## RUSSIAN FEDERATION

The economy expanded by 1.2 percent (yoy) in the first half of 2025, a marked deceleration from the strong growth recorded in 2024. The slowdown reflects weakening aggregate demand. As a result, inflation started to edge down, though remains considerably above the central bank's target. Growth is projected to moderate further over the medium term, as tight monetary conditions, alongside reduced fiscal stimulus, are expected to temper demand pressures.

Key	conditions	and	chal	lenges
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Economic performance continues to be shaped by the country's invasion of Ukraine and the resulting sanctions. Economic growth has been upheld by the sizable economic stimulus (11 percent of GDP in the last 3 years) comprising of soft lending and proceeds from National Wealth Fund (NWF). This growth model is not sustainable in the medium term owing to the rising strain on public finances and accumulation of vulnerabilities in the financial sector. In the short term, the main policy challenge is to bring inflation down to the central bank's target, while minimizing the slowdown in growth. In the medium-to-long term, the growth potential is by the adverse labor market dynamics and the restrictions on access to foreign markets and technology.

## Recent developments

After strong growth in 2024, the Russian economy started to cool off posting 1.2 percent in H1 2025, as demand pressures eased,

Population <sup>1</sup> million	Poverty <sup>2</sup> millions living on less than \$8.30/day
143.5	1.3
Life expectancy at birth <sup>3</sup> years	School enrollment <sup>4</sup> primary (% gross)
73.3	97.7
GDP <sup>5</sup> current US\$, billion	GDP per capita <sup>6</sup> current US\$
2174.3	15148.4

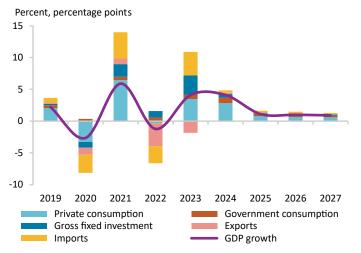
Sources: WDI, MFMod, and official data. 1/2024. 2/2023 (2021 PPPs). 3/2023. 4/2023. 5/2024. 6/2024.

largely driven by moderation in consumption. High borrowing costs weighed on the household borrowing, which contracted 9.4 percent (yoy) in H1 dampening consumption, while marked slow-down in corporate lending dented investment growth. Real wage growth remained robust at 5.8 percent (yoy) in June 2025 as tight labor market conditions continued with unemployment rate remaining at 2.2 percent, softening fall in consumption. On the supply side, retail sales growth levelled due to cooling consumption while the mining contracted, however the manufacturing maintained robust growth, particularly in military-related and import-substituting industries.

Headline inflation moderated slightly in line with easing demand, with the consumer price index (CPI) edging down in Q2 2025, after a hike in Q1, and settling at 9.5 percent year-on-year in June 2025. The central bank cut the policy rate in June by 100 basis points to 20 percent in view of softening inflationary pressures.

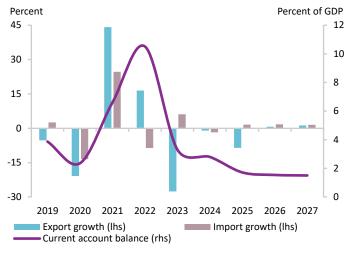
Fiscal spending increased by 8.9 percent in real terms in H1 2025 to 39.3 percent of GDP as expenditure execution remained high, while fiscal revenues declined by 3.2 percent in real terms,

FIGURE 1 / Real GDP growth and contributions to real GDP growth



Sources: Russian Federal State Statistics Service and World Bank.

FIGURE 2 / Current account balance and export and import growth



Sources: Central Bank of the Russian Federation and World Bank.

dragged down by declining oil and gas revenues. Fiscal deficit widened to 3.6 percent of GDP in H1 2025, mostly financed by domestic borrowing.

The current account surplus dropped to 2.1 percent of GDP in H1 2025, on the back of the narrowing trade surplus which dropped to 5 percent of GDP in H1 2025 from 7 percent in H1 2024 due to lower oil prices and reduced natural gas exports. Imports remained subdued, expanding 0.9 percent (yoy) in H1 2025 in line with slowing demand. Amid lower import demand and increased sales of FX denominated revenues by exporters, the ruble appreciated by 4.6 percent (yoy) by end-June.

Credit to the economy declined by 2.7 percent (yoy) in real terms in H1 2025, as household borrowing contracted and corporate lending, which has been a major driver of credit growth, levelled in real terms. NPLs rose to 12.1 percent of total consumer credit in H1 2025 from 7.6 percent in H1 2024, signaling a buildup of risks in the financial sector.

## Outlook

It is presently difficult to produce growth forecasts for Russia due to the significant changes to the economy associated with Russia's invasion of Ukraine, and the decision by Russia to limit publication of economic data, notably related to external trade, financial and monetary sectors. Unavailability of data limits our ability to assess economic performance.

Growth is projected to decelerate to 0.9 percent in 2025, and remain at around 1 percent during 2026–2027, as demand pressures ease amid tight monetary policy aimed at bringing inflation to target and constrained fiscal spending due to declining government revenues. Tight labor market conditions are expected to put pressure on labor costs weighing on production. Gross fixed capital formation is set to decline slightly during 2025-2026, as rising financing costs dampen private sector investment and state-led corporate lending is expected to moderate further, suppressing public sector investment.

Inflation is projected to decline in the medium term and is estimated to reach the central bank's target of 4 percent in 2027. The current account surplus is expected to moderate to 1.6 percent of GDP on average in 2025–27, owing to declining commodity prices. Exports are expected to rise at a slow pace in the medium term, with oil production growth constrained by OPEC+ quotas. Conversely, imports are projected to decelerate due to slowing domestic demand.

The fiscal deficit is projected to widen to 2.9 percent of GDP in 2025 and then remain at around 2.7 percent of GDP in 2026-2027, due to the reduction in revenues in 2025 from subdued energy prices, which are expected to recover only slightly, while public expenditures are expected to stabilize.

Downside risks from weaker commodity prices and slowing growth are significant and can exert pressure on macroeconomic stability while tightening of the sanctions regime can further dampen the growth outlook.

Recent history and projections	2022	2023	2024	2025e	2026f	2027f
Real GDP growth, at constant market prices	-1.4	4.1	4.3	0.9	0.8	1.0
Private consumption		6.0	5.4	1.2	1.1	1.0
Government consumption	3.0	3.7	4.8	2.3	1.8	1.3
Gross fixed capital investment	4.6	12.7	1.3	-0.4	-0.2	1.1
Exports, goods and services	-13.9	-8.2	1.0	0.5	0.4	0.3
Imports, goods and services		16.9	1.5	1.1	1.0	0.8
Real GDP growth, at constant factor prices	-0.5	3.9	4.3	0.9	0.8	1.0
Agriculture	7.0	0.5	1.2	1.2	1.2	1.2
Industry	0.4	1.5	2.0	1.4	1.4	1.4
Services	-1.4	5.3	5.6	0.6	0.5	0.8
Employment rate (% of working-age population, 15 years+)	59.5	59.8	59.5	59.5	59.5	59.5
Inflation (consumer price index)	13.7	7.3	9.5	7.5	4.4	4.0
Current account balance (% of GDP)	10.5	3.3	2.8	1.7	1.6	1.5
Net foreign direct investment inflow (% of GDP)	-1.2	-1.2	-1.0	-0.9	-0.8	-0.8
Fiscal balance (% of GDP) <sup>1</sup>	-1.3	-2.2	-1.6	-2.9	-2.7	-2.6
Revenues (% of GDP)	37.6	33.4	35.4	34.2	34.5	34.9
Debt (% of GDP)	13.4	13.5	13.5	13.8	14.0	14.0
Primary balance (% of GDP) <sup>1</sup>	-0.4	-1.3	-0.7	-2.0	-1.8	-1.6
International poverty rate (\$3.00 in 2021 PPP) <sup>2,3</sup>	0.1	0.1	0.1	0.1	0.1	0.1
Lower middle-income poverty rate (\$4.20 in 2021 PPP) <sup>2,3</sup>	0.3	0.2	0.2	0.2	0.2	0.2
Upper middle-income poverty rate (\$8.30 in 2021 PPP) <sup>2,3</sup>	1.4	0.9	0.8	0.8	0.8	0.7
GHG emissions growth (mtCO2e)	-2.7	3.3	4.9	2.4	2.7	2.4

Source: World Bank, Poverty and Economic Policy Global Departments. Emissions data sourced from CAIT and OECD.

Notes: e = estimate, f = forecast. Data in annual percent change unless indicated otherwise.

<sup>1/</sup> Fiscal and Primary Balance refer to general government balances.
2/ Calculations based on ECAPOV harmonization, using 2024-VNDN. Actual data: 2023. Nowcast: 2024. Forecasts are from 2025 to 2027.

<sup>3/</sup> Projection using neutral distribution (2023) with pass-through = 0.87 (Med (0.87)) based on GDP per capita in constant LCU.