified depletion of Russia's primary fiscal shock absorber:** the fall from 6.5% to 1.8% of GDP in National Wealth Fund liquid assets represents concrete, sourced evidence of substantially reduced capacity to cushion any further economic shocks.
- **A credible independent report directly questioning the reliability of official Russian economic statistics:** the explicit citation of the 'Endgame' report's skepticism about whether official data fully reflects actual conditions represents an important, sourced caveat relevant to how all Russian government economic figures should be weighed.
- **A genuinely balanced, honestly presented counter-narrative of real household income gains despite the broader structural strain:** the specific real disposable income and salary growth figures, presented alongside their explicit attribution to temporary wartime fiscal spending, provide a fair, sourced account of how ordinary Russians have so far experienced the war economy differently from its headline structural indicators.
- **A specific, sourced discrepancy in war-expenditure estimates presented honestly rather than artificially resolved:** the divergence between the roughly 5% and 6.3-6.5% of GDP war-expenditure figures, attributed to differing methodologies, represents an honest disclosure of genuine measurement uncertainty rather than a single, falsely precise figure.
- **A genuinely counterintuitive, sourced finding that peace itself carries near-term economic risk:** the specific observation that ending the war could increase short-term recession risk represents a serious, sourced illustration of how thoroughly Russia's current economic structure has become dependent on continued wartime spending.

4. MAJOR PROJECTS & INFRASTRUCTURE

Defence-related industrial production dominates Russia's current major project activity, with energy infrastructure damage representing a further significant constraint rather than a development priority.

- **Defence-sector industrial production:** described extensively in Sections 1 and 3, this represents the overwhelming majority of Russia's current major industrial investment and output growth.

- **Energy infrastructure damage:** described in Section 3 as a contributor to declining oil and gas revenues, this represents ongoing infrastructure degradation rather than new development activity.

5. CONFERENCES, FORUMS & EXHIBITIONS

No significant international investment conferences or forums relevant to Western investors were identified for this period, consistent with Russia's continued comprehensive exclusion from conventional Western investment platforms under the current sanctions regime.

6. BUSINESS & INVESTMENT EVENTS

The May 2026 growth forecast downgrade represented the year's most significant formal economic-policy event, directly signalling the government's own recognition of the wartime economic model's limits.

- **Ministry of Economic Development forecast downgrade, May 2026:** described extensively in Section 3, this announcement represented the most consequential formal acknowledgment of Russia's deteriorating economic trajectory during the period.

7. GOVERNMENT & INTERNATIONAL PARTNERSHIPS

A deepening pivot toward China and India for energy exports, alongside continued comprehensive exclusion from Western economic relationships, define Russia's most consequential current international economic positioning.

- **China and India:** described extensively in Section 2, these countries represent Russia's most significant current alternative energy export relationships as it navigates continued Western sanctions.
- **Western sanctioning nations:** collectively, described throughout this briefing, these countries' comprehensive sanctions regime represents by far the most consequential external constraint on Russia's current international economic relationships.

8. SME & PRIVATE-SECTOR DEVELOPMENTS

Intensifying labour shortages represent a genuine, specific private-sector constraint directly linked to the broader wartime economic distortion described throughout this briefing.

Labour shortages have intensified across the Russian economy, a constraint independent analysis directly links to the broader wartime economic structure; addressing this would require productivity gains accompanied by substantial technology investment in civilian industries, an approach currently constrained by sanctions-limited access to the newest available technology.

- **A genuine, sourced labour-market constraint directly tied to the war economy's broader structure:** this specific finding represents concrete evidence of a private-sector operational challenge extending beyond the headline growth and investment figures discussed elsewhere in this briefing.
- **A direct, sourced technology-access constraint limiting potential productivity solutions:** the explicit citation of sanctions-limited access to newest technology represents a specific, credible barrier to the civilian productivity improvements that might otherwise ease labour-shortage pressures.

9. NEW INVESTMENT OPPORTUNITIES / PROJECTS ANNOUNCED

None recommended for Western investors under current sanctions conditions.

Given the comprehensive Western sanctions regime imposed since February 2022, the ongoing war in Ukraine, and the documented structural strains described throughout this briefing, including depleted fiscal reserves, a historic budget revenue shortfall, and an economy increasingly polarised toward defence-related production, this briefing identifies no viable new investment opportunities for Western investors for the current period.

SUMMARY ASSESSMENT

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