Russia 2025 Global ambitions, limited resources

Economy and Politics in 2025

Institute of New Europe

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We present to you a report on selected aspects of the politics and economy of the Russian Federation. The team of the Institute of New Europe addresses issues such as: unlimited hybrid warfare, the state of the Russian economy, Russian activities in Africa, and the Russian military-industrial complex. We hope that the discussed issues, as well as the drawn conclusions and recommendations, will serve decision-makers in formulating appropriate security and defense policies. Especially in times of increased public debate about the state and capabilities of the Russian Federation, is it indeed a "paper tiger" as recently described by Donald Trump, and what is the purpose of the hybrid war waged by Russia? We believe that correctly identified areas of conducted policy and the state of the Russian economy will bring readers closer to the real capabilities of the Russian Federation, and its possible further steps on the international arena.

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Unrestricted Hybrid War

Jan Starosta

Introduction

Hybrid wars have been known since the beginning of human conflict. Over the last 20 years, the means and technologies enabling an ever-greater synergy effect between kinetic and non-kinetic actions have significantly increased. The Russian Federation most eagerly uses these types of means. Russian acts of sabotage tripled between 2023 and 2024 [1]. In recent months, there has been an increase in the intensity of Russian hybrid activities, culminating in the violation of Polish airspace by Russian drones. Parallel to the intrusion, a massive disinformation campaign occurred online, attempting to blame Ukraine for the incident. These actions were, until now, the most aggressive manifestation of Russia's "shadow war". Hybrid warfare is not waged in a vacuum. It must be placed in the context of the military operations conducted by the Russian Federation in Ukraine, especially the failure of the summer offensive, the ongoing Zapad 2025 exercises, the state of the Russian economy, and the international situation. Hybrid activities should not be treated as an element of the war Russia is waging in Ukraine, but rather as a pillar of its strategy. The analysis of hybrid warfare itself presents many difficulties, as much data is not available, investigations are ongoing (often secretly), incidents have not been attributed to the perpetrator, or due to the multi-faceted and multi-vector nature of the analysis area itself. All data in this area should be treated as indicative; however, despite data limitations, the conclusions drawn from known actions are often correct and indicate the direction of the threat, its characteristics, and objectives.

Goals and Characteristics of Russian Hybrid Warfare in 2025

We wrote about the definitions and theory of hybrid warfare in the report "Everything is War: Russian Hybrid Activities Against the Three Seas Initiative Countries" in 2024 [2]. Among the most important conclusions needed for the analysis of current events are the definitions and specific goals of hybrid warfare. Hybrid warfare affects all areas of a state's security architecture. It negatively impacts society, the authority of the government, and democratic systems; it is a long-term action aimed at changing social perception and sowing chaos. The doctrine of hybrid warfare is based on a rich array of Russian experiences from the 20th century, evolving over the years to currently influence strategic, operational, and tactical areas. The Gerasimov doctrine has had the greatest influence on the concept's development in recent years, currently serving as the basis for actions conducted by the Russian Federation. **Hybrid warfare can be defined as a combination of conventional and unconventional, kinetic and non-kinetic actions used in a coordinated manner by state and non-state actors, aimed at achieving political, strategic, and operational goals** [3].

Blurring the clear distinction between war and peace makes it easier for Russia to exert pressure on Western countries supporting Ukraine and allows it to move up the escalation ladder. This often leads to differences in threat perception among NATO countries; Poland perceives the Russian violation of Polish airspace differently than Germany or Spain. Russia is the proactive party in this confrontation, thus it chooses the areas and places of influence. One of the goals of hybrid activities is to test the threshold of Article 5 and allied cohesion. The main goals of Russian hybrid activities include:

1. **Testing NATO's reactions,**
2. **Testing allied cohesion (including Article 5),**
3. **Gathering data, reconnaissance of air defense and procedures,**
4. **Sowing chaos and deepening differences in security perception within NATO,**
5. **Deterring and punishing key countries supporting Kyiv in the war,**
6. **Weakening allied solidarity.**

The main principle of unlimited hybrid warfare is to combine kinetic and non-kinetic means in such a way as to achieve the greatest possible "chaos," understood as influence on public opinion, politicians, actions at the international level and within individual armies, and damage to critical infrastructure. It currently pays off for Russia to wage a hybrid war against the West rather than open military action. It offers lower risk, a wider range of actions, and limited retaliation from Western countries. The ambiguity of attributing a given hybrid action to the initiating state facilitates operating in the grey zone and reduces risk. Determining whether an action is intentional or a coincidence prevents effective counteraction against hybrid attacks. Hybrid warfare fits into Warden's Five Rings theory (Fig. 1) - each of the rings that make up the circle is attacked. According to the theory - to paralyze the opponent, each ring must be attacked; Russia optimizes its strategy by trying to influence every area.

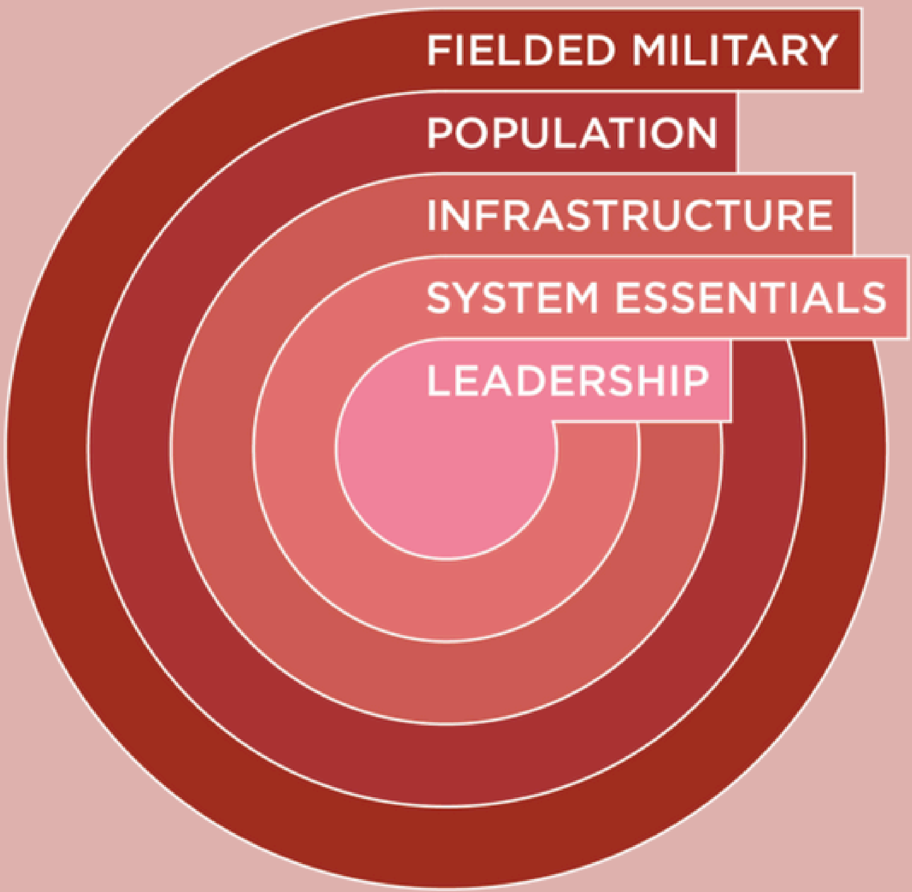


Fig.1, Source: https://www.cnas.org/publications/reports/filling-the-seams-in-u-s-long-range-penetrating-strike [accessed: 21.10.2025]

Giulio Douhet also provides an interesting reference point in his work from the 1920s - "The Command of the Air." Although Douhet and Warden focused mainly on paralyzing the state and winning the war through superior air forces, their theories provide an analytical basis for understanding Russian hybrid warfare. Warden focuses on what is important - the rings - leadership (the center with the greatest "gravity"), infrastructure, population, and army. Douhet talks about how to achieve a strategic effect through remote, leapfrog strikes on the centers of state life (e.g., morale, transport, energy) — emphasizing the systemic and psychological effect. Both conceptualize war in a systemic way. Hybrid warfare, on the other hand, provides a catalog of tools that in practice play the role of Douhet's "bombs" — only instead of bombs, they use: cyberattacks, disinformation, airspace violations, sabotage, economic pressure, supporting parties that fit the Kremlin's narrative, assassinations (i.e., means allowing strikes on Warden's rings without open battle).

Escalation and Operating Below the Threshold of War

The Russian elite's conviction about NATO's lack of cohesion and insufficient deterrence, as well as a lack of faith in Article 5, encourages further escalation of hybrid warfare and the application of pressure. For Russia, hybrid actions are significantly cheaper than full-scale war as an element of influencing decision-making centers. Russia prefers actions that allow for flexible escalation, especially in the situation of negotiating a future peace in Ukraine. This allows pressure to be put on the West to achieve a favorable outcome of the war. Additionally, it is intended to frighten the West and force it to stop supporting warring Ukraine by focusing more on its own defense or fearing further hybrid actions. **Russia tries to compensate for its weakness on the front with unlimited hybrid warfare against the West**.

This reveals one of the fundamental features - neutralizing the asymmetry of potentials through synergy. Escalating hybrid actions may also aim to mask weaknesses, especially in the situation of Russia's economic problems and the current fuel crisis. The escalation of hybrid actions and the increase in their intensity leads to a paradox. **Russia is forced to escalate actions to achieve the intended results** [4]. This is dangerous because it leads to an increased risk of an "incident" turning into a full-scale war.

Hybrid activities are crucial at the strategic level; thanks to cooperation with criminal groups, it is possible to circumvent some sanction packages and carry out sabotage, arson, and acts of violence. The risk of destabilization and further escalation increases significantly if organized crime groups become a kind of proxy for Moscow [5].

Acts of sabotage, arson, attacks on people are not always the direct work of Russians. Moscow recruits Russian-speaking men with criminal tendencies or a criminal past directly in European Union countries [6]. Most often, it is a man around 30 years old, originating from a post-Soviet country, e.g., Ukraine, Russia, Moldova, Estonia, and Bulgaria, who speaks Russian and performs physical labor or low-paid services. Ideologically, they favor Russia, but the main motivation is money. According to GLOBSEC calculations, only 58% of captured perpetrators were aware that the tasks they performed were ordered by Moscow. In many cases, they start with low-paid, easy assignments, like sticking pro-Kremlin stickers; the level of tasks is raised up to acts of sabotage such as setting fire to a workplace, shop, or damaging railway tracks used to transport support for Ukraine [7].

The pace of hybrid operations significantly accelerated after 2018, when about 600 Russian intelligence officers were expelled. Currently, the focus is on "disposable" operators, managed remotely, tasked with performing a specific mission. Out of 110 incidents carried out by 131 identified individuals after 2022 and linked to Moscow, 35 had a criminal past and were recruited through prisons or organized crime groups [8]. After 2022, an increase in the frequency of events classified as "hybrid warfare" is visible. The peak in terms of intensity and aggressiveness falls in the first quarter of 2024 [9]. The decrease in the activity of Russian services after 2024 can be justified by the increased awareness of European services and the exhaustion of the repertoire of previous means. In connection with the events of recent months, a new offensive in hybrid warfare can be observed, not so much in the number of actions, but in their impact and consequences for Europe. The data and conclusions drawn from the figures above are burdened with uncertainty, as they are based on open sources, and some cases are still ongoing or have not been attributed to the Russian Federation. In reality, there may be significantly more of them than presented in Fig. 2.

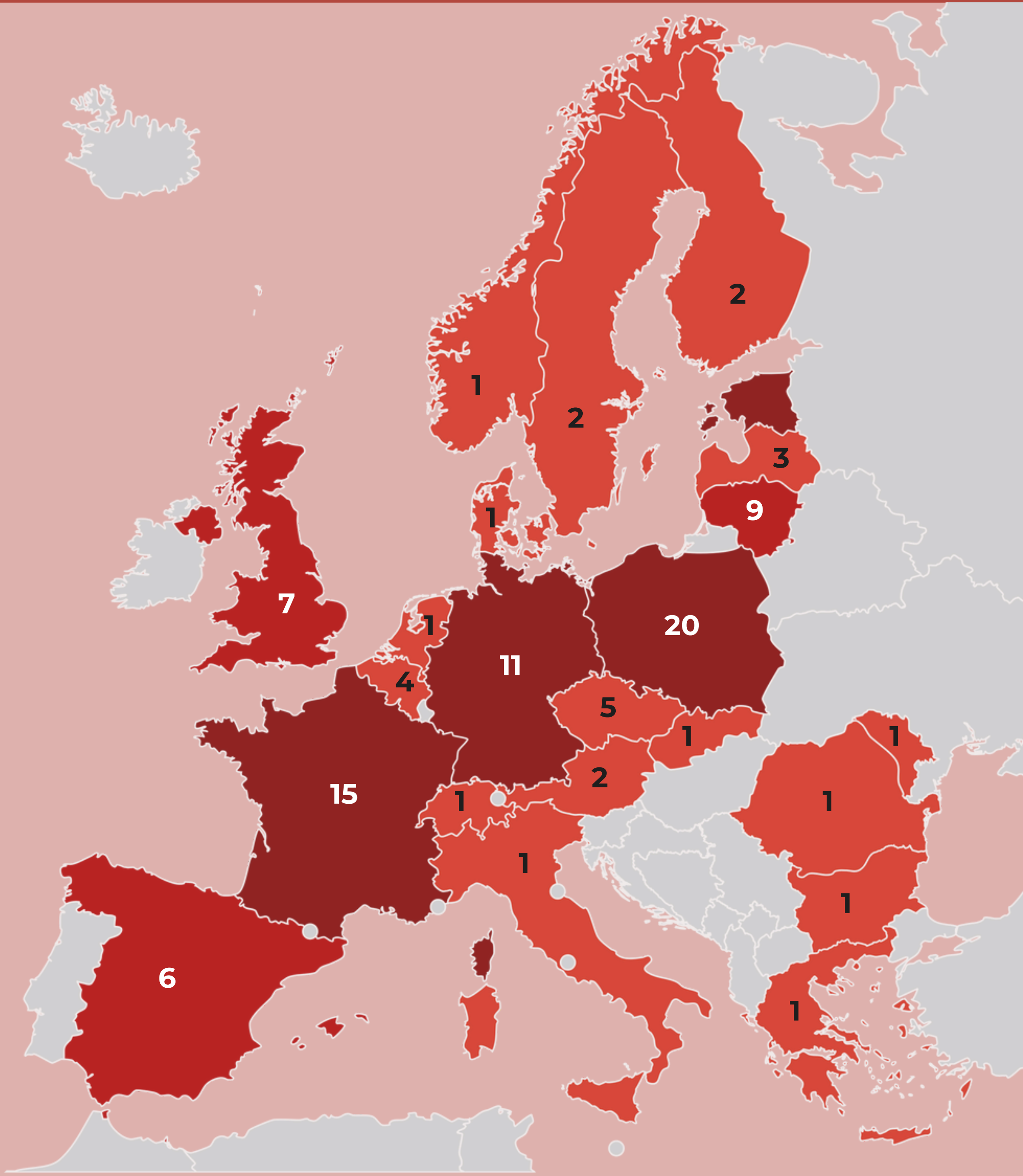


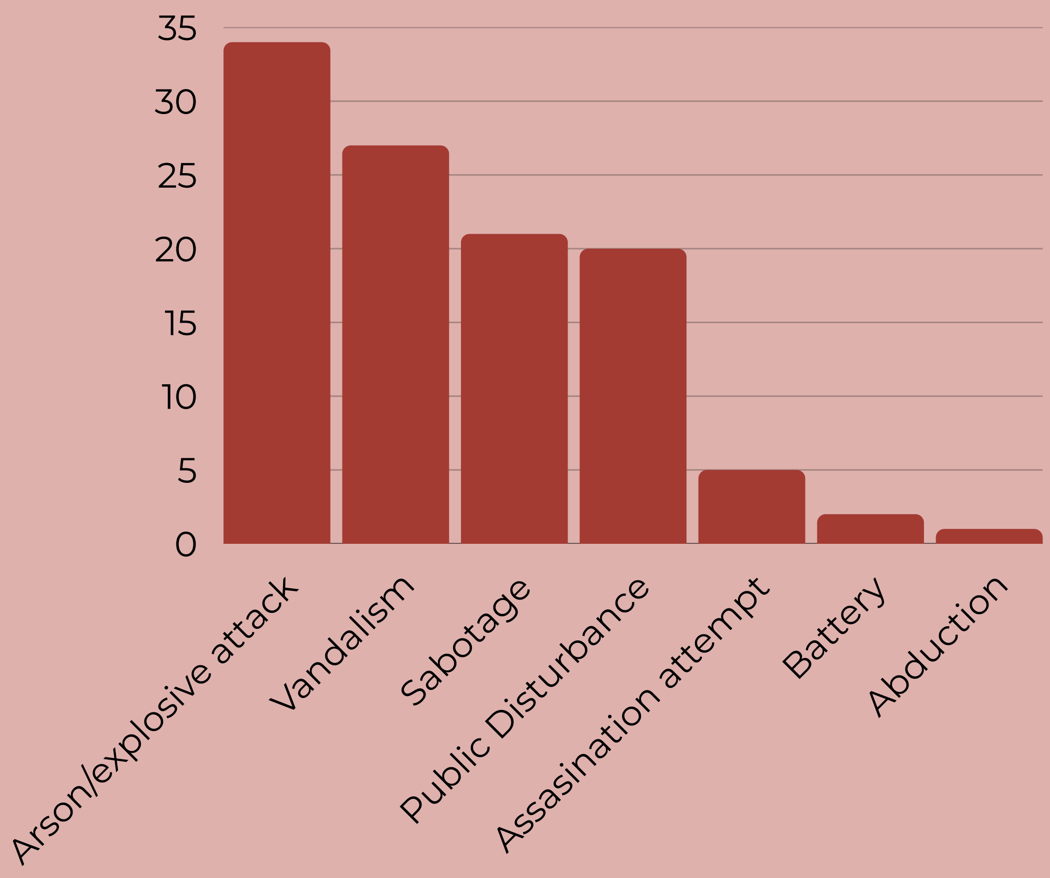
Fig. 2, Map of Russian kinetic activities in Europe (2022-2025)
Source: GLOBSEC, (01.01.2022-31.07.2025)

Deterrence by Punishment as the New Reality?

The Russian violation of Polish airspace indicates the insufficient power of deterrence by denial. It is extremely difficult to prevent individual acts of sabotage or airspace violations. In recent weeks, numerous voices have emerged, especially from politicians, about the necessity of shooting down Russian aircraft or other objects violating the alliance's airspace. NATO's ROE (rules of engagement) stand in contrast to this. In the event of an airspace violation, if the violating unit does not attack first, it should not be immediately shot down. This step can only be taken if all other attempts to turn back or ground the aircraft fail and the object displays aggressive intentions. However, in the case of loitering munitions or UAVs (drones), the situation is more complicated due to the cost-benefit ratio. The Russian violation of Polish airspace shows the failure of deterrence by denial. Consideration should be given to changing the ROE in response to new threat areas caused by Russian actions. In the event of an airspace violation, shooting down the aircraft would serve to send a message and would fit into deterrence by punishment. However, this carries the risk of escalating the conflict. In most cases, ROE are classified, but when ROE are intended to serve as deterrence, they are known [10].

The most common kinetic attacks in 2022-2025 were arson, vandalism and sabotage using explosives (Fig. 3).

Incidents of Russian kinetic activities by type



Rys.3, Source: GLOBSEC

New Offensive?

September 2025 was the hottest month in years in the area of Russian hybrid warfare. On September 9, Russian drones violated Polish airspace; three days later, drones appeared over Romania. In Polish airspace, the drones headed towards the Rzeszów-Jasionka airport, a NATO logistics hub. Information about the drones' flight path and their number (19) discredits opinions suggesting an unintentional intrusion. This argument made sense in previous incidents involving single drones [11]. Additionally, the fact that these were unarmed decoy drones (Gerbera) indicates the attack's deliberateness. Along with the drone intrusion, a disinformation campaign was conducted, primarily aimed at portraying Ukraine as the state behind the drone attack [12]. Russian authorities denied being behind the attack, accused Poland of falsifying charges, and of a hysterical reaction. Popular narratives included blaming Ukraine for "taking control of the drones" and "jamming their GPS signal, directing them into Polish airspace" [13]. Interestingly, even before the attack, high-reach Telegram accounts linked to spreading Russian disinformation disseminated the thesis about a planned Ukrainian provocation. Hashtags like #tonienaszawojna (Eng. #notourwar) proved useful, reaching a total of 3 million views between September 8 and 14. Russia did not utilize its full potential in disinformation; thanks to its extensive infrastructure, it can achieve greater benefits with less effort. According to a study by the Res Futura collective, 38% of comments in the Polish infosphere regarding the airspace violation identified Ukraine as the actor behind the attack. Another popular narrative was: "The Ministry of Defense was warned by Belarus about the incoming drones but did not react." The best lie contains some truth. The warning sent by the Belarusian side served, among other things, for Poland to activate its defense systems which were under surveillance, but also as a reference point for a further disinformation campaign that reached about 265,000 recipients. The aim of this narrative was also to discredit the Polish Armed Forces and portray the Ministry of National Defence as incompetent and disregarding citizens' safety for political gain [14].

On September 19, three Russian Mig-31 aircraft violated Estonian airspace and remained over it for 12 minutes. On September 22, drones were spotted over Copenhagen and Danish critical infrastructure; according to Danish Prime Minister Mette Frederiksen, the event was the most serious attack on Danish critical infrastructure to date [15]. At this moment, the perpetrator has not been identified, but according to Danish police, "the operator possessed skills and resources" [16]. The problem of attribution in hybrid activities is evident here, which Russia tries to capitalize on by sowing chaos in Europe. That same evening, drones were also observed over the airport in Oslo. According to Filter Nyheter findings, during the drones' presence over Oslo airport, the drone detection systems were turned off for 19 hours. The Norwegian Ministry of Transport initially claimed it was unaware of the system's Chinese origin but later admitted it was informed after the purchase. In the US, DJI - the company behind the systems - has been designated a "Chinese military company," raising additional concerns about data security [17].

A few days later, a hacker attack targeted airports in Europe, halting air traffic. Three days after the airport attacks, a Russian ship was observed passing through the Danish straits with its transponder turned off [18]. On the night of September 25, drones were spotted over the Skrydstrup air base belonging to the Danish Air Force, where Danish F-16s and F-35s are stationed [19]. Drones were also seen over Esbjerg and Sønderborg. Several hours later, Aalborg airport was closed due to airspace violation by unmanned aerial vehicles [20]. Danish authorities have not yet identified those responsible for the sabotage and drones. Then, on September 30, drones were spotted over Ronneby airport in Sweden and Brønnøysund airport in Norway [21].

From September 12-16, the Zapad exercises took place near the border with Poland and Lithuania. The alliance's response was the "Iron Defender 2025" exercise. The drone intrusion into Polish airspace should be analyzed together with the conducted exercises. The number of participating soldiers and the locations of the exercises were used by the Russian and Belarusian sides as an element of information warfare. Before the exercises themselves, a reduction in soldiers and a shift of locations deeper into Belarusian territory were announced, justified by the desire to "de-escalate tension in the region" [22]. This plan was later abandoned, explained by the "increase in aggressive NATO activity." The conclusion is that the Russian and Belarusian sides use official communiqués as elements of ongoing disinformation activities.

Thanks to the presence of Russian electronic warfare complexes, the Russian side listened in on the actions of Polish air defense. The Russian-Belarusian Zapad exercises also served as a signal to the West that, despite the war, Russia is ready to wage conflict with the West [23]. The exercises themselves were conducted at 41 training grounds in Belarus and central Russia, as well as in the Baltic and Barents Seas. The exercises showed that Russia and Belarus are drawing conclusions from the war in Ukraine, hence the large accumulation of drones and the incorporation of cyber warfare into the exercises [24]. Maneuvers including simulated nuclear strikes were also carried out according to the updated doctrine from last year. After the exercises concluded, Putin announced that 700,000 Russian soldiers are fighting in Ukraine; along with the 100,000 soldiers (according to Lithuanian intelligence, there were 30,000 [25]) participating in the exercises, this is meant to signal the Russian Federation's readiness to conduct military operations on two theaters of war.

Paradoxically, Russian drones over Europe will strengthen the cooperation of European capitals with Ukraine. Kyiv has introduced appropriate procedures, air defense, and possesses experience operating under constant Russian drone raids almost every week [26]. However, awareness of this new tool in the ongoing hybrid war is necessary. The presence of unmanned aerial vehicles in airspace introduces additional costs of airport closures, cancelled flights, scrambled military aircraft, and other countermeasures, and most consequentially, causes chaos and panic about drones.

The activity of extreme populist parties, often under the financial influence of the Kremlin, fits into Russia's multi-layered hybrid activities. Firstly, besides contesting support for Ukraine and anti-Russian discourse, they significantly favor Russian disinformation. For example, after the intrusion of Russian drones into Polish airspace, accounts belonging to politicians and publicists with openly pro-Russian views amplified the Russian disinformation campaign attempting to portray the operation as a Ukrainian "false flag" [27].

Late in the evening on October 10, the border crossing in Saatse, Estonia, was closed due to the alarming behavior of an armed group of about 10 people on the Russian side. Their uniforms and equipment did not indicate affiliation with the Russian border guard [28].

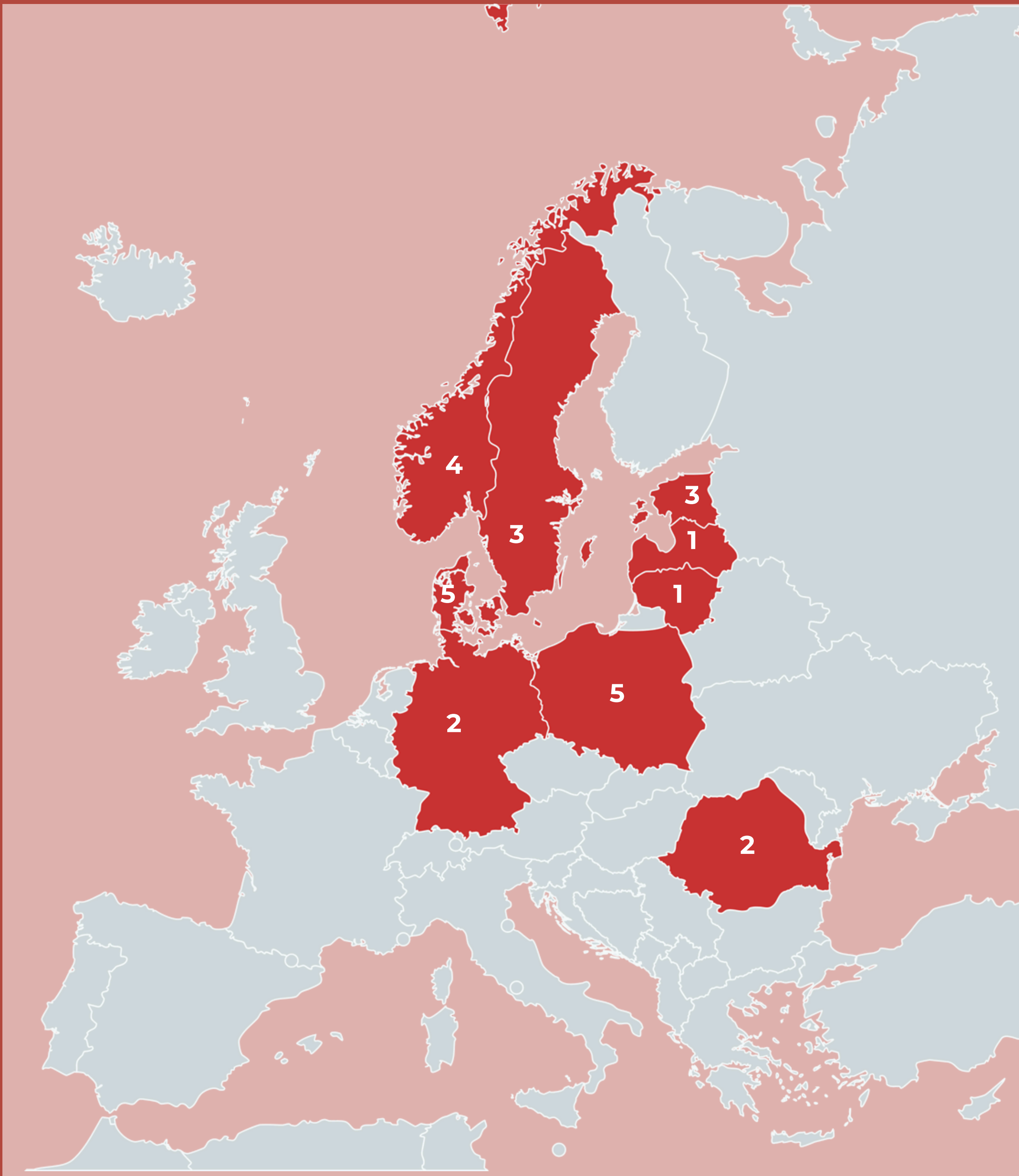


Fig. 4, Countries affected by hybrid activities from July 2025 to October 15, 2025.
Source: Own elaboration.

Recommendations

Russian propaganda and disinformation activities find fertile ground in the Polish infosphere; there is a lack of systemic solutions aimed at increasing critical analysis skills in Polish society. Emotions prevail, especially negative ones. The media themselves often capitalize on this by describing events in a way that generates the most emotion, particularly fear. After the violation of Polish airspace, the Polish infosphere was flooded with articles about mobilization and war. It is necessary to introduce measures building individual citizen resilience to such events. In recent years, "resilience" has been discussed extensively. However, there is a lack of understanding of the essence of this attitude among citizens.

Summary

In the event of a potential war with Russia, one should not expect classic clashes known from the 20th century or the war in Ukraine, but potential false flag operations or "little green men" known from the Russian annexation of Crimea. A future war might also involve fait accompli actions, testing NATO's Article 5. Russia is forced to escalate hybrid activities to maintain constant pressure and achieve its intended goals. Incorporating drones into hybrid activities sets a dangerous precedent for the future. The Russians are escalating the hybrid war by opting for high-risk, high-reward actions. The direct danger over European cities is a kind of "call" from Vladimir Putin. It aims to probe the alliance's cohesion, sow chaos, and deter aid to Ukraine. It is not in Russia's interest to escalate the hybrid war excessively. It takes away flexibility in moving up the escalation ladder. Contrary to intentions, it strengthens Western states, which, seeing defense gaps, enhance their capabilities, thereby depriving the Russian side of future influence possibilities.

This leads to increasing risk and crossing the threshold of war. The most important question to ask is, what "incident" would lead to the activation of Article 5? NATO policy at the strategic and operational levels must send clear signals to the Russian Federation about which actions are acceptable and which are not [29]. One of the key means to achieve this is to strip the Russian Federation of plausible deniability, which is coupled with the problem of attribution.

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The State of the Russian Military-Industrial Complex in 2025

Dominik Wereszko

Introduction

This chapter presents an analysis of the state of the Russian military-industrial complex (Russian: *военно-промышленный комплекс* – VPK) in 2025, diagnosing its production capabilities, adaptation mechanisms, and the consequences of the wartime economic transformation. The analysis indicates that the Russian VPK has successfully transitioned to a war economy mode, achieving impressive quantitative production rates, especially in the segments of artillery ammunition, unmanned strike systems, and the modernization of often outdated armored equipment from strategic reserves. This success, allowing for the sustainment of intense military operations in Ukraine, is however burdened by rising costs and strategic risks.

Financing Military Operations: Record Defense Spending

The federal budget of Russia approved for 2025 formalizes the subordination of the state economy to the needs of ongoing military operations. Official expenditures allocated to national defense are set to reach a record level of 13.5 trillion rubles, equivalent to approximately 145 billion dollars [1]. This amount constitutes 33% of the total state budget expenditures [2]. Relative to the gross domestic product (GDP), these expenditures represent 6.3% of GDP, a level unprecedented in Russia's post-Soviet history [3].

It should be emphasized that official data are increasingly less reliable indicators of the actual burden of the war effort on the economy. A potentially significant portion of conflict-related expenditures is hidden in other budget sectors or classified. Total expenditures on defense and internal security (including, among others, the National Guard – Rosgvardia and special services) will reach 17 trillion rubles in 2025 [4]. Forecasts for 2026 indicate that the combined defense segment could consume up to 43% of all state expenditures [5].

The level of budget secrecy is significant: in 2025, 13.08 trillion rubles, or 31.5% of total federal expenditures, were classified [6]. This deliberate opacity hinders precise assessment but clearly indicates that the real costs of conducting military operations are higher than suggested by public data. SIPRI analysts estimate that total planned military expenditures in 2025, including hidden items, could reach 15.5 trillion rubles [7]. Some funds are allocated for nominally civilian purposes, such as social support for veterans and their families, further blurring the picture of the scale of public finance militarization [8].

"Military Keynesianism" and its Limits

In 2023-2024, massive state orders for the VPK and high social transfers to soldiers and their families acted as a fiscal stimulus, leading to economic growth [9]. This phenomenon, termed "Military Keynesianism" (economic growth achieved through military investments), allowed the Kremlin to create an image of the Russian economy's resilience to sanctions. However, in 2025, the model began to reach its limits, generating negative side effects.

Russia's economy shows symptoms of strain. The latest forecasts for Russia's GDP growth in 2025, prepared by the International Monetary Fund (IMF), have been lowered to below 1%, representing a slowdown compared to previous years (above 4% in 2023 and 2024) [10]. The war economy has transitioned from a stimulation phase to a cannibalization phase (growth burdened by costs elsewhere), requiring sacrifices from other sectors to maintain the current level. To continue financing military operations at the current level, the government is taking actions that affect the civilian sector. An example is the planned increase in VAT from 20% to 22% [11].

Hidden War Debt: Off-Budget Financing of the VPK

The official defense budget, despite its record scale, does not fully capture the financing of the Russian military sector. An analysis by Craig Kennedy, a researcher at the Davis Center at Harvard University, revealed the existence of a parallel, hidden system for financing the VPK, based on off-budget loans [12].

The mechanism involves directing Russia's largest banks to provide "soft loans" to defense enterprises on non-market terms favorable to the borrower. Since mid-2022, this has led to an unprecedented increase in corporate debt to 36.6 trillion rubles (446 billion dollars) [13]. This means that unofficial, debt-based financing of the VPK could significantly augment the official budget.

The Russian Central Bank operates with interest rates trying to curb inflation growth. Increases from 16% to 21% were recorded during 2024, but in 2025, they were lowered to 17% in September [14]. The head of the state-owned Rostec corporation, Sergei Chemezov, admitted that interest payments already consume a quarter of companies' profits [15]. This indicated internal contradiction in the Russian financing model, where monetary policy aimed at stabilizing the economy directly hits the profitability of defense plants, potentially threatening the Russian Federation. VPK enterprises, despite record state orders, may face a liquidity crisis, or even insolvency.

Military Production Capabilities

In response to the needs of a prolonged high-intensity conflict, the Russian VPK underwent a profound transformation, the main goal of which became achieving quantitative superiority over Ukraine and its Western partners. An analysis of arms production segments in 2025 reveals a picture of a defense complex that consciously sacrificed innovation and technological advancement for the mass production of proven and cheap systems. This choice has given Russia the ability to wage a war of attrition but has also potentially deepened its technological lag.

Artillery Ammunition and Rockets: Maintaining Fire Superiority

The ability to conduct massive artillery fire remains the foundation of Russian tactics. In this area, the VPK achieved the greatest mobilization success. Estimates for 2024 indicate that Russian factories were able to produce over 2 million shells of various calibers [16], not including supplies from North Korea. This exceeds double the production of the entire European Union and the United States for 2023, as stated by Thierry Breton – European Commissioner for the Internal Market [17].

Production advantage allows the Russian army to maintain fire dominance on the front, although the ratio of ammunition fired decreased from 10:1 at the beginning of 2024 to 1.5-2:1 at the beginning of 2025, thanks to increasing supplies for Ukraine [18]. However, a significant element sustaining this scale is the strategic dependence on allies. Massive deliveries of artillery ammunition from North Korea, estimated at millions of units, are necessary to supplement domestic production and maintain the intensity of fire [19].

Armored Forces: Modernization and Cannibalization of Reserves

Unlike ammunition production, replenishing the potential of armored forces relies on a temporary model based on using equipment reserves from the Soviet Union era. The production of new T-90M Proryv tanks was increased after abandoning the costly and problematic T-14 Armata project. Production estimates for the T-90 indicate about 300 units annually [20]. However, these quantities do not allow for wider use of the tank on the battlefield, shifting the burden to older models like the T-55 and T-62 [21].

The main source for replenishing losses, which by early 2025 reduced the number of frontline tanks from over 3,000 to less than 1,500 machines, is the refurbishment and modernization of older vehicles [22]. Repair plants restore T-72, T-80, and even T-62 and T-55 tanks to service. The pace of this work allows for ongoing compensation for losses on the front, enabling new production tanks to be saved for potential actions in another (future) theater of operations [23].

Analyses based on data from the Institute for the Study of War and satellite imagery indicate, however, that reserves of armored equipment suitable for rapid refurbishment may be completely depleted by the end of 2025 [24]. After this date, Russia's ability to replenish losses in armored troops will drastically decrease, limited only to the current, much slower production of the T-90M. Such a scenario would create an "armor gap" in the Russian armed forces. A drop in annual replenishments by about 80% (from ~1500 to ~300) while maintaining the current rate of losses would mean a rapid decrease in armored potential. This, in turn, could force a potential change in Russian land tactics, marginalizing the role of the tank as a breakthrough tool and forcing even greater reliance on infantry mass and artillery barrages.

Air Dominance: Drones and Glide Bombs

One of the greatest adaptive successes of the Russian VPK is achieving mass-scale production of cheap but highly effective air attack means. Instead of risking costly manned aircraft against Ukrainian air defenses, Russia has opted to saturate the airspace with unmanned vehicles and glide bombs.

The production of Geran-2 long-range attack drones (based on the Iranian Shahed-136) in the Alabuga special economic zone in Tatarstan has reached an impressive pace. Estimates suggest production capabilities of 6,000 units per year [25]. The Kremlin tripled the production target for 2025. Production from February to April 2025 was expected to average 60.5 drones per day [26]. However, production is inextricably linked to imports – 60% to 65% of components in Geran-2 drones come from China [27]. Concurrently, the use of more advanced Lancet kamikaze drones increased, from 64 strikes per month in 2023 to 157 in 2024 [28].

However, the revolution on the battlefield turned out to be the mass application of simple kits of unified planning and correction modules (UMPK), which transform standard, unguided aerial bombs from the FAB series (FAB-250, FAB-500, and even three-ton FAB-3000) into long-range precision weapons – glide bombs. This cheap and simple solution allowed the Russian air force to conduct attacks on Ukrainian defensive positions and cities from a safe distance, beyond the reach of most air defense systems. The number of attacks using UMPK bombs, according to Ukrinform, reaches "dozens per day" [29].

The re-prioritization of production is not merely an adaptation out of necessity, but a conscious strategic choice. Russia abandoned costly, advanced projects in favor of mass production of cheap systems designed to neutralize expensive and advanced Western air defense assets. A drone costing $30-80 thousand (Lancet) [30] or a UMPK bomb (whose cost is mainly the price of an old bomb plus the glide kit) are used to destroy or force a reaction from multi-million dollar air defense systems like Patriot, where the cost of a single interceptor missile exceeds $5 million [31]. In this way, Russia wages a war of attrition not only on the battlefield but also in the economic and industrial dimensions, trying to impose an unfavorable cost-effectiveness ratio on Ukraine and the West.

Niche Competencies: Electronic Warfare

Electronic warfare (EW) remains a field where Russia not only keeps pace with the West but, in many aspects, maintains a technological and innovative edge. The Russian VPK continues to develop and deploy advanced EW systems, which constitute an asymmetric advantage in confrontation with a potentially more advanced adversary.

Among the most important systems are the mobile Krasukha complexes, capable of jamming airborne radars of aircraft (including AWACS), drones, and satellites at distances of 150 to 300 km, and the strategic Murmansk-BN systems, which can jam high-frequency (HF) communications over distances up to 5000 km, paralyzing communication at the operational and strategic levels [32]. Russia also dynamically responds to new threats, developing portable systems like Borshchevik, specifically designed to counter satellite constellation terminals such as Starlink [33].

Adaptation Mechanisms: Personnel Shortages

The Russian defense industry requires significant human resources. It currently employs about 3.5 million people, which is 2.5% of the country's total population, and the Kremlin plans to hire another 500,000 workers [34]. To meet this demand, the authorities use a mix of financial incentives and coercive methods. On one hand, VPK plants offer significantly higher wages than the civilian sector. The average wage growth in the economy hovered around 20%, and in some defense factories, like the gunpowder plant in Kazan, salaries tripled [35]. These attractive financial conditions, combined with deferment from military service, effectively drain the workforce from other branches of the economy, deepening shortages there and fueling inflationary pressure.

On the other hand, financial incentives are unable to fill the personnel gap, especially regarding qualified specialists. Official estimates speak of a deficit reaching 400,000 workers in the VPK, including 50,000 highly qualified engineers and technicians [36]. Furthermore, the state has created a legal mechanism obliging enterprises employing over 100 people to hire at least 1.2% of their staff from veterans [37]. Moreover, youth and students are used for the production of components, especially drones in the Alabuga zone, which bears resemblance to forced labour [38].

Circumventing Sanctions – A Global Import Network

Russia has created extensive and flexible networks of so-called parallel imports, which allow for the acquisition of key Western dual-use components. The general reason for creating these networks is simple: the more advanced the Russian weapons system, the greater its dependence on imported parts [39]. They operate through third countries that have not joined the sanctions regime, such as China, Turkey, the United Arab Emirates, as well as Central Asian states (Kazakhstan, Kyrgyzstan) and the Balkans [40].

Russia uses complex schemes involving the establishment of front companies, falsification of customs documentation and end-user certificates, and utilizing the black market and smuggling networks [41]. This way, critical elements reach Russia, such as microelectronics, industrial machinery components, telecommunications equipment, vehicle spare parts, and vehicles themselves (dual-use equipment) [42].

In response, the United States and the European Union are systematically tightening the sanctions regime, exemplified by subsequent sanctions packages (EU's 16th and 19th packages), which increasingly target not only Russian entities but also companies from third countries involved in circumventing restrictions [43]. Effectively countering the Russian VPK requires not only traditional sanctions but also methods analogous to combating organized crime, aimed at the logistical and financial nodes of the global network.

Strategic Dependencies

The Russian VPK is not and never has been autarkic. Its current efficiency depends on material support from a small group of states that challenge the Western international order. Each of the following partners plays a specific role in sustaining the productivity of the Russian war industry.

- **North Korea (DPRK)**: Has become the main supplier of basic, low-tech combat means, primarily artillery ammunition. Supplies from the DPRK, counted in millions of units, help maintain fire superiority on the front [44].
- **Iran**: Is a key partner in the field of unmanned technology. Tehran provided Russia not only with ready-made Shahed-136 attack drones but, above all, the license and components to launch their mass production on Russian territory. In return, Russia supplies Iran with advanced military technologies, including EW systems [45].
- **China**: Is Russia's most important strategic partner. Beijing does not supply finished weapons but provides the fundamental industrial and technological base without which the Russian VPK could not function at its current level. China is the main source of dual-use components – microchips, optical systems, drone engines – as well as advanced machine tools necessary for military production [46].

Technological Debt and Innovation Stagnation

The prioritization of quantity over quality and the cutoff from Western technologies due to sanctions have pushed the Russian VPK into a state that can be described as "innovation stagnation" [47]. Russia faces increasing difficulties in developing and implementing new, advanced weapon systems into serial production. Instead, it relies on modernizing and modifying platforms developed back in the Soviet era [48]. Import substitution programs, aimed at replacing Western components with domestic equivalents, have largely failed in key sectors (with few exceptions, like drones and ammunition) [49]. As a result, Russia is incurring "technological debt." Every year of war in which research and development (R&D) are marginalized in favor of current production widens the technological gap separating Russia from NATO countries, and even from China [50].

Recommendations

The transformation of the Russian army and its industrial base has direct implications for NATO's defense strategy. Estimates from various sources indicate that after the end of the war in Ukraine, Russia will need 5 to 8 years to rebuild its military potential [51]. For the North Atlantic Alliance, this means adapting its own deterrence and defense posture. Investments in the most advanced technologies remain crucial but must be supplemented by strengthening its own industrial base capable of mass-producing ammunition, simpler defense systems, and equipment that will allow countering Russian quantitative superiority in a potential high-intensity conflict. The challenge Russia will pose in the future will be more quantitative and attritional than qualitative and technological. Preparing for such a threat requires NATO not only innovation but also rebuilding the capacity for industrial-scale warfare.

The strategic implications for NATO countries are as follows: Russia's ability to conduct a prolonged conventional conflict is real and should not be underestimated, but its potential for a symmetric confrontation with the Alliance (NATO) is gradually eroding. Effective Western policy should focus on exploiting identified weaknesses: combating sanction evasion networks, exerting pressure on component suppliers (especially China), and supporting Ukraine to accelerate the depletion of Russian material and human reserves.

Summary

The question of Russia's ability to sustain its current war effort is crucial for assessing the future course of the conflict. In the short term (1-2 years), the current model seems sustainable, albeit with increasing difficulties. The VPK is capable of producing "good enough" equipment to sustain the conflict in Ukraine for at least two to three more years. Currently, four fundamental trends in the Russian economy can be identified:

1. **Public financing of the military sector** has reached an unprecedented level, constituting over a third of the federal budget, thereby consuming resources from civilian sectors. The "military Keynesianism" model, which initially stimulated economic growth, entered a phase of economic cannibalization in 2025, leading to strain, high inflation, and a growing deficit. Furthermore, the Kremlin employs hidden, off-budget mechanisms to finance the VPK through forced loans, creating a hidden war debt that threatens the financial stability of the defense complex itself.

- In the production sphere, the VPK has made a conscious re-prioritization, abandoning the pursuit of symmetric technological competition with the West in favor of **mass production of "good enough" systems**. Russia has secured the supply of artillery ammunition and cheap air attack means (drones, glide bombs), allowing it to wage a war of attrition on cost-effective terms. However, the model for replenishing armored forces, based on using (still available) Soviet reserves, is approaching a critical point, the reaching of which could significantly limit Russia's ability to replace losses.

- **The VPK's resilience to external pressure** rests on two pillars: global sanction evasion networks and strategic dependence on a narrow group of allies. The Russian defense industry functions like a hybrid enterprise, combining central planning with flexible, illegal (under sanctions) supply chains. Crucial for its operation is assistance from North Korea (ammunition), Iran (drone technology), and above all, China (dual-use components).

- The current transformation may generate long-term consequences in the military industry sector. Concentration on mass production of outdated or simplified systems leads to **"innovation stagnation" and accumulating "technological debt"** which in a decade's perspective could degrade Russia's military potential. In the short term, the VPK is capable of sustaining a war of attrition, but this potentially comes at the cost of future technological competitiveness.

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In Prigozhin's Shadow: Africa Corps – the New Face of Russian Expansion in Africa

Veronika Barankevych

Introduction

Africa is becoming a key, asymmetric theater of operations that is fundamental to the Kremlin's future strategy after a potential truce in Ukraine. Russian expansion on this continent, especially in the post-2024 perspective, is a model example of an asymmetric influence strategy. It is a predatory plan: the Kremlin seeks to achieve maximum geopolitical and financial gains, while providing Africa with a minimal contribution to its actual development. This cynical and transactional model relies on a simple mechanism: Russia exploits deep institutional weaknesses and the instability of local elites as the core of its strategic success.

Within this strategy, the Kremlin's actions in Africa focus on two interconnected goals. Firstly - undermining NATO influence by destabilizing the regions of West Africa, the Sahel, and the Horn of Africa, which strikes the Alliance's southern flank and generates the risk of political and migration crises. Secondly - securing sources of hard currency through the exploitation of African resources, especially the illegal gold trade, which provides financial backing for the Russian war machine.

This chapter focuses on a detailed analysis of how Russia achieved this strategic success - from the transformation of private Wagner mercenaries into the state-controlled Africa Corps, to building long-term nuclear dependencies and monetary corruption.

From Wagner to the Africa Corps

Russia's operational presence in Africa has undergone a dynamic evolution in recent years. Its origins date back to 2017, when the newly elected president of the Central African Republic (CAR), Faustin-Archange Touadéra, turned to Moscow for help [1]. The initial engagement - weapons and a few instructors - quickly evolved into something much larger: the direct participation of Wagner Group mercenaries in combat missions. In the CAR, Russian mercenaries quickly took command, expanding their influence far beyond the capital [2].

A turning point in the evolution of Russian strategy in Africa occurred on August 23, 2023. On that day, in the village of Kuzhenkino, Tver Oblast, a plane crash occurred involving a private Embraer Legacy 600 aircraft flying from Moscow to St. Petersburg, killing all 10 people on board. One of the passengers was Yevgeny Viktorovich Prigozhin [3]. Although his role in initiating Russian influence in Africa was invaluable, his death and the subsequent restructuring are key to understanding the years 2024-2025.

Fig. 1. Wreckage of the Embraer Legacy 600 aircraft belonging to Yevgeny Prigozhin after the crash in the Tver region, August 23, 2023.
Source: (https://www.lrt.lt/ru/novosti/17/2065762/rossiiskaia-zhurnalistka-o-reaktsii-vagnerovtsev-na-smert-prigozhina-my-znali-chto-shefa-zhdiot-likvidatsiia)

Prigozhin's death and the restructuring do not mark the end of Russia's presence in Africa, but a change in its quality. The Africa Corps (AC) is now the main tool for projecting Russia's military power on the continent. Crucially, it is under the direct supervision of the Ministry of Defence and operationally subordinate to the GRU (Main Intelligence Directorate of the General Staff of the Armed Forces of the Russian Federation), which represents a fundamental departure from the semi-autonomous and unpredictable model of the Wagner Group [4].

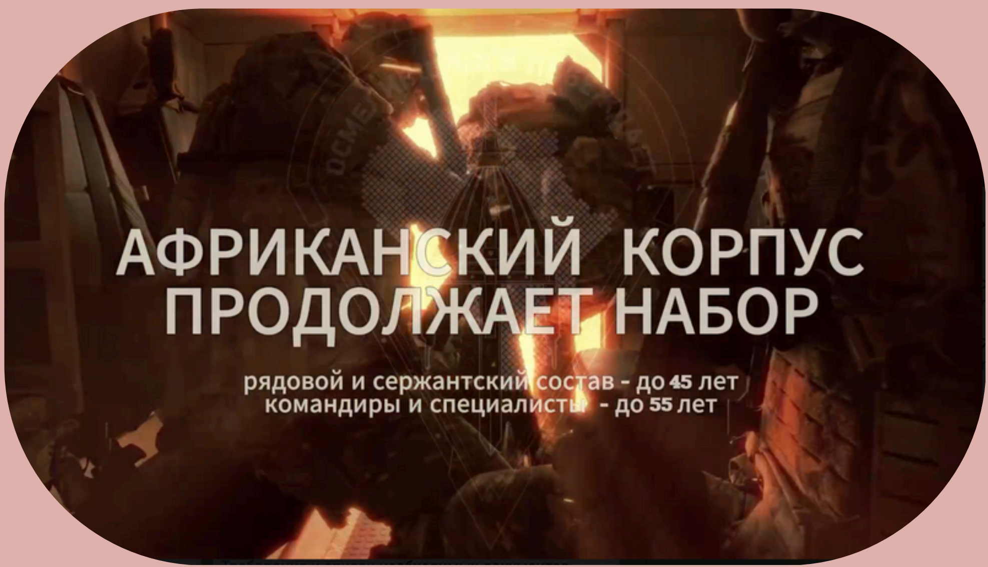

Fig. 2. One example of recruitment announcements posted on the Africa Corps Telegram channel - a screenshot from a recently posted promotional video encouraging recruitment (translation of the heading in the picture: The Africa Corps continues the selection of candidates for military service under contract - private and non-commissioned personnel up to 45 years old, and commanders and specialists up to 55 years old.)
Source: Telegram Channel АФРИКАНСКИЙ КОРПУС ВС РФ, Africa Corps (https://t.me/KorpusAfrica2/120)

A key role in supervising the AC is played by Yunus-bek Yevkurov, Deputy Minister of Defence of Russia, whose public visits to Burkina Faso, Mali, and Niger confirm that the Africa Corps is an official, state instrument of the Kremlin's foreign policy [4]. Operational oversight rests with General Andrey Averyanov, head of GRU special units (Unit 29155) [5]. This centralization was politically necessary for the Kremlin, as it minimizes the risk of internal shocks like those caused by Prigozhin's mutiny [6]. Current activities in Africa are now much more directly linked to the Russian state. Unlike Wagner's earlier covert recruitment, the Africa Corps recruits relatively transparently, although its mission and methods remain entirely consistent with the predatory activities of its predecessor [7].

An example of the rapid takeover of influence is Libya, where Wagner was completely replaced by the Africa Corps. The intensive transfer of AC forces to Libya, including thousands of recruits (an increase from 800 to 1,800 soldiers) and 6,000 tons of military equipment, including mortars and armored personnel carriers, to the port of Tobruk, underscores the strategic importance of this country. Libya serves as the main logistics hub for future operations in the Sahel. Furthermore, Russia seeks access to the port of Tobruk, fulfilling a key strategic objective: a permanent naval base on NATO's southern flank [8]. **Thus, we have clear evidence that Africa is also a direct tool of pressure on the Alliance for the Kremlin**.

The takeover of military control by the Africa Corps goes hand in hand with the consolidation of financial assets. Prigozhin's African business empire was not dismantled but came under strict Kremlin control through individuals and companies that successfully adapted to the new, centralized state regime. The key center of this financial succession remains the Central African Republic (CAR). The main operator maintaining control over key business assets is Dmitry Sytiy. A graduate of a Paris business school who began his career in Prigozhin's Internet Research Agency, he controls the most important mining companies (Lobaye Invest, Midas Ressources) and propaganda outlets (Maison Russe). Importantly, after Wagner's leader's death, Sytiy successfully adapted to the new structure and retained his influential position as an advisor to President Touadéra. Other operators, such as Yevgeny Khodotov (former director of Lobaye Invest and M Finance), also remain in their positions, overseeing financial networks [9].

The change in power also encompassed the security sphere. After Valery Zakharov, and then Vitaly Perfiliev, the new security advisor to President Touadéra became Dmitry Podolsky, a Wagner veteran who participated in military operations in Ukraine. Furthermore, the arrival of Denis Pavlov, an officer of the Foreign Intelligence Service operating under diplomatic cover, clearly suggests that Moscow has not stopped at taking military control. It actively infiltrates and supervises the mechanisms for generating income from natural resources to ensure these profits fuel the state budget and the military-industrial complex [10].

Fig. 3. Denis Pavlov (right) during a meeting of Central African Republic defense officials with a high-ranking Russian delegation, September 1, 2023. Source: RFERL, [Wagner No More? Putin's Africa Corps Set To Assume Control In The Central African Republic], (https://www.rferl.org/a/wagner-russia-central-african-republic-investigation/32719917.html)

The Predatory "Security for Resources" Mechanism

The risk separation mechanism is key here: Moscow centralizes control over hard power (Africa Corps), while the illegal, high-profit financial stream remains in the proxy sphere (Sytiy, Khodotov). Companies like Lobaye Invest, Midas Resources SARLU (operating in the Ndassima mine, with reserves estimated at over $1 billion USD), Diamville (diamonds), and Bois Rouge SARLU (timber, renamed Wood International Group SARLU to avoid sanctions) function as operational nodes enabling money laundering and sanction evasion. The fact that Bois Rouge received a logging concession in the Lobaye prefecture at the exact time Wagner mercenaries took control of the area is direct and irrefutable proof of the exchange mechanism: security in return for resources [11].

We must state clearly: violence against civilians and local miners - including numerous killings (over 900 civilians in CAR and 400 in Mali in 2024) and looting - **is not a side effect, but a deliberate element of Russia's business strategy** [12]. Violence serves to intimidate, seize control of artisanal mines, and enforce a monopoly for companies linked to Russia.

Worse still, after the Wagner Group mutiny, Russian political violence in Africa has become both more intense and geographically widespread. Data provided by the ACLED project (Armed Conflict Location Event Data) shows that the frequency of violent incidents involving the Wagner Group or the Africa Corps on the continent intensified in the second half of 2023. This increase in aggressive actions reflects how the Russian military apparatus unified and dynamized after Prigozhin's mutiny, commissioning crimes and proximity to illicit economies. Thus, involvement in crimes systematically undermines Africa's security while guaranteeing profits for Russia [13].

Fig. 4. Africa Corps soldiers in Africa
Source: Telegram Channel АФРИКАНСКИЙ КОРПУС ВС РФ, Africa Corps (https://t.me/KorpusAfrica/1024)

Exploiting Weaknesses

Regardless of whether we talk about the former Wagner Group or the current, centralized Africa Corps, the foundation of Russian expansion is always the same: the deliberate exploitation of institutional weakness in target states. This vulnerability is best seen in analytical data such as the Worldwide Governance Indicators (WGI) and the Corruption Perceptions Index (CPI).

The data shows that Moscow consciously enters these "security vacuums." Extremely low scores for Political Stability and Absence of Violence/Terrorism (PSAV) mean one thing: it is so unstable there that governments desperately need immediate regime protection, which Russia is ready to provide. Moscow offers its hard power in exchange for assets.

An analysis of PSAV dynamics in percentiles between 2020-2023, presented in Chart 1, confirms this thesis. According to the latest available data for 2023, all four key Russian partner states are rooted in the lowest percentile of political stability globally (below 6 out of 100). Moreover, during the period of intensified Russian presence, we observe a drastic decline in stability in Mali and the maintenance of extremely low scores in Sudan, CAR, and Burkina Faso. Russia not only operates in unstable regions but also monetizes the deepening chaos, offering junta protection in exchange for mining concessions and strategic assets.

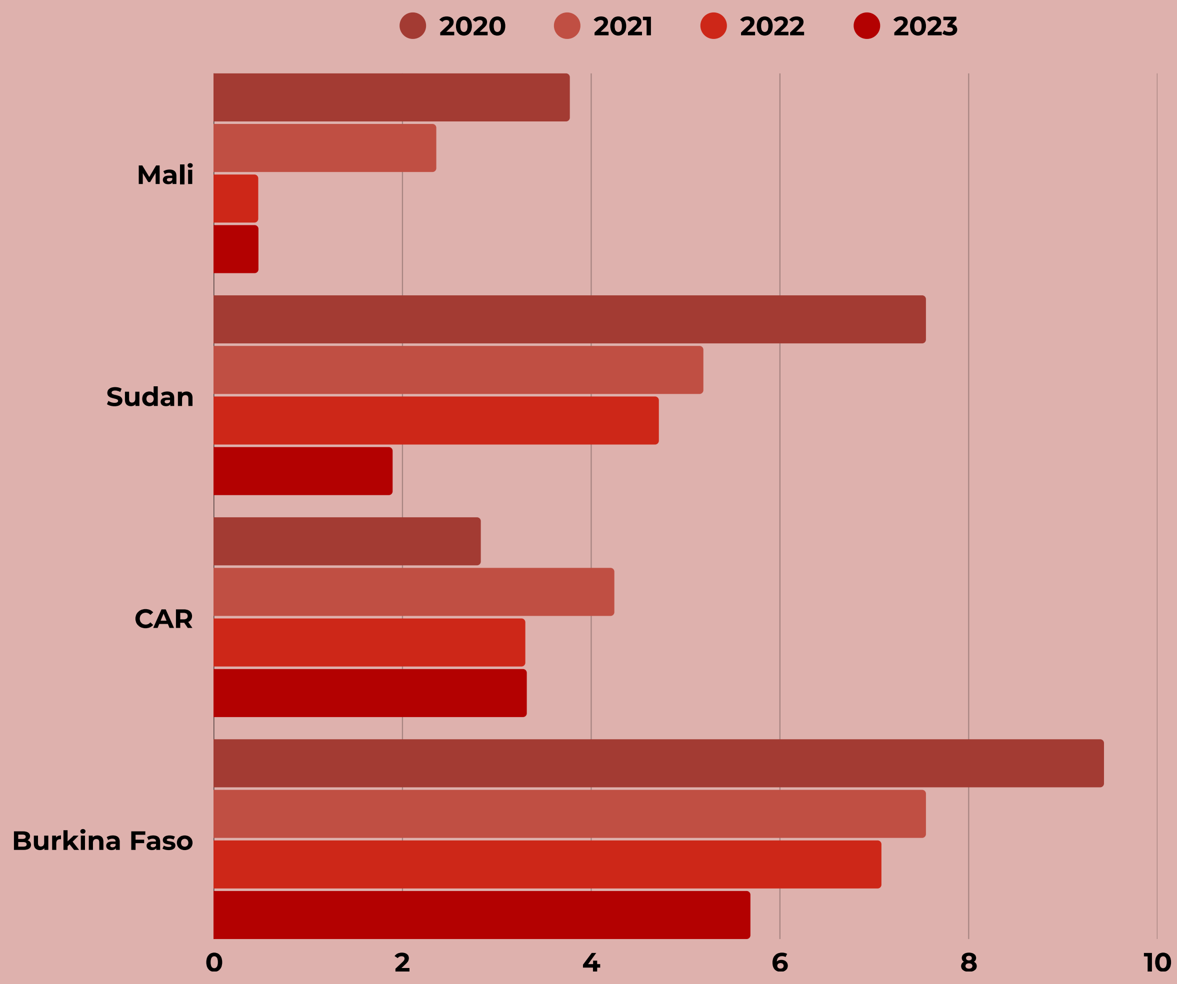

Chart 1. Political Stability and Absence of Violence (PSAV) indicator in Russia's partner countries in Africa (2020-2023)
Source: Own elaboration based on data from Worldwide Governance Indicators, World Bank, 2023.
https://data.worldbank.org/indicator/PV.PER.RNK

Another pillar of this model is corruption. Low Corruption Perceptions Index (CPI) scores are key to the flow of illicit resources. The fact that Sudan (CPI 15/170) and Mali (CPI 27/135) are among the most corrupt countries in the world facilitates opaque resource transactions. As seen in the chart below, the level of corruption in these key partner countries is significantly lower than the regional average, which directly facilitates Russia's non-transparent resource deals. In the Central African Republic (CAR) (CPI 24/149), widespread corruption in state systems is essential for maintaining the Russian "security for resources" model, enabling the functioning of illicit finance networks whose revenue has exceeded $2.5 billion USD since 2022 [13].

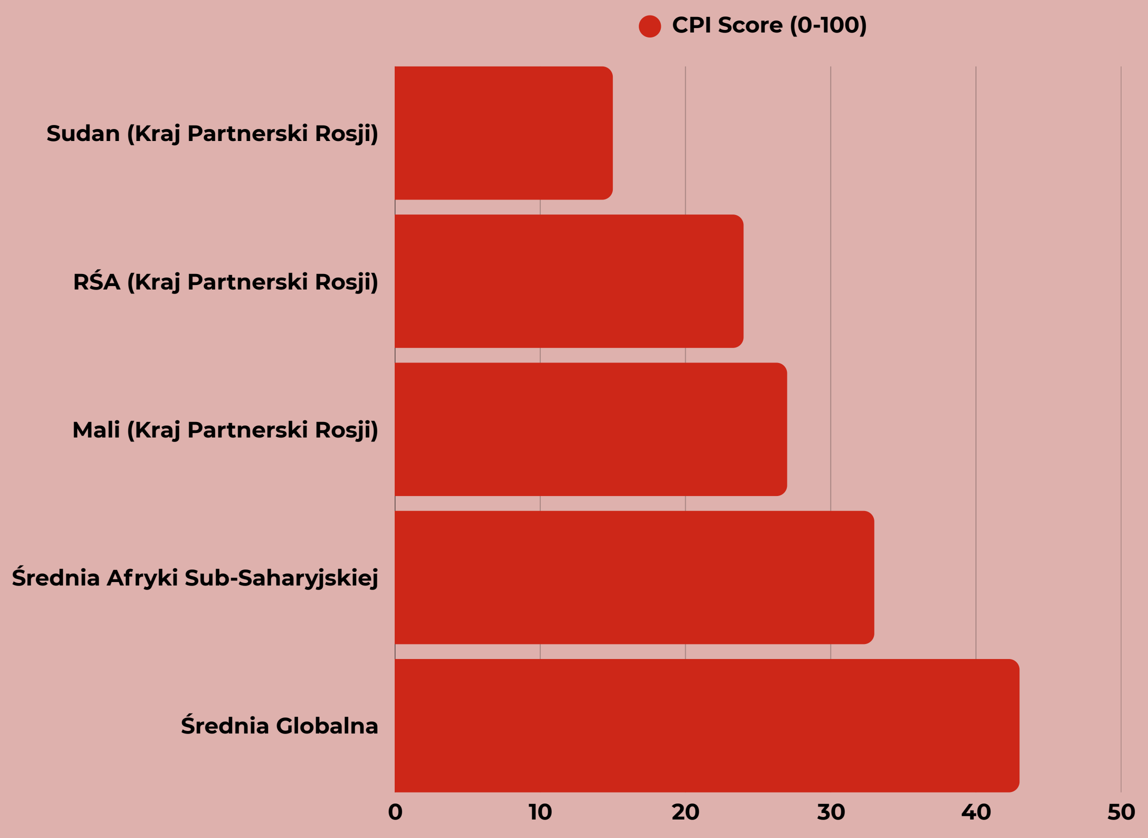

Chart 2. Corruption Perceptions Index (CPI) 2024
Source: Own elaboration based on Transparency International, Corruption Perceptions Index (CPI) 2024. https://www.transparency.org/en/cpi/2024.

Russia secures its long-term influence through technological-military dependencies that extend far beyond the unstable Sahel and guarantee influence after a potential truce in Ukraine. Regarding military-technical cooperation, Russia currently maintains a wide network of military partnerships with over 30 African countries. These agreements and relationships are a fundamental instrument for building political and military dependency, and their network is widely dispersed, giving Moscow constant access and lobbying power. The scale of this strategic engagement is illustrated in Chart 3.

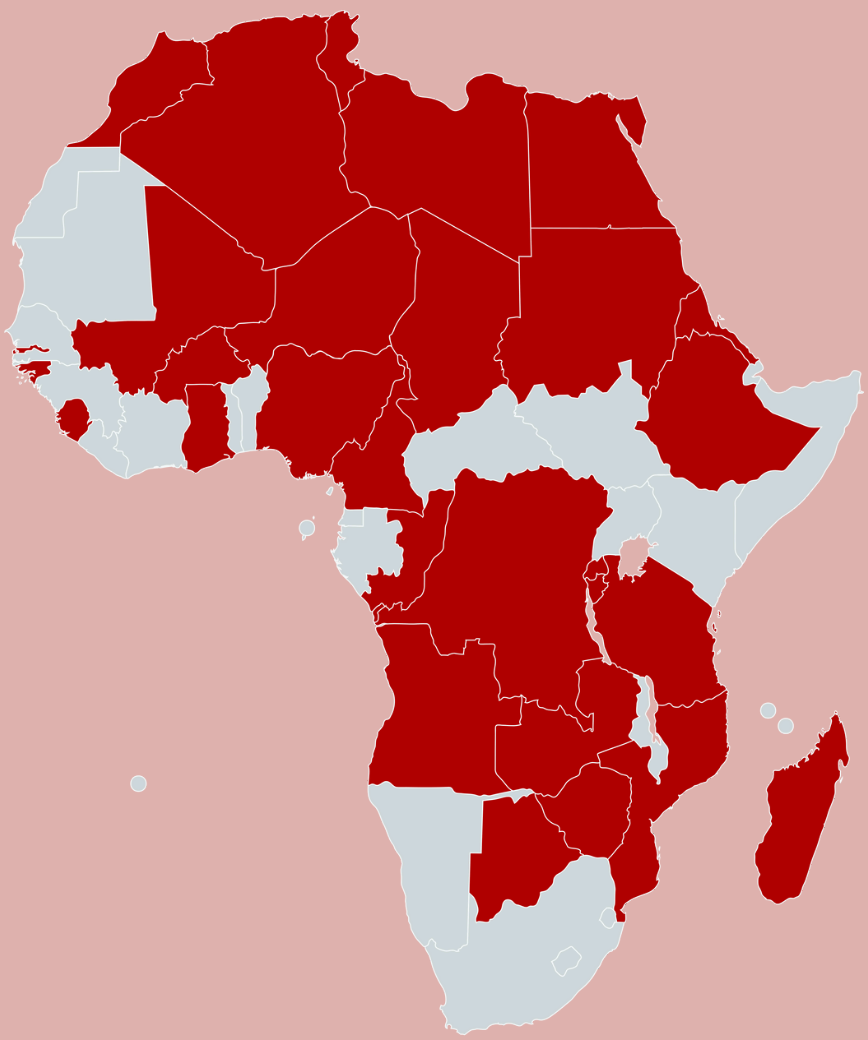

Chart 3. African Countries with Military Cooperation with Russia
Source: Own elaboration based on Business Insider Africa, 25.06.2025, https://africa.businessinsider.com/local/lifestyle/list-of-african-countries-with-a-russian-military-cooperation-agreement/7y6clf4.

Moreover, Russia uses nuclear diplomacy as a tool for long-term influence. The Russian state energy giant Rosatom has signed nuclear energy agreements with 15 African countries, including Mali and Burkina Faso, as shown in the chart below. This fact demonstrates the Kremlin's growing ambition to use nuclear energy as a key geopolitical tool. Recent examples are telling - in July 2024, Rosatom signed an agreement to build a nuclear power plant in the Republic of Congo, and in March, Algeria's Ministry of Energy concluded a memorandum on technological cooperation. This form of cooperation means long-term dependence of partners on Russian supplies and technology – these are commitments for decades, guaranteeing Moscow constant political leverage [15].

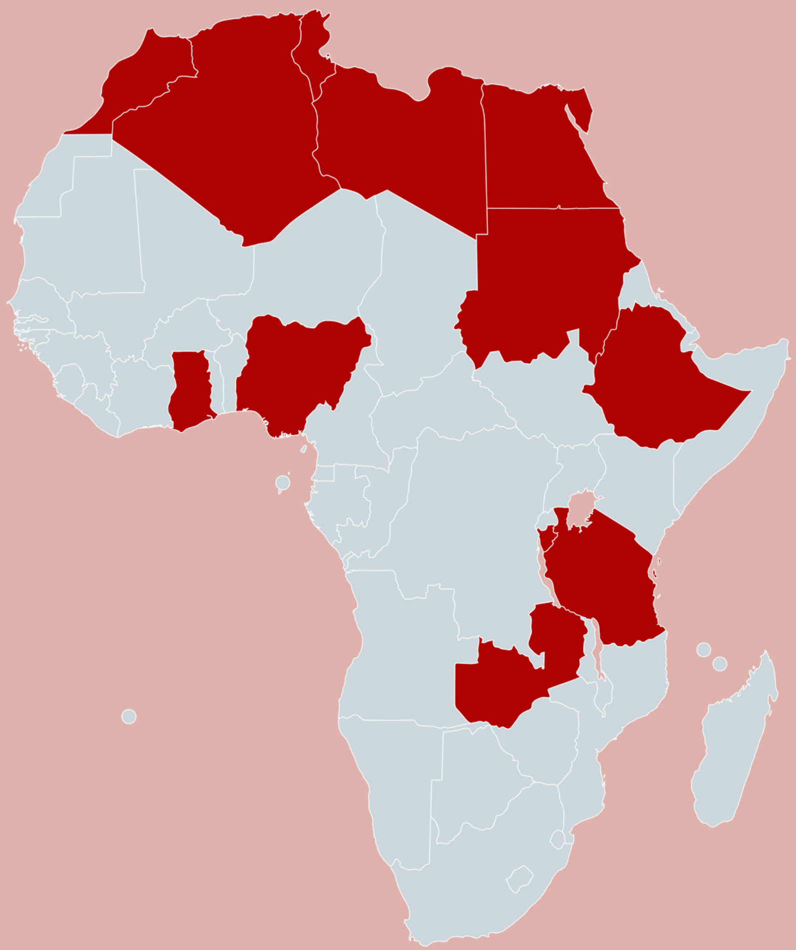

Chart 4. African countries with nuclear cooperation with Russia
Source: Own study based on Business Insider Africa. Business Insider Africa, 25.06.2025, https://africa.businessinsider.com/local/lifestyle/list-of-african-countries-with-a-russian-military-cooperation-agreement/7y6clf4

Russia's resource strategies in CAR, Sudan, and Mali share a common goal - control over the extraction of key raw materials - but differ in the degree of success achieved and operational methodology, stemming from local resistance and institutional vulnerability.

Soft Power Russian Style: Media, Church, and Technology

Regardless of the evolution of military structures, it must be acknowledged that the Kremlin's success in Africa would be significantly limited without a coordinated information influence campaign. Operation African Initiative (AI) is a sophisticated campaign that has largely replaced the previously visible Wagner information operations. Significantly, the first information about its creation - even before the online premiere - was presented by the Russian army's Zvezda TV [16].

AI masquerades as an independent African news agency providing regional reports. This is a deliberate tactic aimed at increasing the credibility of the message. Russian operators use local author names, posing as "regional journalists," to publish content saturated with anti-Western sentiment and conspiracy theories [17]. Strengthening its influence operations, Russia has significantly expanded cooperation with formal local media outlets. Shortly after the Russia-Africa summit, the Sputnik news agency and radio signed partnership agreements with numerous African broadcasters, including news agencies in Senegal (APS), Mauritania (AMP), and important media groups in Kenya (Radio Africa Group) and Uganda (New Vision). This expansion allowed Russians to exert direct influence on the content broadcast by state broadcasters, including ORTN-Télé Sahel in Niger. This television station aired a pro-Russian report that praised the junta's policies, criticized the US presence, and announced that Russia was ready to "extend a hand of friendship" to Niger [18].

In February 2025, a regional editorial center for Sputnik – the Russian news agency aimed at foreign audiences – was opened in the Ethiopian capital, Addis Ababa. As Dmitry Kiselyov, CEO of the Rossiya Segodnya media group (which includes Sputnik), emphasized, this is not just a correspondent office but a fully-fledged editorial office employing local journalists and publishing in Amharic. Kiselyov also announced the creation of similar facilities in South Africa and Tanzania and the expansion of Sputnik's activities to include Hausa and Swahili, the dominant languages in West and East Africa, respectively [19].

Fig. 5. CEO of the "Rossiya Segodnya" media group, Dmitry Kiselyov, and Chairwoman of the Federation Council, Valentina Matviyenko, during the opening of the Sputnik editorial center in Addis Ababa, February 19, 2025. Source: Meduza, Россия всего за несколько лет получила обширную сферу влияния в Африке. Помогли наемники, крупные компании, церковь и пропаганда (https://meduza.io/feature/2025/05/29/rossiya-vsego-za-neskolko-let-poluchila-obshirnuyu-sferu-vliyaniya-v-afrike-pomogli-naemniki-krupnye-kompanii-tserkov-i-propaganda)

One of the tools of Russian "soft power" in Africa is the Russian Orthodox Church (ROC), whose activities closely align with the Kremlin's strategy of expanding influence on the continent. According to a report by the Russian agency Interfax dated July 27, 2023, the ROC opened over 200 parishes in Africa between December 2021 and July 2023. Patriarch Kirill announced that besides religious activities, the Church would conduct humanitarian and educational projects, such as building schools, wells, and health centers. Moscow explains that this expansion is a response to requests from African clergy after the Patriarch of Alexandria supported the independence of the Ukrainian Orthodox Church. In reality, however, the ROC plays a much broader role than just spiritual. Its activity in Africa is part of Russia's foreign policy and serves as a tool of Russian soft power. The Church promotes conservative and anti-Western values, and its activities are funded by institutions linked to the Kremlin. In practice, this serves to strengthen Russian influence, weaken competing church structures, and gain supporters for the pro-Russian narrative - including through the recruitment of Africans into formations fighting in the war against Ukraine [20].

Fig. 6. Metropolitan Constantine (Patriarchal Exarchate of Africa) baptizing Malawians.
Source: Meduza, Россия всего за несколько лет получила обширную сферу влияния в Африке. Помогли наемники, крупные компании, церковь и пропаганда (https://meduza.io/feature/2025/05/29/rossiya-vsego-za-neskolko-let-poluchila-obshirnuyu-sferu-vliyaniya-v-afrike-pomogli-naemniki-krupnye-kompanii-tserkov-i-propaganda).

Russia is also increasing its use of advanced technologies. Artificial intelligence tools are used to automate content creation, generate deepfakes, and hyper-target vulnerable demographic groups. This allows operators to quickly and massively adapt messages to the local linguistic and cultural context [21].
The main goal of the operation is to undermine the position of Western powers (especially France and the USA) and portray Russia as the legitimate defender against "Western imperialism" [22]. These campaigns are crucial because they pave the way for the Africa Corps. Operations in Africa are an integral part of the broader, unlimited hybrid war waged by Russia against countries supporting Ukraine. Africa constitutes an asymmetric front that allows Moscow to achieve strategic benefits with relatively low risk of confrontation.

Case Studies of Russian Operations in Africa

To best understand how Russia monetizes instability and exploits institutional weaknesses, an analysis of case studies of Russian operations in Africa is necessary. The transition from the private Wagner Group to the state-controlled Africa Corps is a key element of this evolution. The table below provides an overview of key theaters of operation and the roles Russian forces play on the African continent, illustrating the change in strategy and operational goals since 2022.

Table on the next page

Źródło: Russia's Africa Corps: Wagner's Successor in Africa (2022-2025), Robert Lansing Institute,30.09.2025,https://lansinginstitute.org/2025/09/30/russias-africa-corps-wagners-successor-in-africa-2022-2025/

Country	Transformation Status and Forces	Main roles and operational goals
Mali	Wagner (approx. 2000 soldiers at peak) was completely replaced by Africa Corps by mid-2025, leaving approx. 1000 Africa Corps soldiers.	Combat operations against Tuareg rebels and jihadists, protection of the regime in Bamako, and army training. Supply of heavy weaponry.
Central African Republic	Wagner is still active (approx. 1500-2000 mercenaries), and hosts oppose full transformation to Africa Corps. CAR expects fighters, not just trainers.	Elite protection of President Touadéra, fighting rebels, securing mineral resources (gold, diamonds) in exchange for concessions.
Libya	Wagner forces (approx. 800-1200 soldiers) were integrated into Africa Corps by 2024, under the supervision of the Russian Ministry of Defence.	Securing military bases (e.g., Al-Khadim) and establishing air and naval footholds in the Mediterranean. Libya is a key logistics hub for Russia.
Sudan	Russia shifted to supporting Sudan's regular army (SAF) in exchange for a Red Sea base agreement. The formal structure of Africa Corps remains unclear.	Resource security (protection of gold mines and smuggling routes), negotiating a naval base in Port Sudan.
Niger and Burkina Faso	Deployment of the Africa Corps began in 2024 (100 instructors in Niger, 100 soldiers in Burkina Faso). Force numbers in Burkina Faso were expected to increase to approx. 300.	Preventing Western intervention and regime protection for ruling juntas. Training local forces in drone operations and anti-jihadist patrols.

After reviewing the table above, it can be observed that Russia's resource strategies in African countries share a common goal: control over the extraction of key raw materials (mainly gold) in exchange for defense and political loyalty. However, the degree of success and the methods used by Russia vary drastically depending on the local political architecture and resistance. In Mali, Russia achieved the complete replacement of Wagner with the Africa Corps, focusing on combat operations and regime protection, which is fully consistent with the goals of the anti-Western Alliance of Sahel States. In contrast, the model in the Central African Republic is more resistant to full transformation, as local authorities prefer experienced Wagner fighters for the president's personal protection and as guarantors of mineral concessions, rejecting the Africa Corps as mere trainers. Most importantly, Libya has been transformed into a key logistics hub and potential Russian naval foothold in the Mediterranean, while Sudan has become a pawn in the Kremlin's game for a base on the Red Sea. Combined with the goals of expansion to the Gulf of Guinea coast (Togo, Benin), this data confirms that Russia is not only maintaining its African presence but systematically expanding it into new, strategically important territories [23].

Summary

The model of Russian success in Africa is deeply rooted and asymmetrically effective, forming a pillar of the Kremlin's strategy, the maintenance of which is necessary regardless of future truce conditions in Ukraine. These influences existed before the full-scale invasion and will be consolidated in the event of a truce.

The durability of the Russian presence relies on perfect synergy, exploiting the weakness and political uncertainty of African partners. Authoritarian regimes - e.g., military juntas in the Sahel and Central Africa - actively seek Russian partnership because Russia offers security without unnecessary questions about the state of democracy or human rights, becoming the least demanding provider.

Thus, instability in Africa is monetized to sustain military operations in Europe. Financing the Africa Corps and the Russian military-industrial complex with African gold is a direct response to Western sanctions. It is estimated that since the beginning of the invasion of Ukraine, African gold has brought Russia over $2.5 billion USD. These funds are invested in the military industry, which, despite sanctions, achieves impressive production rates, especially for ammunition and drones. The key financial link is illicit finance, monetized through the infrastructure of the United Arab Emirates (UAE), especially Dubai. 66.5% of gold imported from Africa to the UAE in 2022 was smuggled, and the UAE is functionally indispensable for maintaining the profitability of Russian gold smuggling [24]. Russia will not only maintain but intensify and expand the scope of its activities, as even a hypothetical truce will not immediately lift sanctions. The long-term dependence of African states on Russian technologies and military support creates a mechanism impossible to dismantle quickly.

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The Russian Economy in 2025

Lila Bednarska

Introduction

Despite the imposition of unprecedented sanctions on Russia, the Russian economy has not collapsed. However, this does not mean that Russia is not struggling with economic problems, including serious long-term challenges.

1. High Inflation and High Interest Rates

Current State

Since the beginning of the war, Russia has been grappling with high inflation and high interest rates. Labor shortages and a wage-price spiral have contributed to rising inflation [1]. Domestic consumption serves as an escape from inflation, although it is no longer sufficient to maintain economic growth [2]. President Vladimir Putin himself, who dislikes discussing economic and social problems, said during his annual Q&A program that high "inflation is an alarming signal" [3].
According to data from the Central Bank of the Russian Federation, inflation in September 2025 was 8%, while the inflation target remained at 4% [4]. In response to high inflation, the Central Bank, under the leadership of Elvira Nabiullina, repeatedly raised the key rate since the start of the war. The inflation rate and the key rate in recent months are presented below.

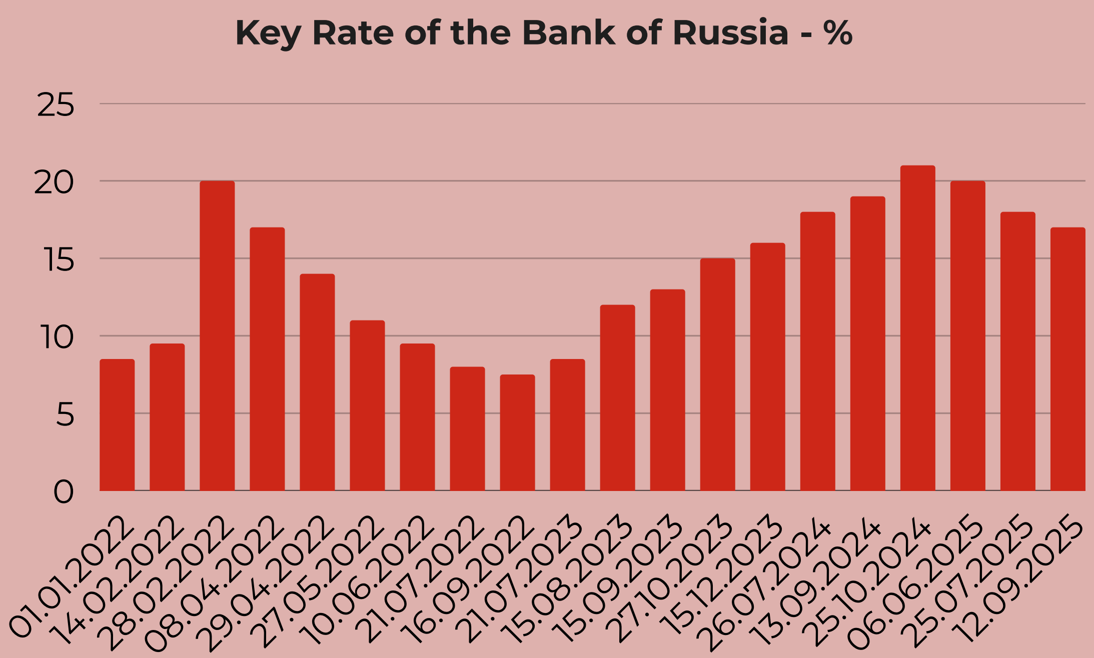

Fig.1. Key Rate of the Bank of Russia
Data source: https://www.cbr.ru/eng/hd_base/KeyRate/

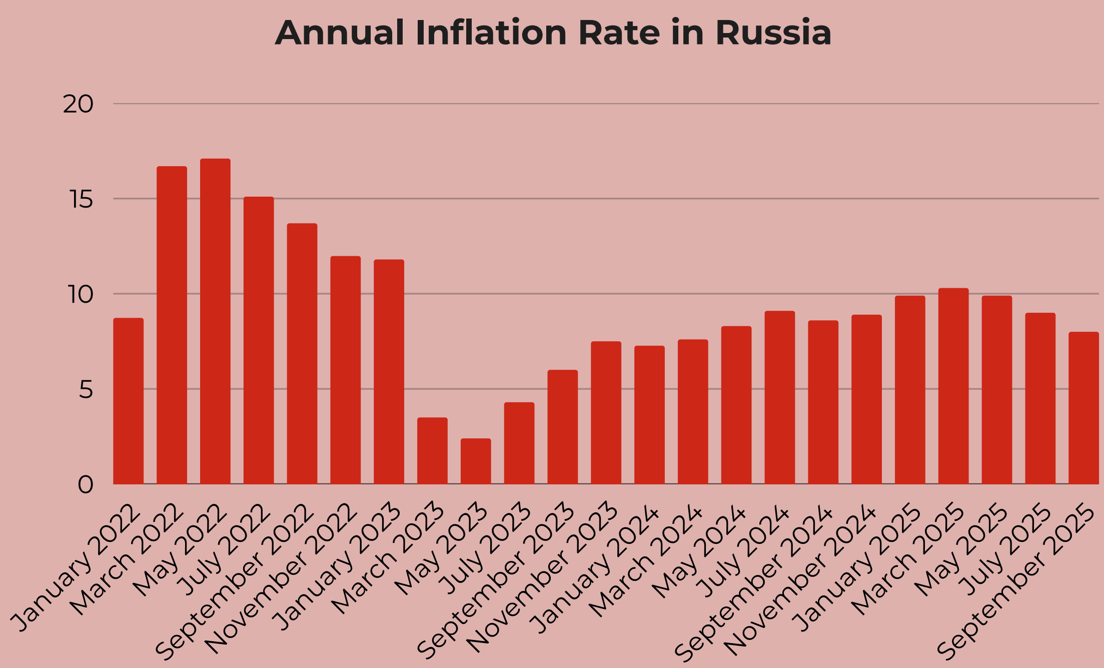

Fig. 2. Annual Inflation Rate in Russia
Source: https://www.intellinews.com/russia-s-inflation-still-above-10-in-march-376572/

In April 2025, the interest rate was 21% and had been maintained at that level since its increase in November 2024 [5]. On June 6, 2025, the Central Bank announced the first cut to 20% [6], and a second cut to 18% was announced on July 25. It was then emphasized that inflationary pressure and domestic demand were falling faster than initially assumed [7]. The latest cut to 17% was announced on September 12, 2025 [8].

However, the fundamental causes of inflation in Russia remain. These include, for example, labor shortages and domestic demand growth exceeding the capacity to increase the supply of goods and services. Despite this, the Central Bank plans to achieve the inflation target – 4% – as early as 2026 [9].

Forecast

Despite the high competence of the Central Bank, reducing inflation in 2025 and achieving the 4% inflation target in 2026 seems impossible. Especially since the war in Ukraine continues, meaning the Russian defense-military industry still needs workers, and the army continues to recruit men of working age. Additionally, Donald Trump's economic policy, although not directly concerning Russia, poses a challenge to combating inflation and maintaining economic stability in the Russian Federation. Elvira Nabiullina called the US customs policy a "tectonic shift." According to the Central Bank governor, changes in the global economy are currently a key inflationary factor [10]. Despite this, the Bank assumes that the average annual inflation in 2025 will be around 7-8% [11].

The Russian Central Bank is aware of the challenge it has set for itself. The Bank will also apply monetary policy as rigorously as necessary to achieve the inflation target in 2026 [12]. This is repeatedly stated in the bank's communications. The key rate will not be drastically lowered. Although it should be noted that cuts were introduced earlier than initially planned. Here, the bank itself admits that it is not yet known whether the current disinflationary trends are sustainable. According to analysts from Renaissance Capital, inflationary pressure is stabilizing, but not at the level predicted by the Central Bank [13], which may hinder the achievement of the 4% target in 2026 or reducing inflation to 7-8% in 2025. In this context, it is worth noting that the Russian Ministry of Finance estimates that inflation at the end of the year will be 7.6% instead of the initially projected 4.5% [14].

Additionally, a report by the Bank of Finland notes that tight monetary policy harms non-war-related industry, but without it, Russia could find itself in an uncontrolled inflationary spiral and economic crisis [15]. It's worth noting here that the civilian industry is already suffering due to a lack of workers and wage competitiveness with the military-defense sector. Additionally, according to economists, the high interest rate contributes to the slowdown of the Russian economy. Especially since, according to analysts from the Russian branch of Raiffeisenbank, confidence in the manufacturing sector "has significantly decreased over the past few months" [16].

In summary, tight monetary policy will continue in Russia. The goal is the necessary reduction of inflation and achieving the 4% inflation target.

2. Budget Deficit

Current State

Russia is also struggling with a growing budget deficit. The Russian Federation ended 2024 with a budget deficit of 3.5 trillion rubles, or about 34.4 billion US dollars [17]. The Moscow Times also reports that the federal budget deficit from January to March 2025 already amounted to 25.5 billion dollars. This sum is already much larger than the planned deficit for the entire year 2025 [18]. Interestingly, the Russian Federation's budget for 2025, approved on November 21, 2024, once again assumed a reduction of the deficit to 1.2 trillion rubles (approx. 12.5 billion dollars). But as Iwona Wiśniewska from the Centre for Eastern Studies accurately assumed, "(...) in 2025 it will not be possible to limit it [the deficit]" [19]. Meanwhile, the New York Times writes that in the first two months, the deficit doubled to the equivalent of 1.3% of GDP [20]. Estimates cited by The Moscow Times indicate that the deficit in 2025 will amount to 2.6% of GDP, making it the largest deficit since the pandemic year 2020 [21].

Moreover, one-third of the Russian budget comes from gas and oil, so the budget largely depends on specific commodity prices. The Russian budget for 2025 assumed a price per barrel of oil (Ural Oil) of 69.70 US dollars. However, on April 12, 2025, a barrel of Urals oil cost only 50 dollars [22]. Low oil and gas prices, and consequently lower budget revenues, contributed to the growing deficit. It is estimated that revenues from oil and gas in 2025 will only amount to about 105.5 billion US dollars (8.62 trillion rubles). This means that revenues for 2025 are 22% lower compared to the previous year, in which 135.8 billion US dollars (11.13 trillion rubles) flowed into the budget [23].

Forecast

Based on the above information, it seems that Russia will not be able to stabilize its budget in the near future. The budget deficit will grow. Since 2022, Russian expenditures have annually exceeded the planned amounts in federal budgets [24]. The World Bank forecasts that the deficit will amount to 2.7% of GDP in 2026-2027 [25].

In this context, the role of the shrinking National Welfare Fund of the Russian Federation is also important, as it can no longer patch holes in the Russian budget with ease (more on this in the next section). Thus, the Russian authorities have fewer options for patching budget holes.

Interestingly, Russian analyst Pavel Ryabov, quoted in The Moscow Times article, noted that relative to revenues, the annual deficit is 14.5%. This number is already in the "dangerous" zone, but not critical (exceeding 20% of budget revenues). The analyst claims that the government will have to limit spending (budget impulses) to keep the deficit within an appropriate range [26].

Additionally, the budget's dependence on oil and gas prices is another challenge for the Russian Federation. According to the Financial Times, if the downturn in the oil market continues, the actual budget of the Russian Federation could decrease by 2.5%, or about a trillion rubles [27]. Such a decline would mean a drop in GDP growth by 0.5 percentage points. In the event of a sustained drop in oil prices, the Russian authorities will be forced to raise taxes, and subsequently limit spending, ultimately including military expenditures.

Already, the draft budget for 2026 assumes tax increases. The presented draft budget assumes an increase in VAT from 20% to 22%. Additionally, more enterprises will pay VAT, thanks to a drastic reduction of the threshold from 60 million rubles of annual revenue to 10 million rubles [28]. This is not the only planned increase. The Russian government plans increases in fees for gas, heating, and electricity in three stages by 2028. The pace of increases significantly exceeds inflation, both current and target (4%). The cumulative increase in fees by 2028 is expected to be 27.9% [29]. The increase in VAT and household fees may increase budget revenues, but at the same time contribute to rising inflation. Finance Minister Anton Siluanov himself admitted that the VAT increase will raise prices by 1% [30].

In short, the budget deficit will grow, especially in the event of further price drops in the oil and gas markets. It is possible that the authorities will have to limit spending and raise taxes.

3. Shrinking National Welfare Fund of the Russian Federation

Current State

The economic situation is worsened by the shrinking National Welfare Fund of the Russian Federation (Фонд национального благосостояния России). The Fund in its current form was established in 2008 as a rainy-day reserve. The Fund's purpose is to stabilize fiscal policy and the ruble in situations of unstable income from oil and natural gas [31]. For example, when the price per barrel of oil suddenly dropped temporarily to 50 US dollars, as at the beginning of April this year. Unfortunately for the Russian authorities, since the beginning of the war in 2022, the Fund has shrunk by 50% [32], or even ⅔ [33]. According to The Moscow Times, about 40 billion US dollars remain in the Fund. This is the lowest amount since the Fund's establishment in 2008 [34]. Thus, Russia has less and less money to patch the budget deficit and conduct a prolonged war.

Forecast

Unless oil prices collapse dramatically, the money in the Fund should not run out within the next two or three years. Although, liquid assets are dwindling, so the real availability of funds for current use is limited. As noted in an article by Vazhnye Istorii (Важные Истории), Russia would not have enough money to support the economy in the event of a crisis like in 2020 (Covid-19 pandemic) and 2022 (beginning of the Russian invasion) [35]. Consequently, in the event of another external shock (e.g., tightening sanctions, further export declines, or an energy market collapse), the Russian authorities may face the necessity of cutting social spending, raising taxes, accelerating ruble devaluation, or eventually cutting war spending. Importantly, the complete depletion of the Fund's resources would not result in an immediate crisis, because in this context, sudden and unforeseen events pose a greater threat. Additionally, a return to the economic policies of the USSR era is possible, where the state takes an interest in the savings of Russians themselves [36]. Importantly, a re-Sovietization of the Russian economy is already underway [37]. For example, in recent years, the scale of nationalization of companies by the Russian Federation has significantly increased [38].

In short, the weakened National Welfare Fund of the Russian Federation means that Russia and its economy are increasingly less resilient to irregular and unforeseen events.

4. Labor Shortage and Declining Civilian Sector

Current State

Russia is struggling with a labor shortage. As Alexandra Prokopenko notes, lack of people = demographic crisis is the biggest problem for the Russian Federation [39]. According to Rosstat data cited by Reuters, the unemployment rate in Russia was a record low of 2.3% in November 2024 [40]. For comparison, the rate in January 2022 was 4.3%. The number of officially unemployed people has decreased by 1.4 million since the beginning of 2022, and the number of people officially recognized as unemployed nationwide is only 400,000 [41]. The record low unemployment rate is caused by intensive recruitment into the Russian armed forces and the defense industry, including shift work. Additionally, emigration after the start of the war and the announcement of mobilization, as well as aversion towards migrants, have worsened the situation [42].

To encourage Russians to participate in the war machine, the state and local authorities offer very attractive remuneration for participation in the "special military operation" (SMO). At the end of 2024, the minimum amount for signing a contract to participate in the SMO was about 35,000 PLN (800,000 rubles), and the maximum about 137,000 PLN (3 million rubles) [43].

The defense industry also encourages workers to join through higher wages than in the civilian sector. Some production takes place in shifts (2-3 shifts), but even the shift system has its production and human limits [44]. Professor Natalia Zubarevich from Moscow State University notes that there are no limits in the defense industry. Through "crazy financing," the defense industry can continuously raise salaries and encourage workers from other sectors to join [45]. For example, in the Kurgan region, one place in Russia where armored personnel carriers are produced, wages increased by 33% [46].

Thus, the civilian sector cannot compete wage-wise with the military sector, although wages in the civilian sector have also increased, which in turn contributed to rising inflation over recent months. For example, the Bank of Finland noted a wage increase of 18% from May 2023 to May 2024 [47].

Almost half of Russian companies have problems finding employees [48]. Even the situation in the military sector is not ideal for the authorities. According to First Deputy Prime Minister Denis Manturov, since 2023, 520,000 workers joined the defense industry, but about 160,000 workers are still needed in this sector [49]. Moreover, the authorities admit that Russia needs 2.4 million workers in transport, healthcare, IT, and production by 2030 [50]. Additionally, the war has significantly worsened Russia's already bad demographic situation, and consequently, the size of the labor force. It is estimated that 500,000 to 1 million people have left Russia since February 2022 [51]. Russia has also relied on migrant labor for years, especially from Central Asia [52]. However, after the attacks on the concert hall in March 2024, the authorities tightened migration policy. Despite this, about 30% of large Russian companies rely on foreign workers [53]. The Russian economy needs migrant labor. Without it, it will not be able to fill vacancies.

The labor shortage, the shift of the entire economy to a war footing, including sharp wage increases and intensive recruitment into the defense sector and the army to the detriment of the civilian sector, has caused the Russian economy to reach its limit. As Ruben Enikolopov from Pompeu Fabra University in Barcelona says, "the Russian labor market and the entire economy are working at the limit of their capabilities, they are squeezed to the limit and simply cannot produce more" [54].

Forecast

The lack of a labor force is one of the biggest problems for the Russian Federation, which the Kremlin cannot easily solve because the source of the problem is a deep demographic crisis. Russian society does not want to reproduce under the current economic, political, and social conditions [55]. Demographer Salavat Abylkalikov from Northumbria University in the UK believes that "the labor shortage will grow and grow until the beginning or middle of the 2030s...". Professor Natalia Zubarevich shares a similar opinion. According to Professor Zubarevich, the labor market crisis in Russia will last until the mid-2030s [56]. Importantly, according to a publication by Geopolitical Intelligence Services (GIS), until Russia solves the demographic crisis, it will be very close to an economic crisis due to the risk of constantly rising inflation [57].

The outflow of workers from the civilian sector to the military-defense industry also poses a risk of stagnation or regression in sectors such as education, health, transport, and construction. Considering other difficulties of the civilian sector, e.g., access to financing due to the high key rate, the Russian civilian sector may become even less competitive. Even if the Russian invasion of Ukraine were to end, according to economist Alexander Auzan, there is no guarantee that the situation would improve [58]. If the Russian state continues to focus on mass production in the military industry, the problem will not disappear. Importantly, redirecting the Russian economy back to the civilian sector would be a political and economic challenge.

Based on the data presented above, it can also be assumed that if Russia does not reopen to migrants from Central Asia or other regions, the crisis will only deepen. This is confirmed by data described by the Carnegie Endowment for International Peace think tank. Galiya Ibragimova, in an article for the think tank, notes that as a result of restrictions on migrants in various regions of the Russian Federation, there is a shortage of labor in many key sectors [59]. It seems that Russia wants to limit migration from Central Asia and open up to other regions, especially the Indo-Pacific and South Asia [60]. At the same time, Russia's attractiveness for migrants is decreasing, partly in favor of Poland [61]. The political situation, the isolation of the Russian economy from the world, the crackdown on migrants, and the fall in the value of the ruble make Russia no longer such an attractive country for migrants. Additionally, the Russian authorities are taking actions that only worsen the situation. In many regions, migrants are prohibited from working in specific professions. In 30 regions, migrants cannot work as taxi drivers [62], which has contributed to an increase in ride prices. Restrictions on migrant labor also cover the tourism and hotel industry, libraries, trade, and financial services [63].

Finally, among some supporters of Russian aggression against Ukraine, there is a belief that war and expansion are ways to increase the population and solve the demographic crisis. For example, Russia's population allegedly increased by 2.5 million people after the annexation of Crimea [64]. Such a viewpoint is absurd, considering only the demographic consequences of the war and the fact that despite the occupation of Ukrainian regions, there is still a labor shortage in Russia.

In summary, Russia is facing a huge labor shortage caused by both the demographic crisis and the war. In 2025, the Russian authorities failed to solve such a deeply systemic problem; rather, the authorities are increasing the scale of the problem. Russia will struggle with labor shortages for at least the next decade.

5. Sanctions

Current State

Western sanctions have not yet collapsed the Russian economy, but they have permanently impaired its functioning. Instead, Russia has adapted to the new situation [65]. For example, Moscow has tightened trade relations with China, attempting to adapt to the new situation. Moreover, sanctions and the war have forced Russia to restructure its economic priorities. Philip Luck from the Center for Strategic and International Studies notes that there has been a "shift in priorities from civilian welfare to military production" [66]. This is evident, for example, in wage increases in the military-defense sector.

Although Russian authorities try to downplay the impact of sanctions on the Russian economy, Western sanctions have hit the Russian economy and the country's ability to wage war [67]. For example, the statement by Minister Alexei Overchuk: "Our growth is 4.1% and our biggest problem in Russia is the fear that sanctions will be lifted. So, we won't be able to develop according to plan" [68]. However, Western sanctions have contributed to rising inflation by complicating the transport of goods to Russia and the payment for imports by Russian companies. Additionally, income from exports of oil, coal, and other raw materials has decreased, and consequently, the Russian ruble has weakened. As a result, the import of products for Russians has become more expensive, and inflation is rising [69]. Moreover, sanctions have also limited the Central Bank's resources. About 340 billion US dollars in the Russian Central Bank's reserves are currently frozen [70]. Sanctions are, therefore, a challenge for the Russian economy despite partial adaptation.

Forecast

Sanctions have long-term consequences for the Russian economy. As Alexander Libman notes, as a result of sanctions, focusing only on domestic production may cause Russian products and services to lag behind in quality, and productivity to fall [71]. Thus, even if sanctions were lifted, Russia would not be able to compete with the West or China. Thus, sanctions – although they did not deliver an immediate blow – may become a factor inhibiting Russia's development for decades.

According to Alexander Kolyandr, sanctions have changed the growth trajectory in the Russian Federation and could become the source of a Soviet-style crisis from the 1980s [72]. In such an extreme scenario, Russia could find itself in a period of stagnation dominated by overproduction in heavy industry, low efficiency, shortages of consumer goods, and a decline in real incomes. In such a model, the economy functions mainly thanks to budget transfers, state subsidies, and central planning policies, which is unsustainable under conditions of isolation from the global market.

In this context, the new policy in the taxi sector is interesting. From March 1, 2026, all vehicles providing taxi transport services must be manufactured in Russia or meet local requirements ("*законом о локализации такси*"). In May 2025, only 10 models met the requirements of the new law [73]. According to independent Russian media, the goal of the new policy is to help the domestic automotive industry, particularly the AvtoVAZ company belonging to Rostec [74].

Importantly, according to Janis Kluge from the German think tank Stiftung Wissenschaft und Politik, additional sanctions against Russia could trigger a recession [75]. Additionally, deepening isolation could also increase Russia's dependence on a small number of partners, primarily China, which carries the risk of losing economic sovereignty.

In short, sanctions against Russia, although they did not bring immediate collapse, may in the long run lead to economic stagnation, decreased productivity, and dependence on China, threatening a permanent loss of competitiveness and economic sovereignty.

6. US Tariffs and Cheaper Oil

Current State

US President Donald Trump did not impose tariffs on products from the Russian Federation [76]. Despite this, Russia felt the turmoil and the specter of recession in the world after President Trump announced the imposition of tariffs on almost all countries and territories of the world during his "Liberation Day" speech on April 8th this year [77]. Following the announcement of US tariffs, world oil prices dropped sharply – by about 15%. The drop in oil prices undermined the foundation of the Russian economy — high oil prices. High oil prices keep the Russian economy alive and allow President Vladimir Putin to continue waging war [78]. Thus, Russia remains dependent on the global economy.

Forecast

Considering other economic problems of the world's largest country, turmoil in global markets, a global growth slowdown, especially in China and Asia, and the trade war could significantly impact Russia's economic situation in the coming months [79]. A drop in oil and natural gas prices will seriously harm the Russian economy. Moreover, a serious drop in oil prices could force the Kremlin to cut spending, including spending on the military and the war. Especially since the National Welfare Fund of the Russian Federation has significantly shrunk since the beginning of the war – by as much as 50% [80], and the budget deficit is growing. As The Bell, an independent magazine dedicated to the Russian economy, notes, a drop in oil prices could force Russia to take out loans, which will not be cheap. Additionally, the Central Bank may be forced to raise the key rate, which would further slow the growth of the Russian economy [81].

Importantly, the effects of the oil price drop are already noticeable. The Russian Ministry of Finance lowered its forecast for budget revenues from oil and gas by 2.6 trillion rubles and adjusted the deficit threefold. After the ministry's revisions, federal budget revenues in 2025 will amount to 38.5 trillion rubles (instead of the 40.3 trillion planned in autumn 2024), and the deficit will ultimately increase to 3.79 trillion rubles, or 1.7% of the projected GDP. Additionally, the price of Russian oil was lowered from 69.7 to 56 dollars per barrel [82]. Thus, Russia failed to achieve its budget assumptions, and the price drop forced a deepening deficit and slowed economic growth.

The trade war initiated by the United States could hit the Russian economy in another way. According to Kirill Tremasov, an advisor to the Central Bank of Russia, there is a risk of devaluation of the Chinese Yuan. Consequently, this could increase the competitiveness of Chinese goods. There is therefore a risk that Chinese goods will flood the Russian market, pushing out domestic products [83].

In summary, the global trade war and global economic slowdown are threats to the Russian economy. The drop in oil prices has already hit the Russian economy, forcing reactions from the finance ministry. Cheaper oil may complicate the work of the Central Bank and inflation control.

7. War and the Economy

Impact of the War on the Economy and Forecast

Russia's invasion of Ukraine shifted the Russian economy to a war economy footing. This is evidenced by massive wage increases in the military-defense sector to encourage workers to join this sector. The civilian sector suffers from this. This is also evidenced by the Russian Federation's budget for 2025. Iwona Wiśniewska from OSW aptly describes the priority of the budget and the state – "Russia's Budget for 2025: War Above All Else". As Iwona Wiśniewska writes, "The budget for 2025 demonstrates the determination to wage war regardless of the costs and growing economic challenges" [84]. Compared to the 2024 budget, spending on the military and the war has been increased. In total, 43% of the federal budget is allocated to national defense and internal security [85]. Importantly, some expenditures for war-related purposes are also hidden in other budget categories. For 2025, Russia planned 15.5 trillion rubles (approx. 194 billion USD), or 7.2% of its GDP, for military spending [86]. To better illustrate Russian military spending, it is worth noting that in 2024, Russia spent 5 billion USD more than the European Union and the United Kingdom combined, after adjusting for purchasing power parity (PPP) [87]. The budget can also be modified to reflect changing needs. Based on this data, Russia will maintain very high spending on the war, the army, and the military-defense industry. This is also confirmed by the draft budget for 2026, which assumes allocating about 38% of the budget to defense and internal security [88].

Although Russia has recorded economic growth since the beginning of the war, this was artificial growth, driven by government spending on the war and military production, as well as domestic consumption [89]. It is also not sustainable growth. Importantly, as commented by Jan Starosta from the Institute of New Europe, "it is empty growth driven by domestic consumption, which is a form of escape from high inflation. On paper, the economy indeed looks quite good, but ordinary Russians find it increasingly difficult to live each year, the level of prosperity is falling. The life of average Russians has clearly become more expensive" [90]. However, the Russian economy is slowing down, despite the huge impulse from the state. Growth of around 4% as in 2024 is no longer achievable. In the first quarter, Russian GDP increased by only 1.4% year-on-year. For comparison, in the last quarter of 2024, growth of 4.5% was recorded, and exactly one year earlier, 5.4% [91]. Additionally, domestic consumption, a key indicator for growth, has fallen [92]. The World Bank estimates that GDP growth in 2025 will be only 0.9% in 2025 and will stabilize at 1% in 2026/2027 [93].

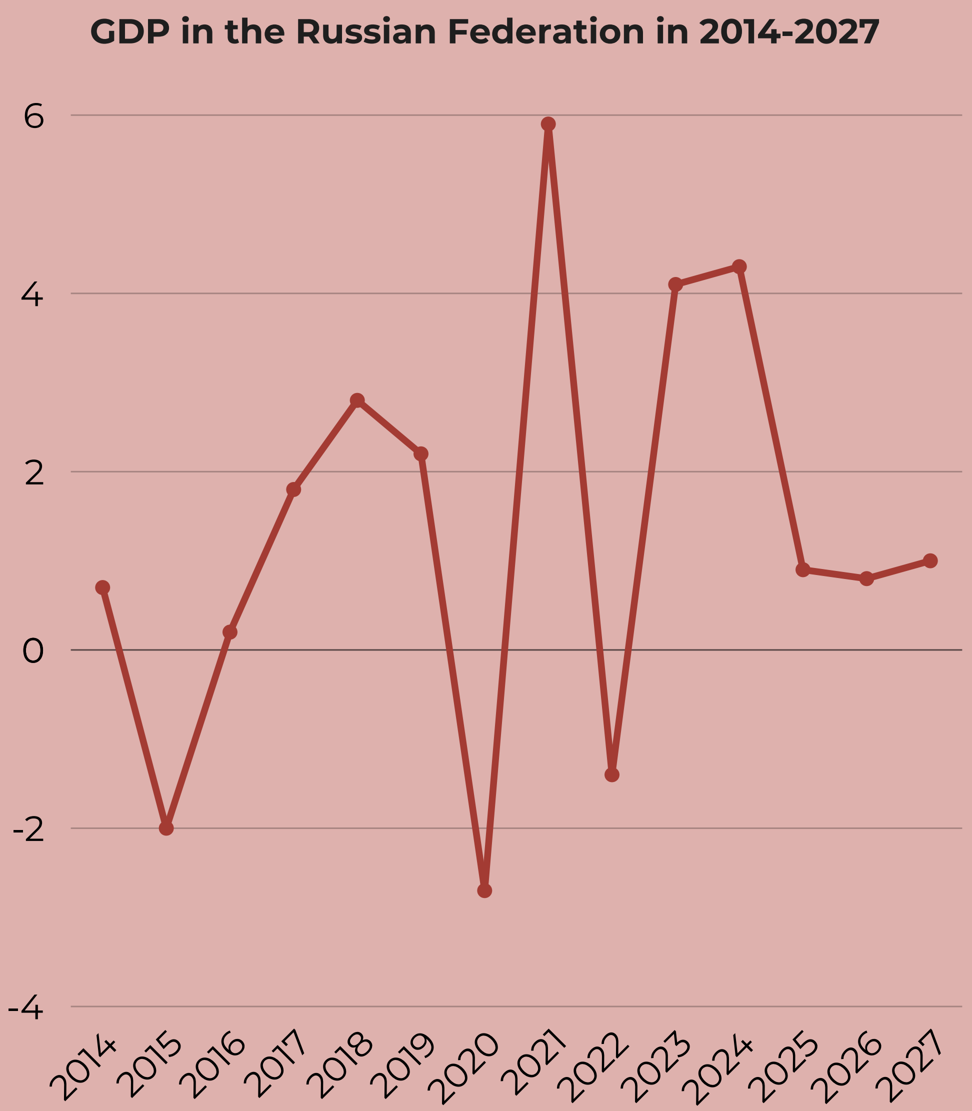

Fig 3. GDP in the Russian Federation in 2014-2027
Source: https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=RU and https://thedocs.worldbank.org/en/doc/d5f32ef28464d01f195827b7e020a3e8-0500022021/related/mpo-rus.pdf

Economist Sergei Guriev, now a professor at the London School of Economics, explains why mass war production is not beneficial for growth. As Guriev says, "*Putin gives money to tank manufacturers, the tank goes to Ukraine and... gets destroyed. From the perspective of the Russian economy, nothing useful has been produced — tank manufacturers simply received rubles from the Ministry of Finance or the Ministry of Defense, and then spent them in shops*" [94]. Moreover, labor productivity is falling. In summary, the war no longer saves the Russian economy, but rather hinders the civilian sector.

Importantly, even if the war ended at this moment, Russia would still be focused primarily on the defense industry. Moving away from a war economy would be a huge challenge for the Russian Federation. As Philip Luck writes, a retreat from an economy based on the military-defense industry is unrealistic until Russia introduces economic reforms [95]. The end of mass production in the defense sector would mean flooding the market with a supply of new workers, which in turn would reduce wages. Since the beginning of the war, Russians have become accustomed to higher salaries, so a reduction in wages would entail social discontent. Importantly, as a result of redirecting the economy onto a war footing, the civilian sector is shrinking with each month of the war. Since the beginning of the year alone, the civilian sector has shrunk by 5.4% [96]. If the Kremlin decided to retreat from the war economy, there is practically nothing to return to. The civilian sector does not provide an alternative. The defense industry is Russia's only way to develop [97]. Thus, peace is not in the Kremlin's economic interest.

Finally, it is worth adding that until now, Russia has experienced the effects of military actions on its territory to a limited extent. However, regular Ukrainian attacks on depots and oil refineries lasting several months have significantly changed this state of affairs. Since August this year, every third refinery has been damaged by Ukrainian drones. As a result of the attacks, at least temporary problems with gasoline supplies were recorded in 57 regions [98]. The annual increase in fuel prices amounted to 12.73%. This is the highest annual price increase since 2011, which could complicate the Central Bank's fight against inflation [99].

In summary, Russia will maintain high spending on the war and the defense industry. Economic growth will not be as high as initially projected. We are observing a long-term weakening of the Russian economy. Regardless of the price, war remains a fundamental part of Russia, despite the costs to its economy. Therefore, as commented by US Treasury Secretary Scott Bessent, "there is currently a race between how long the Ukrainian army can hold out and how long the Russian economy can endure" [100].

Summary

At this moment, the Russian Federation is struggling with many economic problems. These are:

- High inflation and high interest rates
- Growing budget deficit
- Shrinking National Welfare Fund of the Russian Federation
- Labor shortage and overheating economy
- Western sanctions and declining competitiveness of Russian products
- US tariffs and cheaper crude oil
- War

Importantly, Russia's economic problems are interconnected. The war significantly increased the already existing labor shortage, and the marked wage increase in the military-defense industry contributed to high inflation. Russia can control some problems, but not many. Moreover, controlling a problem does not mean that Russia has the ability and willingness to solve them.

The Central Bank will continue its extremely tight monetary policy. The key rate will not be quickly lowered because the Bank's primary goal is to reduce inflation. Lowering inflation will prove more difficult than the Central Bank initially assumed, partly due to falling oil prices, underestimation of problems, or tax increases. Falling oil prices also prevent Russia from replenishing the National Welfare Fund, reducing the budget deficit, or even implementing the budget version from autumn 2024. Instead, in 2025, the budget deficit will increase again, and the Fund will shrink even further. This trend will likely continue in 2026. Thus, Russia is losing money for a "rainy day," or more importantly, for current expenses. Spending cuts are possible, initially in the civilian and social sectors, and eventually in the military-defense sector. Taxes, as we are already observing, will rise. Importantly, the labor shortage will only deepen in the Russian Federation.

This is its fundamental problem. Maxim Reshetnikov, the Minister of Economy, called the labor shortage "the biggest internal threat to the Russian economy" [101]. Thus, the Russian economy has reached its limit. The golden years of 2023-2024 are over.

Meanwhile, Western sanctions and the shift of the Russian economy to a war footing have slowed economic growth and weakened competitiveness. We already see this in the numbers — growth for 2025 is expected to be only 0.9%. The civilian sector is in the worst situation. It cannot compete with the defense sector for workers and lacks access to financing. Even if sanctions were lifted and the conflict ended, the Russian economy would not recover from the crisis without extensive reforms.

The Russian economy faces stagnation.

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