

---



**Strategic Choice  
Advisory**  
Strategy and Transactions

**Russia Macro Foresight**

**Government Finally Brings Down Inflation at the Cost of Economic Growth in 2025; Uptick Seen in Q4, but State Finances Wobbly**

**February 2026**

---



## Broad-based real sector growth deceleration or contraction observed, with only a handful of bright spots. Still, some key sectors holding up better than expected

- Full-2025 results have come in, and while economic growth has slowed to a near-standstill, the figures are far from dismal, given that government had intended to cool growth in order to tackle inflation. **Real GDP growth edged down to 1% over full-2025 vs. 1.2% in H1**, showing the economy is holding up without sliding into the red. EconMin's 2.5% forecast, as well as those of 1.5-2%, voiced by some officials, were not met. But as we noted, they were never realistic, anyway. Worth noting, the 2024 figure was raised 0.6ppps to 4.9%, as significant upward revisions took place in many key sectors. We would not be surprised if the same happens to 2025 numbers
- Manufacturing slowed to still palatable 3.6%, agriculture rebounded on better weather after 2024's slump, transport turnover inched down 0.7% after rising 0.5%, and construction managed to grow 2.5%, as housing posted better-than-expected 0.4% growth after 2.4% contraction. Personal services rose 2.7% vs. 4.3% in 2024, and slower than in previous years. Still, restaurants & catering rose a solid 8.7% vs. 11.9% a year ago. **The business confidence index** did dip into negative territory in H2 (-3) after hovering around 0 late in H1, but **climbed back up to 0 at year-end, and +1 by Jan 2026**
- In more negative developments, **investment barely grew in Jan-Sep, rising 0.5% y/y**. Final consumption rose only 2.9% over the full-year, and retail trade grew just 2.6% vs. 7.7-8.0% per annum in 2023-2024. Savings declined 3% in 2025, as buying power did suffer

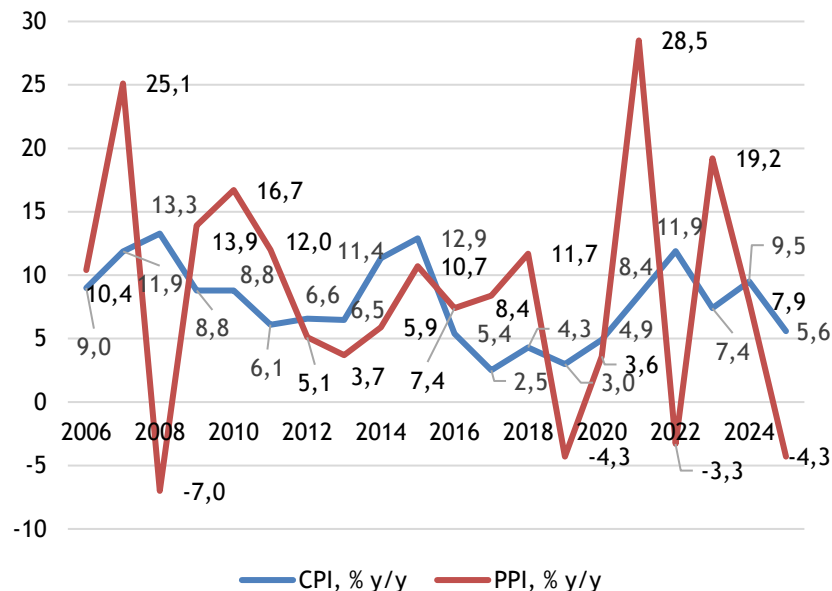
Indicator, % y/y	2022	2023	2024	2025	Segment, % y/y	2023	2024	2025	Segment, % y/y	2023	2024	2025
Industrial production:	0.7	4.3	5.1	1.3	Food products	6.6	4.2	-0.4	Chemicals	5.2	4.6	-0.8
Manufacturing	0.3	8.7	9.1	3.6	Textiles	3.7	12.0	-0.6	Rubber & plastic products	8.0	3.7	-6.7
Cargo transp. turnover:	-2.3	-0.6	0.5	-0.7	Apparel	15.2	12.0	-2.2	Pharmaceuticals	-0.4	19.3	15.4
Railway	-0.1	0.0	-4.3	-1.8	Metallurgy	3.0	-1.5	-2.1	Coke & oil products	2.5	-1.4	-0.4
Automobile	5.8	15.4	6.9	2.9	Metal products	26.4	30.4	18.0	Machines & equipment	8.1	2.2	-6.9
Agriculture	11.3	0.2	-3.3	4.9	Wood products	-1.6	5.0	-3.5	Electrical equipment	20.6	9.7	-3.8
Retail trade	-6.5	8.0	7.7	2.6	Furniture	11.5	16.3	-6.9	Automobiles	16.0	18.5	-23.1
Construction:	7.5	9.0	3.8	2.5	Building materials	0.9	6.8	-8.3	Computers & electronics	39.4	26.4	11.7
Housing	11.0	7.5	-2.4	0.4								
Fixed capital investment	6.7	9.8	7.4	0.5*								

\* - Jan-Sep 2025

# PPI deflation takes place again, as purchasing power weakens. CPI inflation slows markedly, and CBR continues lowering key rate, allowing real income and wage growth to start recovering

- Speaking about government executing its macro policy objectives, **CPI inflation receded further to 5.6% y/y in 2025** after peaking at 11.9% in 2022 and then perching up to 9.5% in 2024. Looking at the chart, one can see that recently CPI inflation exceeded 10% only at times of extraordinary disruptions, ahead of the 2008 global financial crisis, start of the Russia-Ukraine conflict in 2014, and Russia's military campaign in Ukraine launched in 2022. Whether authorities' goal of keeping inflation within 4% per annum is justified or not, is a whole 'nuther story, but suppress inflation government sure did
- By the same token, **PPI deflation of 4.3% was observed last year**, already the third time since 2019. The indicator has been volatile lately, to say the least. Agricultural prices dipped 2.4%, while cargo transport tariffs grew only 4.1% vs. 13.7% in 2024 (highlighting weaker demand, but indeed supporting transportation). **A peculiar spike-up of inflation in investment goods (9.5% vs. 8.1% in 2024) took place late in the year**, which we will get to slightly later
- CPI inflation did go on to pick up by about 1pp in Jan 2026, as the base VAT rate was raised to 22%, and extra taxes were levied on SMEs, but **we are quite confident inflation will keep trending down**

CPI & PPI



- As inflation cooled and CBR lowered the key rate by 5pps over the year to 16%, **real wage and income growth rebounded**. Real disposable income growth was just a touch off 2024's multi-year high, while real wage growth accelerated from 3.8% y/y in H1 to 5.8% over the full-year
- **Nominal wage growth trended down toward year-end**, possibly due to lower inflation and weaker output growth. **A worrying sign was growth of wage arrears**, which remained low overall at just RUB 2bn, but grew more than 2-fold in 2025. Notable increase was seen across the board in the government segment, while corporate wage arrears barely changed y/y
- ILO-definition unemployment stayed record low at 2.1-2.2%. Despite the economic slowdown, hiring of both full-time and part-time workers continued apace, even in some sectors that saw contraction or slower growth. Interestingly, **reliance on contractors rose dramatically in 2025**

Indicator, % y/y	2022	2023	2024	2025
Real disposable income	4.5	6.1	8.2	7.4
Real wages	0.3	8.2	9.1	5.8*
Nominal wages	14.1	14.6	18.3	12.8*

\* - Jan-Nov 2025

## Despite output drops or growth slowdowns, many segments still manage to hike prices and/or boost profits. Growth uptick seen toward year-end, likely as lower rates boost confidence (1/2)

- Turning to our usual sectoral overview (*please refer to table on p. 2*), first of all, some general observations. Evident through multiple stat timeseries, **a growth resurgence took place toward the end of 2025**. For example, manufacturing saw growth pick up to 4.3% y/y in Q4 vs. 2.5% in Q3, becoming the highest quarterly reading last year. Growth in retail trade reached 4% in Q4, practically double of what was seen over the first three quarters. Non-food sales growth shot up in Q4 to 5.8% y/y. In the case of retail, the lower base of Q4/2024 may have contributed, but there were other sectors with similar dynamics, but no low base in tow. Growth in some segments started turning around as early as Aug-Sep. Construction growth was practically at zero y/y throughout H2, but a jump took place in December. While typical of end-years, when companies rush to finish up work to close the fiscal year, it also reflects the accumulated work outstanding
- **Aggregate corporate profit declined 5.5% y/y in Jan-Nov, but that marked an improvement over -9.7% in Jan-May and -6.9% in full-2024**. The share of loss-making entities, after rising 2.1pps to 31%, came right back down, by 2.2pps, to 28.8%, continuing to fluctuate around historical averages. As noted above, the overall business confidence index also rebounded strongly in Q4
- We must note that **some of the sectoral data were quite contradicting this time**. For example, while output either declined or growth slowed visibly in most sectors, and producer price growth was quite constrained, turnover rose strongly in many cases. And even where it did not (for example, rising just marginally), profits shot up, defying logic. It appears some companies may have been busy improving operational efficiency (which we are a bit skeptical about), or acting as resellers, e.g. for parallel imports
- But also, **it is possible that government's zeal in improving tax collection (in light of the widening budget deficit) is forcing companies to more accurately report revenues and/or profits**. Thresholds for being considered SMEs have been lowered notably, closing some of the loopholes for business splitting to qualify for lower tax rates and other benefits. Combatting tax evasion and boosting budget revenues has become one of government's top priorities, thus it would be interesting to see how this affects financial reporting and further sector data
- Among key sectors, **even though agriculture recovered, on the whole, only a handful of segments actually managed to benefit**, especially grain, potatoes, and flax. Vegetables and sugar beet production declined, sunflower barely rose, while **such hot crops as rice, corn, and buckwheat, saw major declines all of a sudden**. Things were pretty sour in husbandry, as livestock slid in all key segments, even as meat & poultry output kept growing (over in manufacturing). Signs of overproduction and stiff competition were observed in poultry. Total agriculture sector profit dipped 2.8% in Jan-Nov, as consumer prices slid 2.4% in full-2025
- **Construction continues to exceed expectations in a pretty dire environment**, as growth slowed just slightly vs. 2024, **again driven by industrial and infrastructure construction**. As mentioned above, the situation in housing seems to be improving, as government support was reintroduced for mortgage programs, and builders generally enjoy more favorable loan rates (which have also declined, together with the key rate). Positively, **trade realty construction keeps rising, despite the slump in retail**. Specifically, the shopping mall segment is again robust. At the same time, **road construction took a nosedive**, possibly as government struggles with lack of funds. **Tourism and recreation capacity construction remains buoyant**. Total construction industry profit grew 18% y/y in Jan-Nov, while sales in current prices rose 14.1% in full-2025

## Despite output drops or growth slowdowns, many segments still manage to hike prices and/or boost profits. Growth uptick seen toward year-end, likely as lower rates boost confidence (2/2)

- Reflecting the slowdown in consumption, retail sector profit grew only 2.6% in Jan-Nov, on par with overall sector growth. However, **retail turnover in current prices surged 11.1%**, highlighting maintained (even if reduced) pricing power. **The situation in wholesale trade was more downbeat**, as turnover in current prices declined, while profit (ex auto) shrank 17.6% in Jan-Nov
- In personal services, apart from the aforementioned restaurants & catering, and hotels & recreation, **brisk growth continued in delivery, IT & communication services, beauty salons, photo services, as well as home repair (6.3%)**. Albeit, **growth in tourism (5.5%) seems to have moderated, together with healthcare services (4.3%)**, as purchasing power was inevitably affected by the overall sluggish economy. Here we would like to note that **sporting activities and related products appear to be taking off**, as more and more Russians opt for a healthier lifestyle. Profit in sports & recreation grew 9.3% in Jan-Nov, communication - 9.6%, HoReCa - 19.7%. In healthcare it surged 16.5%, somewhat out of line with output, sales (up just 1.1%) and producer price growth dynamics (consumer prices did grow 12% after 10.5% in 2024). Profit skyrocketed in finance & insurance, up 2-fold y/y in Jan-Nov!
- Cargo turnover growth continues to hover around zero. The decline in railway turnover became less sharp at 1.8% vs. 4.3% in 2024. Growth in truck transport slowed notably to 2.9% from 6.9%. Cargo load stood flat after a 2.6% rise, dropping in railways, and with growth slowing to 1.3% from 4.4% in auto. Funny enough, **while marine turnover plummeted, cargo load here jumped 8.7%** after a 4% decline. This shows **shipping distance decreased substantially**, even as load surged. Transport & storage profit rose 5.6% in Jan-Nov vs. 8.3% in Jan-May. At that, **passenger turnover edged down after robust growth**, reflecting weaker consumption
- In industrial production, **extraction continued its tepid decline**, -1.6% in 2025 after -0.5% in 2024. Metal extraction rose 1.7%, but sales in current prices dropped. Still, sector profit in metal extraction surged 15.7% y/y in Jan-Nov! However, as we noted before, the situation is very different in ferrous (negative) and non-ferrous (mostly positive) metals. Natural gas production slid 3.1%, while producer prices in oil&gas plummeted (profit data is not released for this segment specifically now). Production of 'other resources' (mainly building materials and oil) plunged 11.6%. **Building materials and furniture seem to be suffering now, despite the rather encouraging construction dynamics**. At the same time, profit in 'other resources' skyrocketed! This requires further investigation... **Overall profit in manufacturing managed to grow 4.6% y/y over Jan-Nov**
- Describing all manufacturing segments, and sector profit and inflation data in detail could require a separate report, so for now, here are some high-level conclusions. **We see that while output trends are indeed lackluster in many segments, sales and profit numbers often paint a completely different picture**, e.g. in foods, beverages, clothing and other consumer goods, leather products, wood, chemicals (torrid profit growth!), metal products, electrical equipment, machines & equipment (in many cases, despite rather mild producer price growth), etc. Fishing appears to be in good spirits, as are pharmaceuticals (even though growth is moderating). Oil product output is down just a bit, despite the incessant Ukrainian drone attacks, although profit has indeed gone down. Plastics and resins are not feeling so well, as are cars and various other transport equipment
- Last but not least, **a very peculiar thing occurred late in 2025: investment goods price growth spiked up in numerous sectors!** Overall, investment goods price growth made up 9.5% in 2025, accelerating sharply toward year-end, vs. 8.1% in 2024. It was especially pronounced in machines & equipment (16.3% vs. 9.2%). **Could it be due to increasing difficulties in sourcing required equipment and other products, or is it driven, rather, by recovering investment appetites?** The heat, i.e. input price pressure, is on in various key segments, including metals, computers & electronics, electrical equipment, machines & equipment, and etc.

# Banking sector remains in fairly good shape, even as growth of key indices cools and profitability slips. Surge of problem loans becomes a key concern, going forward

## BANKING SECTOR

- Banking sector data for 2025 turned out to be rather encouraging, showing the sector overcoming some negative trends from earlier in the year. **Growth of most key indices slowed, but rather moderately, and stacked up well against multi-year averages.** Corporate loan growth stayed practically at the H1 level over the full-year, while growth of retail loans picked up slightly over H2, making up 5.9% in full-2025 vs. 4.4% y/y in H1. At that, **while mortgage loans rose a solid 9%** as government again broadened support programs after some hesitation, **non-collateralized consumer loans dropped 4.6% y/y** after growing 11.3% in 2024
- **Retail and corporate funds' growth slowed inevitably**, as both the economy cooled and lower interest rates dissuaded customers, **but the indices were still quite strong.** Corporate deposits ended up rising 3% y/y over the full-year after declining 6.7% ytd in H1. Investment in bonds continued growing (17.7% y/y), but **there is an increase in defaults now, especially among SMEs**
- After staying roughly flat or posting modest growth for a few years, **sector profit declined by RUB 0.3tn to RUB 3.5tn in 2025.** CBR remarks that **ROE actually declined more noticeably, from 23% to 18%.** Tougher loan loss requirements and higher operating expenses (amid accumulated input cost pressures, including labor remuneration) are cited as the main reasons, even as interest and fee income increased
- **A key problem now is notable growth of problem loans across all key borrower segments.** The share of problem loans rose 0.9pps overall to 11%, surging 0.7pps to 1.7% in mortgage loans, and 3.9pps to 13% in corporate loans. The share of overdue loans inched up 0.2pps to 2.7% of corporate loans, and grew 1pp to 4.6% of retail loans
- **Actually, we are told that the banking sector's problems with loan quality run much deeper.** CBR has been supporting banks by easing loan loss requirements and facilitating refinancing of bad loans, in order not to undermine capital adequacy ratios. Also, **top-tier and systemically important banks tend to get preferential treatment from CBR, while smaller banks have it quite hard.** The liquid asset coverage ratio remained quite solid, despite a 0.5pp decline to 20.8%, but the situation is very different for different-sized banks. Even the largest banks' capital adequacy ratios are teetering just above the minimally required level

Indicator, % y/y	2022	2023	2024	2025
Loans to individuals	9.5	26.5	14.3	5.9
Loans to corporates	14.3	20.7	18.7	11.6
Individuals' funds	6.9	19.7	27.7	16.2
Corporates' funds	20.6	14.7	12.9	7.7

# External sector remains resilient amid sanctions, even as RUB appreciation curbs export revenues. However, state budget deficit continues to widen

## MONETARY AGGREGATES

- Key monetary indices saw divergent trends over 2025. **Growth of broad-definition monetary base (including FX funds) picked up notably in H2, reaching 9.7% in 2025 vs. 3.2% in H1/2025 vs. 5.5% in full-2024.** Meanwhile, **growth of national-definition (RUB) money supply slowed further to 10.6% vs. 19.2-19.4% in 2023-2024.** Now lower RUB interest rates, coupled with higher FX deposit rates in Russia than abroad, leads to both individuals and corporates keeping extra money in foreign currency, in order to hedge against geopolitical risks. Also interestingly, **growth of cash in circulation sped up in H2**, as customers withdrew funds for spending

## EXTERNAL SECTOR

- **External sector data for 2025 turned out better than expected amid toughened economic sanctions.** The current account (CA) surplus declined to USD 38.1bn over Jan-Nov 2025 vs. USD 59.9bn a year ago (and USD 62.6bn in full-2024), but the trade surplus decreased only slightly, from USD 121.9bn to USD 106.2bn. **The CA surplus decline was attributed to a higher service deficit (USD 43bn in Jan-Nov vs. USD 34bn a year ago), and net errors & omissions (USD -20.3bn vs. USD -11.4bn).** Also, the income deficit stayed high at USD 25.1bn vs. USD 27.4bn. **Russia increasingly has to rely on services from foreign partners to combat sanctions**
- At the same time, **FX & gold reserves continued their robust growth, reaching USD 797.5bn as of Feb 6, 2026.** The indicator soared USD 152.6bn (25%) over 2025, from USD 611.3bn to USD 763.9bn, and has added another USD 33.6bn since the start of 2026. Actually, reserves hit USD 826.8bn on Jan 30, surpassing USD 800bn for the first time in Russia's history, before quickly dropping back down. As the RUB/USD rate has stayed stable in recent weeks, the **USD 30-40bn per week bounces may be attributed to severe gold price volatility.** And Russia has significantly boosted the share of gold in its reserves as a safeguard
- **RUB continued its swift appreciation, gaining 28% vs. the trade-weighted FX basket in 2025, 33.4% vs. USD, 21.5% vs. EUR, and 31.2% vs. CNY.** CBR has to stem RUB strengthening, to boost budget revenues. **The strong RUB limits Russia's export competitiveness, and boosts the competitiveness of imports.** The latter is so far offset by limited demand in an economic slowdown
- Meanwhile, after a sudden and as yet not fully explained spike-up in Q1/2025 and following increase in Q2, **total foreign debt receded to USD 308.1bn at end-Q3** (vs. USD 312.5bn at end-Q1, USD 322.4bn at end-Q2). The indicator had dropped to USD 289.8bn from USD 497bn at end-Q3/2021 before that lurch-up, when it rose markedly across all segments: government, CBR and banks, and corporates. Foreign debt is still up USD 18.3bn ytd on the whole (government - up USD 4.1bn, banking sector - USD 12.8bn, corporates - USD 1.4bn). FX-denominated bond issuance is to credit, as borrowing in foreign currency became more attractive amid lower rates
- After a remarkable USD 47bn pent-up in Q1 to now slightly revised USD 263.4bn, **accumulated FDI rose further to USD 279.1bn at end-Q2**, and then declined to USD 253.9bn at end-Q3. Initial enthusiasm regarding improvement of Russia-US relations seems to have faded somewhat, but the indicator is still **up USD 38bn since year-start after a lengthy and pronounced drop**

## PUBLIC SECTOR

- **A major negative factor is sharp growth of the state budget deficit, which reached RUB 5.645tn in 2025 after fluctuating within RUB 3.24-3.5tn in 2022-2024.** Revenues rose just 1.6% y/y, outpaced by spending (6.8%). Oil&gas revenue dropped 23.8%, while non-oil&gas revenue rose 12.4%. **National Welfare Fund grew 12.9% in 2025 to RUB 13.4tn (6.2% of GDP),** held mainly in CNY and gold

## Summary: economy still affected by fight against inflation, but positive trends reemerge, and consumption recovery may be just around the corner. Government now out to redefine economy

- Government's decision to focus on tackling rampant inflation and avoiding overheating has the economy hovering just above zero, without falling into the red. Although most manufacturing segments are experiencing a stark growth slowdown or contraction, **several key macro sectors, and also certain manufacturing segments, are holding up better than expected.** A handful of segments are continuing robust growth. **Moreover, an evident growth upsurge was observed in Q4** (in some cases, starting even from Q3)
- Most importantly, **inflation finally seems to have subsided**, and even though recent tax hikes are already feeding into prices, the impact on inflation is likely to be marginal. **This gives authorities even more reason to continue monetary easing**, as evidenced by CBR's latest decision to lower the key rate by another 0.5pps to 15.5% on Feb 13. **The move has further boosted market sentiment**, and the easing, together with inflation deceleration, have served as major drivers for the rebounding business confidence index
- **Additional impetus can be found in the recovering growth of real wages and income.** Although mostly technical, as inflation has come down, nudging up real growth figures, it is likely to instill more confidence in consumers. Judging from latest consumer goods and income dynamics, **we would not be surprised if a consumption recovery begins sometime soon**
- Among the main concerns right now is the state of public finances, as **the budget deficit widened markedly in 2025.** Expenditures are outpacing revenue, already leading to funding cuts in some key areas. The cost of debt remains very high, even though it has gone down some, which will continue to impose extra pressure on the state budget. Meanwhile, heavy international sanctions, and the US vying to push Russia out of key energy markets globally, reduce the influx of export revenues. Plus, this eats away at the National Welfare Fund, shrinking the amount of liquid assets available in case of urgent need. **External sector data remains fairly strong**, but the geopolitical risks are still substantial
- **Authorities are thus out to improve tax collection, and have opted to limit various tax breaks**, especially for SMEs. No doubt, this does not come easy for businesses, and together with the high loan rates, results in growth of bad loans and corporate defaults. And this is another key concern: how much longer can companies that are suffering from high rates hold on for? **What kind of impact can this have on the banking sector?** So far, CBR supports the biggest banks by easing loan loss requirements and facilitating debt refinancing, but **the share of bad debts nonetheless grew noticeably in 2025**, and this trend is obviously worth watching
- Going forward, **now that inflation is more or less under control, how much upside does the Russian economy have, after all?** What can authorities do to rekindle growth, relight the fire? For the time being, it seems import substitution has ceded its spot as the key growth driver to war-related expenses, which is evident by looking at sector breakdowns. **Investment goods price growth shot up again in late 2025**, and it is so far unclear whether this was caused by machinery and equipment deficits due to sanctions, or renewed investment appetites. In any case, it appears the desire to invest, when conditions are right, and seize the opportunities provided by the sanctions, is still there. But perhaps there are even bigger things out there waiting to be accomplished
- **Government has been given a deadline of submitting a plan for redefining, transforming the economy, by June.** Authorities seem very serious about this, given the continued conflict with the West. As we understand, **a key objective will be defining the sectors to focus on, to further reduce Russia's reliance on natural resources, including oil&gas.** Among possible priorities are refining, machines & equipment, electronics, potentially also AI, metal extraction, IT, and etc. The spirit of Anchorage still hovers over the surface of the war, but Russia wants to forge its own path and secure a proper place for itself in this changing world

*For additional information,  
please contact:*

**Andrew Afanasiev**

Managing Partner, CEO

Mob. +7 (903) 745 7330

E-mail: [aafanasiev@strategicchoice.org](mailto:aafanasiev@strategicchoice.org)

**Strategic Choice Advisory**

20A Bronnaya M. str.,  
Moscow, 123104, Russia

Tel.: +7 (495) 135 2830

<https://www.strategicchoice.org>