



RUSSIA'S WARTIME ECONOMY:

**Resilience Under Sanctions,
Structural Strain Beneath**

ABSTRACT

This story analyzes Russia's wartime economy since 2022, highlighting its short-term resilience under Western sanctions through capital controls, energy reorientation, and defense-led growth. While macroeconomic stability persists, structural weaknesses, technological isolation, fiscal strain, inflation, and overreliance on military spending, may threaten long-term sustainability. Russia remains stable but might increasingly securitized and economically constrained.

Pragya Tiwary
Research Fellow, FORESIGHT
Research

CONTENTS:

- **Russia’s Wartime Economy: Resilience Under Sanctions, Structural Strain Beneath**
..... **3**

- **News Summary**.....**8**

- **References**... .. **11**

Russia's Wartime Economy: Resilience Under Sanctions, Structural Strain Beneath

Since the launch of the Russian invasion of Ukraine, Russia's economy may have moved from shock and isolation toward a war-driven stabilization model. While Western policymakers anticipated rapid macroeconomic collapse under sanctions, Moscow has instead engineered short-term resilience through capital controls, energy reorientation, fiscal expansion, and deepened ties with non-Western economies. However, beneath headline stability lie mounting structural distortions that could define Russia's medium- to long-term trajectory.

The Russian economy is stuck in what might be described as negative equilibrium: holding itself together while steadily destroying its own future capacity. Export revenues show signs of pressure, and persistent economic weakness may limit the government's ability to offset budget gaps through additional tax revenues. The economy expanded by just 1% in 2025. The forecast for this year is worse. (<https://www.economist.com/by-invitation/2026/02/16/russias-economy-has-entered-the-death-zone>)

Over the past four years the Russian economy has bifurcated into two distinct metabolic systems. The first comprises military and military-adjacent industries: the vital organs that receive priority blood flow. These sectors are hiring and investing. They get first access to labour, capital and imports. The second system contains everything else: private enterprise, small businesses, consumer industries. These are the extremities left in the cold. (<https://www.economist.com/by-invitation/2026/02/16/russias-economy-has-entered-the-death-zone>)

Events Leading to the Current Scenario

The turning point was February 2022, when Russia's full-scale invasion may have triggered coordinated sanctions from the US, EU, UK, Japan, and allies. Within weeks:

- Roughly \$300 billion of Russian central bank reserves were frozen.
- Major banks were removed from the SWIFT financial messaging system.
- Export controls targeted semiconductors, aviation components, and advanced technologies.
- Energy sanctions gradually limited oil and gas imports to Europe.
- Western firms exited the Russian market.

The ruble collapsed, inflation surged above 17%, and GDP contracted in 2022. The Central Bank hiked interest rates to 20%, imposed capital controls, and forced exporters to convert foreign currency earnings. Meanwhile, high global energy prices cushioned fiscal revenues. By 2023–

2024, GDP returned to modest growth driven largely by defense production and state-led industrial expansion.

Sanctions: Weakening or Strengthening?

Sanctions may have both constrained and inadvertently reshaped the Russian economy.

1. Financial Sanctions

The freezing of foreign reserves and removal of banks from SWIFT disrupted cross-border finance. However, Russia expanded use of its domestic payment system (Mir), increased yuan-based trade, and strengthened financial ties with China and India.

Impact:

- Reduced financial integration with the West.
- Accelerated “de-dollarization.”
- Increased reliance on the Chinese financial ecosystem.

Short-term stabilization succeeded, but long-term access to global capital markets remains severely constrained.

2. Energy Sanctions and Price Caps

The EU’s oil embargo and G7 price cap sought to curb energy revenue. Europe, once Russia’s largest gas customer, rapidly diversified supply. In response, Moscow redirected crude exports toward India and China at discounted rates.

Impact:

- Oil volumes remained relatively stable.
- Revenue volatility increased due to discounting and logistics costs.
- Gas exports suffered structurally due to pipeline dependence.

The loss of the European gas market could represent one of the most significant long-term structural challenges. Infrastructure limitations mean Asia cannot fully substitute European demand in the near term.

3. Technology Export Controls

Restrictions on semiconductors, aircraft parts, and industrial machinery have had cumulative effects. Civil aviation has been forced to cannibalize aircraft for spare parts. Automotive production initially collapsed before partial recovery via Chinese imports.

Impact:

- Decline in high-tech manufacturing capacity.
- Military-industrial sector prioritized over civilian innovation.
- Rising dependency on China for advanced components.

This may contribute to structural constraints, potentially limiting productivity growth and modernization over time.

4. Corporate Exit and Investment Freeze

Hundreds of Western firms suspended operations or exited Russia. Foreign direct investment plummeted.

Impact:

- Domestic firms or state-linked entities absorbed assets at discounted values.
- Competition decreased in several sectors.
- Long-term efficiency and productivity risks appear to have increased.

While import substitution policies aim to fill gaps, many industries lack competitive capacity.

Current Economic Structure: War-Led Growth

Russia's apparent economic rebound is heavily defense-driven. Military spending now accounts for a historically high share of GDP and federal expenditure. Industrial output growth is concentrated in arms manufacturing and related sectors.

Macroeconomic observations:

- GDP growth positive but narrowly concentrated.
- Labor shortages due to mobilization and emigration.
- Inflationary pressures persist.
- Real wages rising in defense-linked industries.

This is a classic wartime economic reallocation model: consumption is compressed, private investment subdued, and state-directed industrial expansion dominates.

Strengths

1. Energy Resource Base: Russia remains one of the world's largest oil and gas producers.
2. Low Public Debt: Provides fiscal maneuverability.
3. Autonomous Monetary Policy: The Central Bank has demonstrated crisis-management capacity.
4. Non-Western Trade Pivot: Increased integration with Asia, particularly China and India.

These factors explain why sanctions did not trigger systemic collapse.

Weaknesses

1. Technological Isolation
2. Capital Flight and Brain Drain
3. Demographic Decline
4. Overdependence on Defense Spending
5. Fiscal Strain from Prolonged Conflict

Future Scenarios

Scenario 1: Stagnation

War persists with tightening sanctions squeezing oil revenues further (e.g., reduced Indian buys), potentially resulting in growth below 1%, widening fiscal deficits, and higher taxation or inflationary pressures. Defense sustains industry but civilian sectors stagnate; shadow routes like Singapore help marginally but fail against escalated enforcement.

Scenario 2: Partial Recovery

Negotiated Ukraine settlement eases some sanctions, boosting oil/gas access and capital inflows for 2-3% growth; defense spending normalizes, allowing diversification. Routes via Singapore/Asia solidify as permanent trade pivots, stabilizing revenues without full Western reintegration.

Scenario 3: Sharp Downturn

Oil prices crash below \$60 and sanctions crack shadow fleets/Indian/Chinese buys, which could trigger a recessionary phase, increased ruble volatility, and significant fiscal strain despite

continued defense stimulus. Internal strains like brain drain and inflation spike, risking social discontent.

Implications for India

- India benefits from discounted Russian oil (key supplier), deepening rupee-rouble trade aiming for \$100B by 2030, and defense/nuclear deals like Kudankulam reactors.

Regional Divide	Rural/poorer households are disproportionately affected.
------------------------	--

- Under a stagnation scenario, India could continue benefiting from discounted energy imports, though risks to supply stability would remain.
- Stagnation scenario offers best value, sustained discounts without global shocks, while positioning India as a key pivot partner.

Analytical Assessment

Available evidence suggests sanctions have not produced systemic collapse, nor have they fundamentally strengthened the economy in structural terms. Instead, they have transformed the economic model:

- Short-term macro stability achieved.
- Long-term modernization trajectory weakened.
- Economic sovereignty increased at the cost of integration.
- Growth increasingly militarized and state-dependent.

From a structural perspective, Russia appears to be moving toward a more semi-autarkic, resource-backed, security-centered economic configuration economic system with deep reliance on China

The key variable going forward is duration. Over time, technological isolation and demographic constraints may compound structural pressures. If the war persists into the latter half of the decade without meaningful sanctions relief, the Russian economy may face diminishing returns on military stimulus and widening structural inefficiencies.

Impact Area	Real-World Effect
Food & Essentials	Prices rising faster than many incomes — large share of budget now goes to staples.
Consumer Spending	Reduced eating out & discretionary purchases; increased savings.
Wages vs. Prices	Nominal wage growth often lags inflation — especially for low-wage workers and pensioners.
Perception Gap	Public feels inflation more than statisticians’ measure; confidence under pressure.

February

News

Summary

Sr. No.	Date	Headline	Source	Sector
1	30-01-2026	Russia says the US will not be able to repeat the Venezuelan scenario in Cuba - Últimas Noticias	en.ultimasnoticias.ve	Foreign Policy
2	30-01-2026	Milan-Cortina Olympics IOC “Athletes from Russia and Belarus participate as“AIN”” NHK News Milan-Cortina Olympics, Olympic and Paralympic Games, Russia	nhk	Foreign Policy
3	31-01-2026	Ukraine-Russia agree to temporary ceasefire, US-brokered	gorkhapatraonline	Foreign Policy
4	30-01-2026	Turkmen-Russian political consultations took place at the Ministry of Foreign Affairs of Turkmenistan	turkmenistan.ru	Foreign Policy
5	31-01-2026	The joint naval exercise of the Islamic Republic, China and Russia was postponed after Centcom's warning Iran International	iran international	Foreign Policy
6	30-01-2026	Zelensky: The developments between America and Iran will probably change the time of negotiations with Russia Iran International	iran international	Foreign Policy
7	03-02-2026	Myanmar, Russia to boost military cooperation	Global New Light of Myanmar	Foreign Policy
8	06-02-2026	US-Russia START nuclear pact expires	TaipeiTimes	Foreign Policy
9	06-02-2026	Russian foreign minister says Ukraine must be 'neutral and benign' as neighbor	CGTN	Foreign Policy
10	06-02-2026	2nd round of Russia-Ukraine talks ends in UAE with prisoner swap deal, key differences unresolved	CGTN	Foreign Policy
11	05-02-2026	There are casualties and damage: 95 Ukrainian UAVs were destroyed over Russia overnight - RT in Russian	RT (Russia Today)	Foreign Policy
12	08-02-2026	“We cannot afford to be surprised”: when the French army prepares for a possible war with Russia - Le Parisien	Le Parisien	Foreign Policy
13	08-02-2026	Russian officials voice hope for greater cooperation as Chinese New Year comes	ChinaDailyHK	Foreign Policy
14	08-02-2026	“Sarma”, “Ballista”, drones and a new armored personnel carrier: what Russia will show at the arms exhibition in Saudi Arabia - Teller Report Teller Report	RT (Russia Today)	Foreign Policy
15	05-02-2026	Russia, Ukraine, U.S. agree to exchange 314 prisoners	CGTN	Foreign Policy
16	05-02-2026	Russia will continue to supply oil to Cuba: ambassador	CGTN	Foreign Policy
17	01-02-2026	Moves to stop Russia's 'unauthorized' Starlink use seem to work: Musk	DailySabah	Foreign Policy
18	01-02-2026	U.S., Russia describe Florida meeting on Ukraine conflict as 'constructive'	CGTN	Foreign Policy
19	01-02-2026	Secretary-General of the Russian Security Council Xiao Yigu: Concerned about hostile forces undermining stability in the Taiwan Strait	ChinaTimes	Foreign Policy
20	03-02-	Shattered! Russian Iskander Missile Bombards US	cnbcindonesia	Foreign

Sr.No.	Date	Headline	Source	Sector
	2026	HIMARS Rocket		Policy
21	03-02-2026	Intel Putin Warns There Will Be A Mass Coup, This Country Is The Culprit	cnbcindonesia	Foreign Policy
22	30-01-2026	3rd Myanmar-Russia Biosafety Meeting boosts biotech cooperation	Global New Light of Myanmar	Foreign Policy
23	12-02-2026	“Terrorist attack of the Ukrainian neo-fascist regime”: 106 Ukrainian UAVs were shot down over Russia overnight - RT in Russian	RT (Russia Today)	Foreign Policy
24	10-02-2026	“He wants the carnage to continue”: Zelensky again rejected the possibility of territorial concessions from Ukraine - Teller Report Teller Report in Russian	RT (Russia Today)	Foreign Policy
25	09-02-2026	The work of aviation and missile forces: the Russian Armed Forces hit a military airfield and fuel and energy facilities of the Kyiv regime - RT in Russian	RT (Russia Today)	Foreign Policy
26	10-02-2026	Russia detains third suspect in assassination attempt on GRU general	perplexity	Foreign Policy
27	09-02-2026	Russia warns NATO Arctic buildup risks armed conflict	perplexity	Foreign Policy
28	22-02-2026	Massive strike with high-precision weapons: the Russian Armed Forces hit Ukrainian military-industrial complex and energy facilities - Teller Report Teller Report in Russian	RT (Russia Today)	Foreign Policy
29	22-02-2026	“They act under supervision”: Bortnikov announced a British trace in the assassination attempt on General Alekseev - Teller Report Teller Report in Russian	RT (Russia Today)	Foreign Policy
30	22-02-2026	Russia will help Cuba: State economy: Economy: Lenta.ru	lenta	Foreign Policy
31	12-02-2026	Russia evacuates tourists from Cuba as US-engineered fuel crisis deepens	AL Jazeera	Foreign Policy
32	12-02-2026	Russian missile barrage leaves 300.000 in Odesa without water	straitstimes	Foreign Policy
33	12-02-2026	India approves \$1.2 billion purchase of S-400 missiles from Russia	(no specific Written By listed)	Foreign Policy
34	16-02-2026	Energy facilities were damaged: Bryansk region was subjected to the most powerful and massive attack of the Ukrainian Armed Forces of all time - RT in Russian	RT (Russia Today)	Foreign Policy
Serial Number	Date	Headline	Source	Sector
1	02-02-2026	Up to 70% of the total salary: in Russia they proposed to set teachers’ salaries in a new way - RT in Russian	RT (Russia Today)	Economy
2	02-02-2026	Russia's gas exports to Europe via TurkStream up 10.3% in January	DailySabah	Economy
3	09-02-2026	Black market for Russian, Iranian oil is in trouble	TaipeiTimes	Economy
4	08-02-2026	“Overcome the global monopoly”: how the civil aircraft industry is developing in Russia - RT in Russian	RT (Russia Today)	Economy
5	12-02-	“Significantly affects personal finances”: what do	RT (Russia Today)	Economy

Sr. No.	Date	Headline	Source	Sector
	2026	Russians expect from Friday's Central Bank meeting on the key rate - RT in Russian		
6	16-02-2026	Russia's GDP exceeded the volume of the economy of one European country: State Economy: Economics: Lenta.ru	lenta	Economy
7	16-02-2026	Russia has been instructed to make an uncertified aircraft cheaper: State Economics: Economics: Lenta.ru	lenta	Economy
8	16-02-2026	In Russia they talked about the importance of keeping oil production from falling: State Economy: Economy: Lenta.ru	lenta	Economy
9	16-02-2026	In Russia, for the second year in a row, the plan for long-term savings was not fulfilled: State Economy: Economics: Lenta.ru	lenta	Economy
10	16-02-2026	Problems with oil storage have been discovered in Russia: State Economy: Economics: Lenta.ru	lenta	Economy
11	22-02-2026	In Germany they called the refusal of Russian gas unprepared: State Economy: Economy: Lenta.ru	lenta	Economy
12	22-02-2026	The economist spoke about the risks of the weakening of the ruble: State Economy: Economics: Lenta.ru	lenta	Economy
13	10-02-2026	Govt seeks Russian support to revive PSM	tribune	Economy
14	09-02-2026	Russian tankers list Singapore to mask oil buyers, data shows	perplexity	Economy
Serial Number	Date	Headline	Source	Sector
1	12-02-2026	"The issue of compliance with legislation": the Kremlin named the conditions for restoring the work of WhatsApp - RT in Russian	RT (Russia Today)	Politics
2	16-02-2026	Lifetime and deprivation of citizenship: the prosecutor requested punishment for those involved in the case of the terrorist attack in Crocus - RT in Russian	RT (Russia Today)	Politics
1	05-02-2026	Winter Olympics 2026: a Russian and Belarusian mini-delegation authorized to participate, but under certain conditions - Le Parisien	Le Parisien	Society
2	11-02-2026	"Family income should not decrease": how the rules for assigning a single benefit to large families will change in Russia - RT in Russian	RT (Russia Today)	Society
3	30-01-2026	9,000 Tajik children return from Russia after struggling to access education	AsiaPlusTJ	Society

REFERENCES:

- Gallup. (2026, February). *Russian economic outlook dims post-invasion high*. <https://news.gallup.com/poll/696539/russian-economic-outlook-dims-post-invasion-high.aspx>
- GIS Reports Online. (2026). *Russia economy faces low-growth trap*. <https://www.gisreportsonline.com/r/russia-economy-low-growth/>
- Reuters. (2026, February 4). *Russia's budget deficit may almost triple this year as oil revenues decline*. <https://www.reuters.com/world/europe/russias-budget-deficit-may-almost-triple-this-year-oil-revenues-decline-2026-02-04/>
- Sberbank. (2026). *Russian economic update*. <https://sber.bank.in/media/publications/russian-economic-update>
- The Economist. (2026, February 16). *Russia's economy has entered the "death zone"*. <https://www.economist.com/by-invitation/2026/02/16/russias-economy-has-entered-the-death-zone>
- The Guardian. (2026, February 6). *The Russian economy is finally stagnating: What does it mean for the war and for Putin?* <https://www.theguardian.com/world/ng-interactive/2026/feb/06/the-russian-economy-is-finally-stagnating-what-does-it-mean-for-the-war-and-for-putin>
- The Moscow Times. (2026, February 5). *As everyday prices creep upwards, Russians feel the pinch*. <https://www.themoscowtimes.com/2026/02/05/as-everyday-prices-creep-upwards-russians-feel-the-pinch-a91798>
- The Moscow Times. (2026, February 10). *Putin is battling inflation but sacrificing Russia's economy*. <https://www.themoscowtimes.com/2026/02/10/putin-is-battling-inflation-but-sacrificing-russias-economy-a91898>
- The New York Times. (2026, February 24). *Russia-Ukraine war: The future*. <https://www.nytimes.com/2026/02/24/world/europe/russia-ukraine-war-future.html>
- Yahoo Finance. (2026, February). *Russian economy grew 4.1%*. <https://uk.finance.yahoo.com/news/russian-economy-grew-4-1-125458994.html>

