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To the point!

Cross-Asset- and Strategy-Research

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Four years of war

The West could bring Russia’s economy to its knees

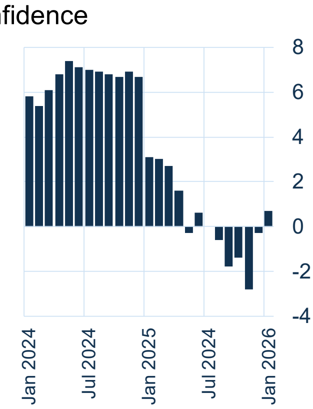
Next week marks a grim anniversary. Four years ago, Russia launched its illegal invasion of Ukraine. The Kremlin clearly imagined its “special military operation” rather differently. After almost 1,500 days, the Russian army has managed to occupy barely one fifth of Ukrainian territory; a year earlier, it held only slightly less. In other words, Russia has made virtually no progress. On the debit side of Russia’s war balance sheet, analysts put the number of Russian soldiers killed, wounded or missing at around 1.2 million. When I last wrote on Russia in this column in May 2025, I argued that the wheels were coming off its economy. Where does it stand today?

Moscow is failing to make the progress it had hoped for

Russia’s economy in stagnation

The negative news out of Russia’s economy has, if anything, intensified since then. The International Monetary Fund recently cut its forecast for this year’s growth by 0.2 percentage points to 0.8%. For 2025, it estimates growth at a meagre 0.6%. The temporary boom driven by the build-up of the defense industry – growth still stood at 4.3% in 2024 – has fizzled out. By 2024, defense spending had climbed to more than 7% of Russian GDP, almost double the pre-war level. But there was hardly any further increase in 2025: Russia’s war-time industry appears to be running at full capacity. Business and consumer pessimism is hardening (see figs. 1 and 2).

Fig. 1: Russia Business Confidence



Source: Rosstat, Trading-economics, LBBW Research

High real interest rates are also weighing on momentum. The Russian central bank is straining every nerve to push inflation – 6% in January – down to its 4% target. It is therefore keeping short-term rates extremely high (currently 15.5%). At the same time, revenues from Russia’s oil and gas exports, which have been declining since the invasion, have fallen further.

Russia’s public finances are under strain

While fossil-fuel export earnings still accounted for 40% of central-government revenue in 2022, last year the share is estimated to have been only about 25%. Since the U.S. imposed sanctions on oil majors Lukoil and Rosneft in November, oil exports have plunged again at the start of this year. The fact that India has now negotiated a “tariff deal” with U.S. President Donald Trump that is likely to sharply curb its oil imports from Russia is hardly helping Moscow’s predicament either (see fig. 3). The budget is under strain. Moscow is cutting social benefits and public investment and is raising corporate tax (from 20% to 25%) as well as value-added tax (from 20% to 22%).

Russia is economically on the ropes – and Moscow knows it. Rumor has it that the Kremlin is preparing to present Trump with a seven-point plan offering the U.S. enormous economic advantages and outsized privileges for U.S. firms in Russia. A gigantic exercise in sycophancy. Whether Russia would really be willing to conclude such a pact of friendship with Washington and thereby snub Beijing is an open question. But buying time and nudging Trump to exert even more pressure on Kyiv: for that, it should suffice. And Trump will presumably be keen to cast himself as a peacemaker before the midterms in November, even if that comes at Ukraine’s expense. Putin is betting on this vanity.

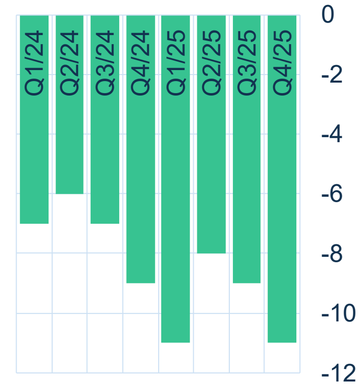
The West should now ratchet up the pressure

It is all the more important that the West – or what remains of it – now tightens the financial screws on Russia and makes prolonging the war unattractive for the Kremlin. Beyond continued financing of Ukraine’s defensive capabilities, the U.S. should finally introduce the bipartisan Graham-Blumenthal bill in Congress. It envisages steep tariffs on all countries that buy Russian oil or gas. In the Senate, an overwhelming majority has already come out in favor. But the process is bogged down in bickering between the Senate and the House over where the legislative initiative should originate. Whether Trump would sign the bill if Putin were to unleash a charm offensive is anyone’s guess.

The EU is currently negotiating a new sanctions package (the 20th!) that would make it far harder for Russia to ship oil to the global market by tanker. All maritime services – from transport to insurance – would be off-limits for EU-based firms. The Greek government, prodded by the country’s powerful shipping magnates, is still blocking a unanimous decision.

At the moment, Ukraine is recapturing territory occupied by Russia. The apparent reason is the cut-off of the Starlink satellite system for Moscow’s forces. Russia never appeared more vulnerable. If the U.S. and the EU were now to act together, they could pull the rug from under Russia’s economy. In that case, there would likely be no fifth anniversary of the start of the war. But for that to happen, President Trump must finally decide whose side he is on.

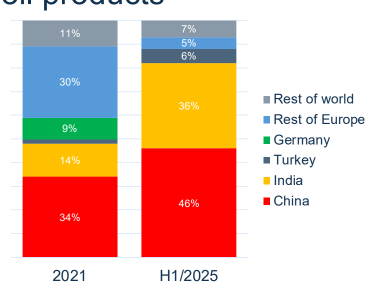
Fig. 2: Russia Consumer Confidence



Source: Rosstat, Trading-economics, LBBW Research

Moscow’s sweet talk to mollify Trump

Fig. 3: Buyers of Russian oil products



Source: EIA, LBBW Research

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