



KEY DRIVERS OF THE RUSSIAN ECONOMY'S RESILIENCE DESPITE POST-UKRAINE WAR SANCTIONS

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SUMMARY

Amid the current economic environment dominated by the widespread consequences of the Russian-Ukrainian war, the economy of the Russian Federation has shown surprising resilience despite the unprecedented international sanctions. These sanctions, imposed by the European Union, USA, and other Western economies, target numerous sectors, from energy to transport and banking. Nonetheless, Russian authorities have managed to revitalize the economy, overcoming a brief recession in 2022 and achieving recovery in 2023, with optimistic forecasts for 2024. Our research hypothesizes that the primary drivers sustaining the Russian economy are closely linked to its reliance on energy exports and strategic international partnerships. Furthermore, it posits that the current economic environment, characterized by sanctions and shifting global dynamics, has significantly reshaped the Russian Federation's patterns of international cooperation, including trade flows and foreign direct investment. By employing a mixed-method approach that integrates a comprehensive review of recent literature with quantitative analyses of international trade and FDI trends, this study seeks to validate these hypotheses and provide a nuanced understanding of the evolving economic landscape in Russian Federation. Our findings indicate that although the sanctions had a severe impact in the first year, reshaping the international partnerships of the Russian Federation, the current "Pivot to Asia" strategy and the partnership with China have opened new possibilities for international cooperation. Additionally, growing energy exports have successfully fueled Russian economic growth. Despite the initial exodus of foreign capital during 2022, recent legal initiatives and new regulations have slowed the drop in FDI.

Keywords: Russian economy, Russian - Ukrainian war, sanctions, international trade, FDI

INTRODUCTION

From 2022 (when the Russian authorities made the ill-fated decision to illegally invade Ukraine) until present, the economy of the Russian Federation has been "under siege" by unprecedented economic sanctions (imposed by a large part of the international community, but especially by the EU Member States and the USA). As a result, many of its international partnerships have faced serious challenges, especially those with Western democracies.

Between Western countries and the Russian Federation, there is now what can be called a true "frozen partnership." However, as a countermeasure to this phenomenon, which has negatively impacted Russian international trade, cooperation with "friendly" states has been expanded (according to the national ideology, this term refers to countries that chose not to impose sanctions on Russian Federation).

Against this background it should be noted that free trade plays a crucial role in sustaining economic growth from a theoretical perspective, as highlighted by the comparative advantage theory. This theory posits that nations thrive economically when they specialize in producing goods and services where they hold an efficiency edge and engage in trade with other countries. Developed by David Ricardo in the early 19th century, the theory of comparative advantage also asserts that countries gain by specializing in the production of goods and services. By trading these goods with other nations, countries can allocate resources more effectively, increase productivity, and foster economic growth. For the Russian Federation, free trade has been particularly significant due to its reliance on energy exports, which became a cornerstone of its post-Soviet economic growth. Sanctions targeting its energy exports, particularly the loss of the European Union as

a major trading partner, have significantly undermined its economic performance, restricting access to critical revenues and markets. Similar trends can be observed in the case of Iran, another energy exporter, where trade sanctions have drastically limited its ability to engage in global trade, leading to stunted economic development and resource misallocation. These examples underscore the broader implications of trade disruptions on growth trajectories, especially for nations heavily reliant on a narrow export base. Moreover, from the perspective of Endogenous Growth Theory, which emphasizes the critical role of technology and innovation in fostering economic development, one could argue that the growth of the Russian economy has been significantly hampered by the trade bans imposed by the EU and the US. These restrictions, particularly those targeting technology imports crucial for energy drilling and other key sectors such as aviation, have severely limited Russia's ability to modernize and sustain economic expansion. Endogenous Growth Theory highlights that in a knowledge-based economy, investments in technology and human capital create spillover effects, leading to sustained economic returns. For the Russian economy, which has long depended on Western technological imports, this reliance has exposed a significant vulnerability under the strain of sanctions. These sanctions have restricted access to critical technologies, creating immediate challenges for sectors such as energy, aviation, and manufacturing. In response, Russian authorities have increased investments in domestic technological development and innovation to reduce dependency on external sources. However, this transition is inherently a long-term process, while the urgent technological demands of key industries require immediate solutions, exacerbating the strain on the economy.

Moreover, Dependency Theory that critiques the overreliance of economies on a single commodity sector, highlighting how such dependence exposes countries to external shocks and perpetuates structural vulnerabilities can be applied to explain why the sanctions had an important impact of growth in the Russian federation. In the case of the Russian Federation, its heavy reliance on energy exports—particularly oil and natural gas— has been significantly challenged by sanctions and, more critically, by the European Union’s strategic efforts to reduce reliance on Russian energy imports.

Through initiatives such as the Green Deal and the REPowerEU strategy, the EU has not only prioritized the transition to renewable energy sources but also sought to diversify its energy supply to enhance energy security. These measures, aimed at achieving both climate goals and geopolitical independence, have drastically curtailed Russian Federation’s access to its most lucrative energy market. This shift has further exposed the vulnerabilities of an economic model rooted in energy trade, forcing the Russian Federation to confront the pressing need for diversification and long-term economic

restructuring. Without significant progress in reducing this dependency, Russia risks prolonged economic stagnation in a rapidly evolving global energy landscape.

Currently, the hierarchy of the Russian Federation’s main trading partners is dominated by BRICS member states, reflecting the magnitude of the divide between Russian Federation and the West, a significant divide comparable with that of the Cold War. Nevertheless, the pivot of Russia’s energy trade (the sector most affected by numerous embargoes) towards Asia, and especially China, is proving to be a slow process and one marked by high costs.

However, during the two years of sanctions and restrictions, despite pronounced isolation in global financial markets, the Russian Federation’s “fortress” economy has proved its resilience and the ability to overcome severe crises. The strengths of the Russian economy have been, on one hand, its abundant natural resources (which support massive energy exports) and, on the other hand, low external debt and monetary policies that kept inflationary pressures under control while supporting the recovery of the ruble.

LITERATURE REVIEW

The ongoing Russian-Ukrainian conflict has ignited extensive debates in recent academic literature (Lin et al., 2023; Izzeldin et al., 2023; Maurya, Bansal & Mishra, 2023). While some analyses address the geopolitical implications for trade and regional cooperation (Kivalov, 2023), others focus on the domino effects of international sanctions on the global economic outlook (Thangavel & Chandra, 2024). Moreover, our investigation of recent literature, using the Web of Science Core Collection database, indicates a relatively low number of studies dedicated to the resilience of the Russian economy in the current geopolitical and economic context. Some studies show the implications of the conflict on the delay of sustainable development goals (Pereira, et al., 2022), while others highlight the various implications of the conflict on the Russia-China-India triangle (Luo, 2023). Some authors focus on the sanctions’ impact on energy trade (Chen, et al., 2023; Ngoma, 2024), while others emphasize the risks to European energy security (Drăgoi, 2023).

Recent approaches (Clichici & Drăgoi, 2023) show how financial sanctions have reshaped the Russian monetary and banking systems, revealing their extraordinary resilience. However, few studies have been conducted on the global resilience of the Russian economy. Kuvalin (2022) discusses the risks and opportunities for the Russian economy under such tough external sanctions, stating that “under dramatic foreign policy pressure

on Russia, it is necessary to significantly expand the scope of mobilization (planning) tools to provide a prompt solution to such structural problems as the full-fledged revival of key economic sectors, infrastructure development, and elimination of regional imbalances.” While the majority of international analyses highlight the negative effects of sanctions, some scholars discuss the so-called “gift” of sanctions, which have allowed Russian authorities to pursue a large-scale reform process and shift international cooperation. For instance, Galbraith (2024) argues that “when applied to a large, resource-rich, technically proficient economy, after a period of shock and adjustments, sanctions are isomorphic to a strict policy of trade protection, industrial policy, and capital controls.” The authors suggest that this is indeed the case for the Russian Federation, which, in the absence of the isolationism of sanctions, “could not plausibly have implemented protectionism on its own initiative,” concluding that in this sense “sanctions were a gift to the Russian state and war effort.”

Considering these factors, our research will focus on the tangible effects of the conflict on the Russian economy while highlighting the elements that have enabled its remarkable resilience in these challenging circumstances. We believe this provides a fresh and original analysis of the Russian economy’s fluctuations in recent years.

RESEARCH METHODOLOGY

Our methodological design employs a mixed-methods approach, combining a solid literature review analysis with a quantitative approach to provide a comprehensive understanding of the Russian economy during the post-sanctions period. We utilize a comparative approach to examine the evolution of key macroeconomic indicators from 2022 to 2023, drawing on the latest national data (from Rosstat and the Bank of Russia) and international statistics (from the International Monetary Fund, World Bank, and European Commission).

To supplement this quantitative analysis, we conduct qualitative research focused on document analysis. This includes reviewing relevant literature on sanctions and countermeasures implemented by Russian authorities. Specifically, we will analyze the main measures taken by the Russian government and the Bank of Russia to mitigate the negative effects of sanctions and facilitate economic recovery.

The selected macroeconomic indicators aim to provide a comprehensive overview of the Russian economy, focusing on GDP growth in the post-sanctions era,

inflationary pressures, trade dynamics under sanctions, and the fiscal-budgetary situation. We believe that these indicators are well-suited to reveal the Russian economy’s evolution since the outbreak of the conflict.

Additionally, our concluding remarks will explore three potential scenarios for the future evolution of the Russian economy. These scenarios will be based on projections from prestigious international forums (such as the OECD, IMF, and World Bank) and will consider various factors, including potential developments in the conflict and the current international economic landscape. Each scenario will highlight the implications for the Russian economy, providing a nuanced perspective on future challenges and opportunities.

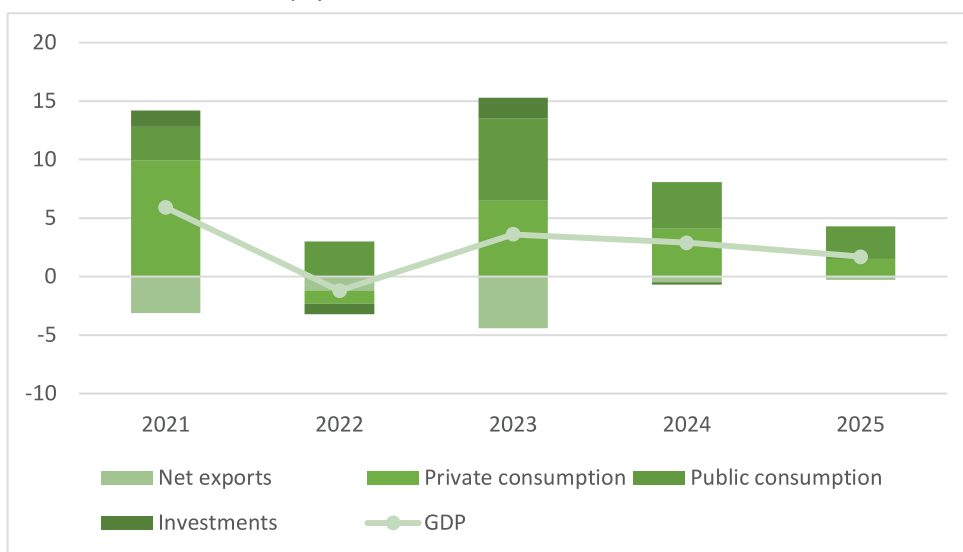
Finally, our analysis will include a discussion on the effectiveness of sanctions as they pertain to the Russian economy. We will evaluate the current sanctions’ impact and propose necessary steps that could enhance their effectiveness, aiming to penetrate the defensive mechanisms of the Russian economic “fortress.”

MAIN RESULTS

According to the latest report published by the Central Bank of the Russian Federation (Bank of Russia, 2024), in 2023, the Russian economy experienced a remarkable recovery, with a GDP growth rate of 3.6%. This revival, considered surprising by analysts from the European Commission (EC, 2024), is all the more impressive given that it followed the recession of 2022, triggered by multiple waves of sanctions imposed on the Russian Federation as punitive measures for launching the illegal and unprovoked military invasion of Ukraine. According

to EU analysts, the economic recovery in 2023 occurred mainly due to increased private consumption, driven by rising wages and heightened consumer confidence (Figure 1). Additionally, the European Commission’s analysis notes that higher government spending supported private consumption through payments and transfers to the families of Russian soldiers stationed on the frontlines in Ukraine, while also stimulating other public investments.

Figure 1
GDP Growth and Main Contributors (%)



Source: Author based on European Commission (2024). Spring Economic Forecasts. Russian Federation.

Note: The data for the year 2025 are forecasts by EU

After 2022, it is estimated that Russian Federation's military spending accounted for around 4-5% of its GDP, a substantial share that underscores the central role of defense spending in the country's economic activity. This trend highlights the degree to which the Russian economy is intertwined with military expenditures, with limited diversification into other sectors of the economy. While previous budget plans had anticipated a leveling-off of government spending in 2025, the latest framework sees a 10% increase in total government expenditure for the coming year. A substantial portion of this growth—nearly 20%—is allocated to defense, marking the fourth consecutive year of significant military spending hikes. In contrast, other major spending categories, including social policy, will see only modest increases of 2–5%, insufficient to even offset inflation. This shift underscores the growing dominance of military spending in the Russian budget, with education and other sectors receiving reduced funding.

Over the four-year period from 2022 to 2025, Russian Federation's direct budget spending on the war is estimated to total at least RUB 50 trillion (USD 280 billion), far outpacing spending on education and other critical areas. The sharp rise in military spending diverts resources from essential sectors, putting pressure on Russian Federation's broader economic stability. To finance this increase, the government is shifting the tax burden more onto businesses, especially those outside the oil and gas sector, with expected hikes in corporate taxes and VAT. However, this heavy reliance on military spending is fraught with risks. Oil and gas revenues, which remain a crucial budget source, could face volatility if global oil prices decline, exacerbating financial strain. With the government projecting a 2.5% GDP growth and 4.5% inflation for 2025, these assumptions appear overly optimistic, considering the economic challenges and uncertainties surrounding defense expenditure.

Against this background one should note that while military spending may offer short-term boosts to GDP growth, such a reliance on the defense sector is unsustainable and ultimately detrimental to long-term economic health. Non-trade growth, driven largely by domestic military investments rather than exports or productive innovation, tends to distort economic priorities. It diverts resources away from crucial sectors such as technology, infrastructure, and education, which are essential for fostering sustainable and diversified growth. Moreover, excessive military spending can lead to inefficiencies, as defense expenditures typically do not generate immediate economic returns in the same way that investments in other industries might. This form of growth, heavily dependent on state-driven military spending, risks stalling once the geopolitical environment shifts or external pressures, such as sanctions, curtail access to resources. Therefore, while military investments can provide temporary boosts to GDP, this type of growth is ultimately fragile and incapable of ensuring long-term economic stability or resilience.

As shown by Figure 1, the spectacular increase in domestic demand to 6.4% in 2023 (compared to the modest rate of just 1.2% in 2022) was driven not only by private consumption but also by measures implemented by the Russian government aimed at substituting goods previously imported before the sanctions, as well as new investments and subsidies for expanding the military-industrial sector.

Regarding the situation of foreign direct investment (FDI), it should be noted that, against the backdrop of sanctions and the isolation of the Russian economy, its attractiveness to foreign investors diminished significantly. Thus, according to UNCTAD (2023) data, in the first year of sanctions, the inward FDI flows into the Russian Federation experienced a dramatic decline (-15.2 billion dollars in 2022, compared to 38.6 billion dollars in 2021), while in the second year (2023), these flows showed a slight recovery, reaching 0.8 billion dollars (UNCTAD, 2024). The drop in FDI inward flows in 2022 occurred because the tense geopolitical climate prompted various Western companies to suspend or limit their activities in the Russian market, while the slight increase in 2023 was due to various restrictive measures introduced by the Russian authorities to halt the outflow of foreign capital.

Against this background, it should also be noted that, starting in 2023, the Russian authorities managed to slow down the outflow of foreign capital by continuously complicating bureaucratic procedures. A recent analysis (AK&M, 2024) reveals that the number of transactions involving asset sales by foreign companies decreased to 97 in 2023 (from 109 in 2022), with the total value dropping to 11.14 billion dollars (compared to 16.31 billion dollars in 2022). The decrease in the unemployment rate to 3.2% in 2023, down from 3.9% in 2022, was due to high labor demand, caused by the reduced influx of foreign workers (resulting from the decline in immigration to the Russian Federation) and the increased demand for labor in the military sector. These trends are expected to persist as long as the war in Ukraine continues.

In 2023, Russian authorities achieved a remarkable reduction in the inflation rate, bringing it down to 5.9% compared to the peak of 13.7% reached in the first year of sanctions (2022). It should be noted that targeting an inflation rate of a maximum of 4% has been a long-term goal for the Central Bank of the Russian Federation, but the sanctions made this endeavor highly challenging. However, restrictive monetary policies (see Box 1) and maintaining a high-interest rate allowed for a significant reduction in inflationary pressures in the second year of international sanctions (Bank of Russia, 2023).

Box 1: Measures implemented by the Bank of Russia during 2022-2023

Both during the pandemic crisis and in the immediate period following the outbreak of the war in Ukraine, the Central Bank of the Russian Federation consistently pursued its goal of reducing inflation, as it is well known that achieving sustainable economic growth is challenging under high inflationary pressures.

2022 - Restrictive Monetary Policy Combined with an Increase in the Key Interest Rate

Starting in 2022, the Russian authorities implemented restrictive monetary policies, introduced capital controls, and maintained a high key interest rate. In July, the Central Bank of the Russian Federation began raising the key rate by 3.5 percentage points (pp), followed by a further increase of 8.5 pp in August, reaching 16% by the end of the year.

Higher interest rates encouraged savings, and the expansion of lending gradually slowed to a more balanced pace. Moreover, Russian companies' motivation to accumulate foreign currency while using ruble loans to finance their current expenditures decreased. As a result, in September 2022, the ruble exchange rate stabilized, while by December, inflation was visibly trending downward.

These measures were all the more necessary given that, in the first months of sanctions, inflation accelerated significantly, driven by the devaluation of the national currency due to a lack of foreign capital (following the freezing of foreign currency assets of the Central Bank of the Russian Federation, Russian banks, and certain sanctioned oligarchs). These developments were also accompanied by a sharp contraction in exports (also due to sanctions). Inflationary pressures were further fueled by increased consumer demand as people sought to purchase goods targeted by embargoes before prices rose significantly. This trend led to rapidly rising prices and, consequently, to the ruble's devaluation, which fed the inflationary spiral.

2023 - Measures to Support the Business Environment and Increase Financial Sector Resilience

The year 2023 marked a shift in the Central Bank of the Russian Federation's approach from crisis-management measures to initiatives aimed at eliminating potential vulnerabilities and strengthening the financial sector's resilience.

Thanks to the effectiveness of the measures implemented in 2022, financial institutions recovered, and lending registered an upward trend starting from the first months of 2023. To prevent an unsustainable credit spiral and over-indebtedness of the population, Russian authorities tightened requirements for loans granted to borrowers with a high debt service-to-income ratio (DSTI).

Mortgage loans were also targeted by the Central Bank's measures, as by the second quarter of 2023, the real estate market was already showing signs of "overheating" due to widespread subsidized mortgage lending through some government programs. As a result, the conditions for subsidized lending were adjusted, and the first signs of market stabilization were observed by the end of 2023.

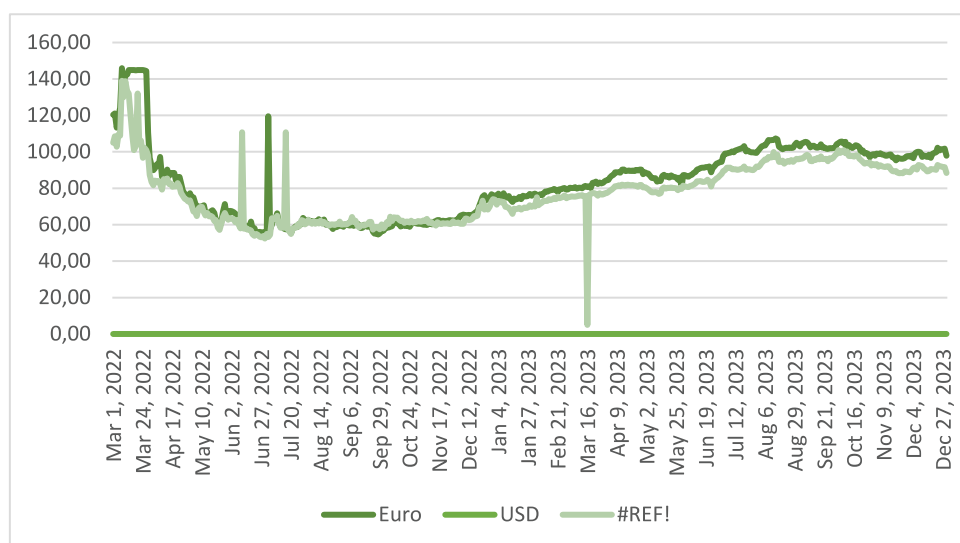
Many of the decisions taken by the Central Bank of the Russian Federation aimed to enhance the role of the financial market in the structural transformation of the national economy and to encourage long-term financing. Thus, new regulations were implemented to promote import financing, as well as projects for substitution and technological development. Companies began raising funds on the securities market again, and the stock market capitalization increased 1.5 times after the decline in 2022. The role of retail investors further expanded, as they now directly influence the growth of the securities market and the prospects for companies' initial public offerings (IPOs).

Source: Author based on Bank of Russia (2023). *The Bank of Russia Report. Results in Brief.* <https://www.cbr.ru/>

In 2023, Russian authorities successfully stabilized the ruble exchange rate against both the most representative currencies, the euro and the US dollar (USD), as mentioned earlier (Figure 2).

Figure 2.

Ruble Exchange Rate from March 2022 to December 2023



Source: Author based on data from the Central Bank of the Russian Federation (2024) and Moscow Exchange.

Note: We chose to illustrate the post- March 2022 period after the imposition of the first waves of sanctions. We used some Moscow Exchange data because, starting from November 1, 2022, the Bank of Russia decided to stop publishing data on the euro/ruble and US dollar/ruble exchange rates on its website.

As highlighted in Figure 2, in the first month after the sanctions (March 2022), the ruble experienced accelerated depreciation, trading at 120 rubles for one euro and 104 rubles for one US dollar. However, during the April-May 2022 period, Russian authorities managed to stabilize the national currency's exchange rate, and by December 2023, the exchange rate was 97 rubles for one euro and 88 rubles for one US dollar.

In November 2024, Russia's annual inflation rate rose to 8.9%, up from a five-month low of 8.5% in the previous month, surpassing market expectations of 8.7%. In response, the Bank of Russia kept its key rate at a high 21% in December 2024, a decision that reflects a more aggressive tightening of monetary conditions than initially anticipated in October. While the central bank argues that this measure is necessary to control inflation, the elevated interest rates have led to a significant cooling of credit activity, creating a tough environment for borrowers. The Bank of Russia maintains that these tight monetary conditions are essential for curbing inflation and returning it to the target of 4.5%, despite current price growth and high domestic demand.

However, in our opinion constantly raising the key rate poses a serious risk of overheating the economy. While the intention is to combat inflation, excessive tightening can

stifle economic growth, reduce investment, and increase the burden on businesses and consumers. The current inflation rate remains far above the target of 4.5%, which highlights the challenge that Russian federation faces in achieving price stability. Despite the central bank's efforts to address inflationary pressures, the economic outlook remains uncertain, with high rates potentially exacerbating long-term risks and undermining the goal of sustainable growth.

Although the measures taken by Russian authorities were effective in stopping the devaluation of the national currency and rising inflation, the war effort and increased government spending took their toll on the public finances balance. In 2023, as in 2022, the Russian Federation continued to face a budget deficit. Moreover, in 2023, the budget deficit increased to 2.3% of GDP, compared to 1.4% of GDP in the previous year.

It should be noted that the increase in the budget deficit was a result of massive increases in public spending (especially those related to the war) and a decrease in revenues from oil and natural gas exports (a phenomenon resulting from multiple energy embargoes—described in Box 2—that came into effect as a consequence of the sanctions).

Box 2: Brief overview of the sanctions imposed on the Russian Federation during 2022-2023 that affected trade in energy products.

The state that imposed the sanctions	Effects of the sanctions
EU	<p>Oil embargo: The EU imposed a gradual embargo on imports of Russian crude oil. By the end of 2022, the EU had eliminated nearly 90% of imports of Russian crude oil.</p> <ul style="list-style-type: none"> • Restrictions on refined petroleum products: Imports of refined petroleum products from the Russian Federation, such as diesel and gasoline, were also banned. • Prohibition of insurance and reinsurance: Ships transporting Russian oil cannot obtain insurance from European companies, significantly limiting exports from the Russian Federation. • Price cap on oil: The EU implemented a price cap (\$60 per barrel) for Russian oil exported to third countries.
US	<p>Prohibition of energy imports: The US completely banned imports of oil, natural gas, and coal from Russia.</p> <ul style="list-style-type: none"> • Secondary sanctions: Sanctions were imposed on non-American entities that do business with the Russian energy sector, including a ban on access to American financial markets. • Restrictions on energy technologies and equipment: The export of technologies and essential equipment for energy production and exploration from the Russian Federation was restricted.

These sanctions were intended to significantly reduce the Russian Federation’s revenues from energy exports and limit its ability to finance the war in Ukraine.

Source: Author’s synthesis based on the studied documents.

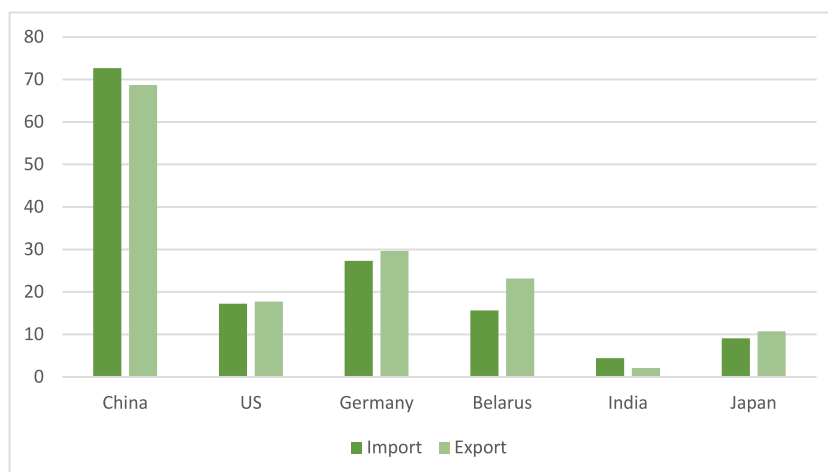
Note: We chose to analyze the sanctions imposed by the EU and the US, given that they ranked among the top positions in the hierarchy of the Russian Federation’s trading partners prior to the outbreak of the Russo-Ukrainian conflict.

As a result of the sanctions mentioned in Box 2, the growth rate of the Russian Federation’s exports was significantly affected, recording -8.9% in 2023. Although there was a slight recovery compared to the previous year (-13.8% in 2022), it remains significantly lower than in the pre-sanction period. It is worth noting that the

imposition of sanctions targeting Russia’s energy trade led to a change in the hierarchy of the main countries that are the preferred destinations for these exports. In the first year following the imposition of international sanctions, EU countries no longer held supremacy as they did before the sanctions (Figure 3).

Figure 3.

Main trading partners of the Russian Federation in 2022 (billion dollars)



Source: Author based on "Russia trade data analysis." <https://www.tradeimex.in/blogs/russia-export-and-import-statistics>

Note: The year 2022 is the year for which we hold the latest available data.

When we look at historical data on both export and import one also noticed a substantial decrease for EU countries as preferred destinations compared with pandemic and even pre-pandemic levels (Table 1).

Table 1.

Export and import destination by country of the Russian Federation (% from total)

Year	Export (top 5 destination)	Import (top 5 destination)
2019	China: 13.9 Netherland: 9.92 Belarus: 4.95 Germany: 4.55 Italy: 3.98	China: 20.6 Germany: 12.4 Belarus: 5.66 Italy: 3.64 Poland: 3.32
2020	China: 15.2 UK: 7.6 Netherland: 6.7 Belarus: 4.7 Germany: 4.25	China: 23.1 Germany: 11.9 Belarus: 5.32 Italy: 3.5 Poland: 3.4
2021	China: 14.8 Netherland: 8.07 UK: 5.1 Italy: 4.27 Belarus: 4.2	China: 24.8 Germany: 11.4 Belarus: 5.79 Poland: 3.23 Italy: 3.17
2022	China: 20.7 India: 8.31 Turkey: 5.21 Germany: 5.7 Italy: 5.16	China: 31.6 Turkey: 4.74 Kazakhstan: 4.5 South Korea: 3.24 Japan: 2.22

Source: Author based on data from Atlas of Economic Complexity (<https://oec.world/en/profile/country/rus?yearSelector1=2022&yearly-TradeFlowSelector=flow1>)

Moreover, the impact of the sanctions, which have led to a significant geographical reorientation in the international trade of the Russian Federation, is evident in the fact that, according to Statista (2024), in 2023, revenues from trade between the Russian Federation and Asian countries amounted to \$306.6 billion, while revenues from trade with European countries were only \$85 billion.

If Russian exports were affected by sanctions, imports experienced a significant boom in 2023, with a growth rate of 12.5%, compared to the dramatic decline of 14.3% in the previous year. According to recent analyses (Astrov et al., 2024), the revitalization of imports, nearly reaching pre-war levels, occurred against the backdrop of accelerated imports from China and other countries that did not impose sanctions. At the same time, although imports of sanctioned goods from the EU were halted, member states continued to export goods not subject to sanctions, as indicated by the same analysis. Astrov et al. (2024) also noted that, in November 2023, imports to the Russian Federation from the EU amounted to \$2.7 billion. Additionally, as a result of the sanctions, imports from other countries that did not impose sanctions increased, particularly from CIS member states (Commonwealth of Independent States), especially from Kyrgyzstan, Georgia, and Uzbekistan.

Against this background, it is worth mentioning that, according to Astrov et al. (2024), in August 2023, imports of aircraft from Armenia to the Russian Federation significantly increased, reaching \$12 million. Before the war, these aircraft were exclusively supplied by EU-27 and other countries that imposed sanctions. Furthermore, it should be noted that since the beginning of the war, Russia's aerospace industry has faced major challenges in replacing old aircraft, and recent imports from Armenia represent the first notable purchase of this product in the post-sanctions period.

In 2023, the current account balance substantially decreased to 2.5% of GDP, compared to 10.5% of GDP in 2022, as a relaxed fiscal policy stimulated imports, while declining energy prices and the price cap imposed by the EU on Russian oil reduced export revenues, thus affecting the current account balance.

In 2023, the public debt of the Russian Federation remained low, although it increased slightly from the previous year to 19.5% of GDP, compared to 18.5% of GDP in 2022. The low level of indebtedness of the Russian economy has been an asset for its performance and stability in the second year following the imposition of international sanctions.

Overall, the evolution of key macroeconomic indicators reveals that the Russian economy demonstrated strong resilience in 2023, with its growth surpassing previous estimates from international analysts. Although the Russian economy faced a budget deficit for the second consecutive year, the balance of public finances was supported by the existence of the National Welfare Fund. For example, at the end of 2023, specifically in December, the Russian National Welfare Fund sold amounts totaling €537 million, 115 billion yuan, and 233 tons of gold to supplement budget revenues.

Most international analyses estimate that the recovery of the Russian economy will slow down in the 2024-2025 horizon, but the growth rate will be higher than in 2023. The European Commission's forecasts indicate a GDP growth rate of 2.9% in 2024 and 1.7% in 2025, while the latest IMF estimates are even more optimistic, predicting a GDP growth rate of 3.2% in 2024 (according to the World Economic Outlook Update data from July 2024).

According to a report published by the Bank of Russia in July 2024 (Bank of Russia, 2024), the Business Climate Indicator (BCI) remained at a higher level in the first half of 2024 (9.8) compared to 2023 (6.7), indicating a sustained stable growth rate in the business environment.

On the other hand, some analyses (Astrov, Kochenev & Stamer, 2024) suggest that the GDP growth rate could fall below 2% by the end of 2024 due to persistently high interest rates, which will negatively impact lending and somewhat diminish domestic demand. The same analysis points out that, given the lack of a foreseeable end to the Russia-Ukraine war in 2024, economic growth will continue to be supported by public consumption (especially military expenditures, which already accounted for 10% of GDP during 2022-2023). However, in the long term, the economy will be affected by various knowledge and technology gaps generated by the sanctions imposed. Additionally, these analysts believe that the long-term continuation of the war will deepen the economy's reliance on military expenditures, slowing or even stunting the development of other sectors not related to war efforts.

Regarding the maintenance of a stable economic climate, it is important to note that in 2024, the Central Bank of Russia will strengthen its restrictive monetary policy using a system of tools (auctions and standing facilities for providing and absorbing liquidity, as well as mandatory reserves) that take into account the specifics of the Russian economy and financial sector. This approach allows for keeping interbank lending rates (IBL) close to the key interest rate, regardless of the liquidity situation in the banking sector. IBL rates, in turn, influence other interest rates in the economy, enabling the Central Bank of the Russian Federation to communicate its monetary policy signals and influence inflation.

Despite such measures, international analysts' estimates indicate an increase in the inflation rate to 6.6% in 2024 (compared to 5.9% in 2023), followed by a possible decrease to 4.5% in 2025 if the measures taken by the Central Bank of the Russian Federation achieve the intended success.

In 2024, the Central Bank of the Russian Federation will continue to develop the digital ruble, which will be the third form of existence for the Russian ruble, in addition to cash and non-cash forms. In terms of its characteristics, the digital ruble will be similar to both cash and funds in bank accounts. Digital rubles, like cash, represent liabilities of the Central Bank of the Russian Federation issued in digital form, which is also typical for non-cash funds held by banks.

The introduction of the digital ruble will provide several benefits, such as better financial inclusion, even in remote and sparsely populated areas, the ability to access a digital wallet through any financial institution regardless of limited internet access, and the development of new payment infrastructure. The key advantage is that this third form of the Russian ruble will help optimize payment costs, reducing transaction expenses and supporting the competitiveness of the Russian economy. The introduction of the digital ruble will not affect the fundamental principles of the banking system's operation or the principles of monetary policy implementation.

Regarding the evolution of the budget balance, it should be noted that the Russian Federation will continue to face a budget deficit during the 2024-2025 period, estimated at 1.8% of GDP and 1.5% of GDP, respectively, although slightly reduced compared to 2023. To address this situation and return to a budget surplus, new regulations will be implemented to improve tax and revenue collection for the federal budget.

On May 29, 2024, the Ministry of Finance of the Russian Federation presented a package of legislative proposals to the Government of the Russian Federation aimed at improving the fiscal system. This package includes significant amendments to the Tax Code, the Budget Code, and the Budget Law for the period 2024-2026. Among the most significant changes is the revision of the progressive tax scale for personal income tax and the introduction of new tax rates based on an individual's annual income.

Additionally, the amendments include a revision of the approach to calculating the fixed profit tax for controlled foreign corporations (CFCs), a modification of the corporate profit tax rate, and adjustments to the simplified taxation system (STS). The legislative proposal modifies the procedure for determining the amount of fixed profit for a CFC according to Article 227.2 of the Russian Tax Code. The current version of the law stipulates that a controlling individual must pay a fixed annual fee of 5 million rubles, regardless of the number of CFCs they control. However, under the proposed new procedure, the amount due on the fixed

profit of a CFC will be a multiple of the number of CFCs controlled. Consequently, the taxpayer will be assigned the fixed profit of each foreign company they control, and the amount owed will increase proportionally with the number of foreign companies.

Furthermore, the legislative proposal foresees an increase in the corporate profit tax rate from 20% to 25%. It is not expected that this change will affect the conditions for applying various favorable tax incentive regimes, such as protection and investment support agreements, special investment contracts, and benefits for residents of special economic zones.

In 2024, a strong recovery of exports is estimated, with a growth rate of 4.5% (compared to a collapse of -8.9% in 2023), driven by the Russian economy adapting to

sanctions and identifying new export destinations. This positive trend is likely to continue into 2025. Meanwhile, the growth rate of imports is projected to decrease in 2024 compared to the previous year (12.5% in 2023), down to 8.0%, with an even more significant deceleration anticipated in 2025 (5.2%). These developments could occur amid the imposition of new sanctions, as well as efforts by sanctioning countries to curb sanction evasion. Currently, many sanctions are being circumvented, with goods from the EU being imported by “friendly” countries and resold to the Russian Federation, evidenced by the remarkable increase in imports from CIS countries, with which there was no similar relationship prior to the sanctions.

DISCUSSION AND CONCLUSION

Analyzing the developments of key macroeconomic indicators from 2022 to 2024, along with the countermeasures against sanctions and economic stabilization efforts implemented by Russian authorities, we believe, based on the previously presented data, that three potential scenarios¹ could unfold for the Russian economy.

The first scenario is the continuation of the current status quo, with relatively stable economic growth, while sanctions remain unchanged. However, if the sanctions remains in their actual form, the pressures on the national currency are estimated to remain for the foreseeable future. One should note that the measures implemented by the Russian authorities in 2022, such as restrictive monetary policies and capital controls, combined with aggressive hikes in the key interest rate, aimed at stabilizing the ruble and curbing inflationary pressures in the wake of economic sanctions, proved effective in the short term by creating a more favorable environment for savings

and tempering the pace of lending. However, replicating such a strategy in the current context might not yield the same level of success. The Russian economy, which has been subjected to sustained sanctions and growing isolation, faces deeper structural vulnerabilities and a shrinking fiscal space. An attempt to stabilize inflation through similar monetary tightening could risk exacerbating the economic slowdown, as it would further constrain access to credit for businesses and consumers alike, discouraging investment and dampening domestic demand. Additionally, while a high interest rate might temporarily support the currency, it could also deter the limited inflow of foreign capital and potentially push more companies to seek alternatives outside the formal financial system, undermining long-term stability. Given the heightened uncertainty and global economic headwinds, a strict monetary approach might therefore fail to strike a balance between stabilizing inflation and sustaining growth, making it a less viable tool for managing the current economic environment in Russia.

THE SECOND SCENARIO INVOLVES WORSENING CONDITIONS DUE TO STRONG FRAGMENTATION IN THE GLOBAL ECONOMY

In this scenario, we anticipate a high risk of new sanctions for the Russian economy, accompanied by recessions in many advanced economies, making the geopolitical and economic landscape even more challenging. Although the Russian Federation has successfully pivoted some of its energy trade towards Asia, particularly China, this shift comes at a significant cost. The deepening economic partnership has led to a growing dependence on Chinese markets, compelling Russia to accept lower energy prices and incur substantial expenses for the development of new infrastructure projects. For instance, while the Power of Siberia 1 pipeline is operational, it cannot fully accommodate the surplus natural gas that

previously flowed to European markets, leaving Russia with limited alternatives to redirect its energy exports. The ongoing Power of Siberia 2 project, which aims to enhance this capacity, is both lengthy and expensive, adding to the strain. Although some European countries, such as Germany, have substantially reduced energy imports from Russia, finding new trading partners will be a complex, long-term, and costly endeavor for Russian authorities. While the emerging BRICS alliance could offer new avenues for economic cooperation, the impact of technological and trade restrictions imposed by Western economies will have enduring consequences on Russia's industrial and technological development.

¹ Note: The presented scenarios are based on the author's conclusions regarding the potential evolution of the geopolitical landscape, particularly the threat of new sanctions, and the predicted and discussed evolution of key macroeconomic indicators. These scenarios are not derived from other papers in the literature reviewed but represent the author's specific contribution.

In this scenario, the Russian Federation risks replacing its previous dependency on the European market with a new reliance on the Chinese market. Given the historical ups and downs in Sino-Russian relations, including past ideological rifts and the border conflict during the USSR era, this deepened dependency could place the Russian economy in a precarious position, making it vulnerable to shifts in Chinese strategic interests and reducing its economic autonomy in the foreseeable future.

A third more negative scenario for economic development suggests that the global economy will become more deglobalized, marked by divisions into various blocs among advanced economies due to deepening geopolitical tensions. This process has been visible since 2018-2019 and was exacerbated by the onset of the war in Ukraine after 2022.

If global fragmentation intensifies, countries will seek to localize their production capacities and establish partnerships with neighboring countries and geopolitical allies. In this case, the pressure from sanctions on the Russian economy could become more severe. The division into regional blocs will negatively affect global trade, hinder global economic growth, and decrease demand for Russian exports. Consequently, the Russian economy could contract in 2025, with the potential for economic growth to resume in 2026, albeit at a slower pace than currently observed.

Given all this possible future scenarios, our main finding shows that future developments in the Russian economy will undoubtedly hinge on the military and economic decisions made by the Russian government, with economic growth increasingly reliant on energy exports and government spending supporting military industries. Revenues from energy exports will depend

on fluctuations in international oil prices and other raw materials exported by the Russian Federation. Furthermore, global pressure on Russia to cease military aggression in Ukraine will also impact economic growth, particularly if new sanctions are imposed. While the first two forces are beyond the direct control of Western democracies, the third force is certainly within their power.

Our second finding shows that a new approach on the sanctions should be enforced to increase their efficiency.

Firstly, sanctions, as a key element of economic policy, can be effective when they have clear and limited objectives, are targeted, difficult to evade, and are evaluated and adjusted as necessary. Therefore, sanctions are most effective when not imposed “at a slow or incremental pace, as in this case, they may simply strengthen the targeted government” (Hufbauer, 2009). At this juncture, a comprehensive cost-benefit analysis of the sanctions applied by the international community would be extremely beneficial in guiding the targeting and implementation of any future sanctions, should Russia’s military aggression in Ukraine persist.

Secondly, some elements of future sanctions are becoming increasingly clear. First, the focus should be on energy exports that fuel the Russian war machine. It is impossible to undermine the macroeconomic stability of a commodity-exporting country during periods of explosive price growth unless decisive measures are taken to restrict export volumes. Second, Russia’s integration into the global economy and ongoing support from countries like China necessitate a new collaborative approach from international actors who should identify the most effective channels for imposing sanctions and halting illegal evasion activities (including involving private sector entities in monitoring transactions and controlling supply chains).

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