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STOCKHOLM INSTITUTE OF
TRANSITION ECONOMICS

Financing the Russian War Economy

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Financing the Russian War Economy—Outline

- Background
- Recent developments
- The Russian war economy
 - Financing the war machine
 - Effects on key sectors
- Economic outlook and financial sector risks
- Concluding remarks
- Appendices:
 - Sanctions and counter-measures
 - Developments in non-military sectors

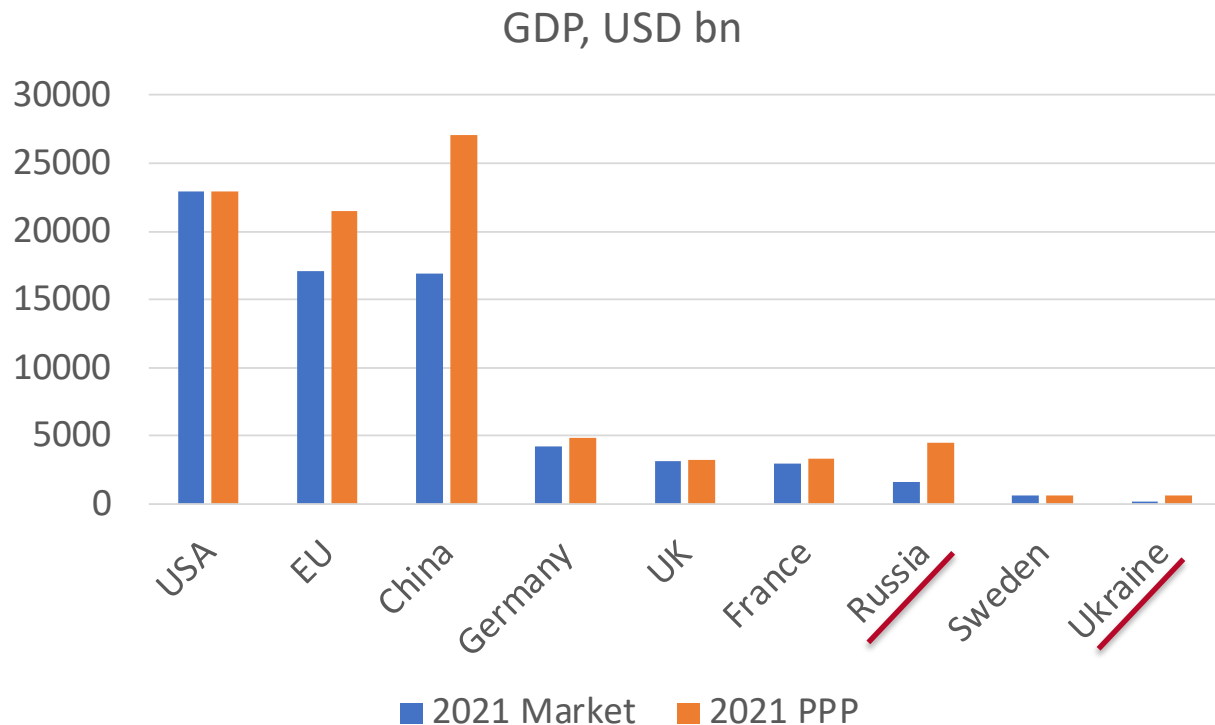
Full report available here

<https://www.hhs.se/contentassets/79a322a8739a401ea88225909d2e4856/site-russian-economy-spring-2025-update.pdf>

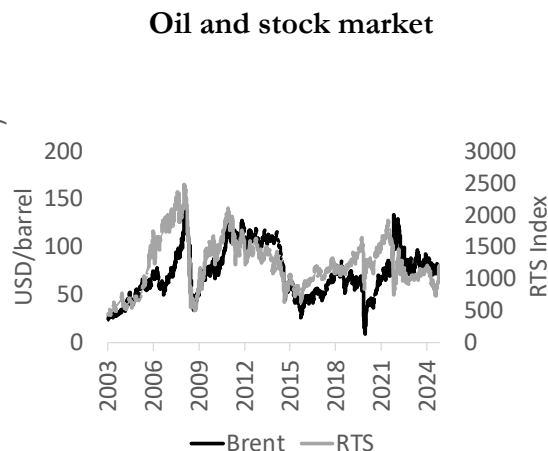
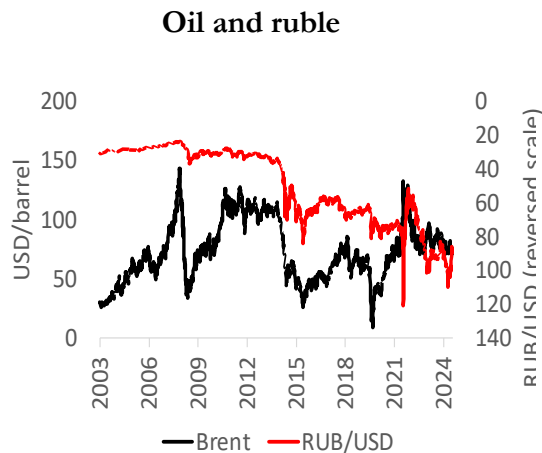
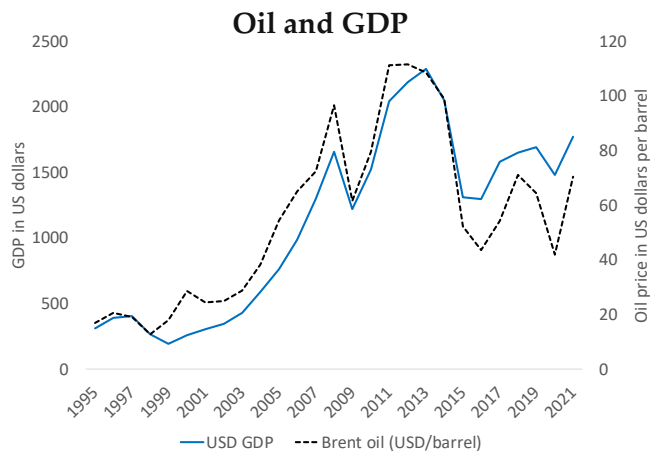
Questions to answer

- Is Russia's economy "strong" compared to the EU and the West?
 - NO!
- What is going on in the Russian economy?
 - Oil and gas still important
 - Fiscal and monetary policy not in sync
 - Inflation likely much higher than official numbers
- Will the Russian economy collapse by itself and end the war?
 - Unclear in the short run, no one knows really
 - Imbalances and risks are increasing
- What should the EU/West do?
 - Ukraine cannot afford that we sit around and wait for Russian implosion
 - Limit the resources available to Russia => sanctions on oil, gas and financial sector
 - Provide significant and predictable support to Ukraine => fund of all of the frozen assets?

Russia—not a great economic power

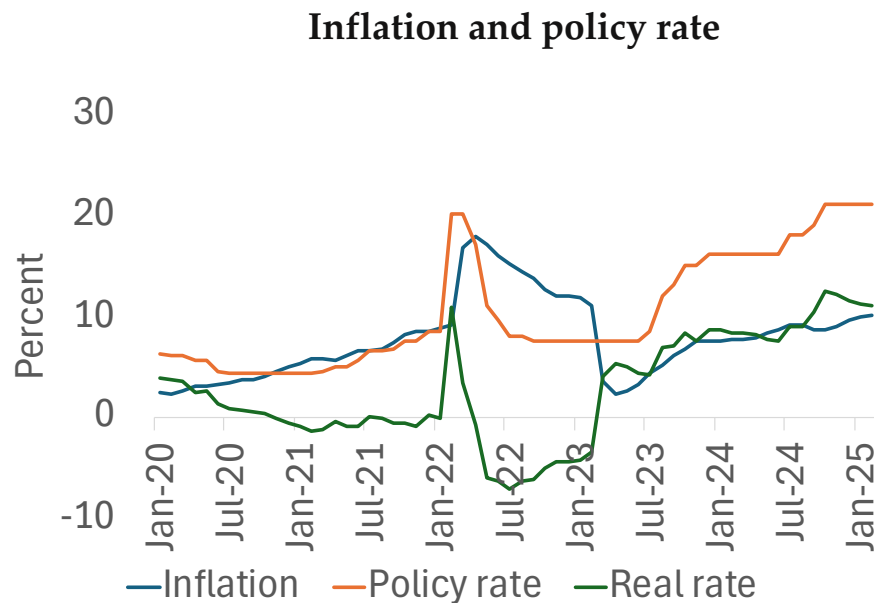
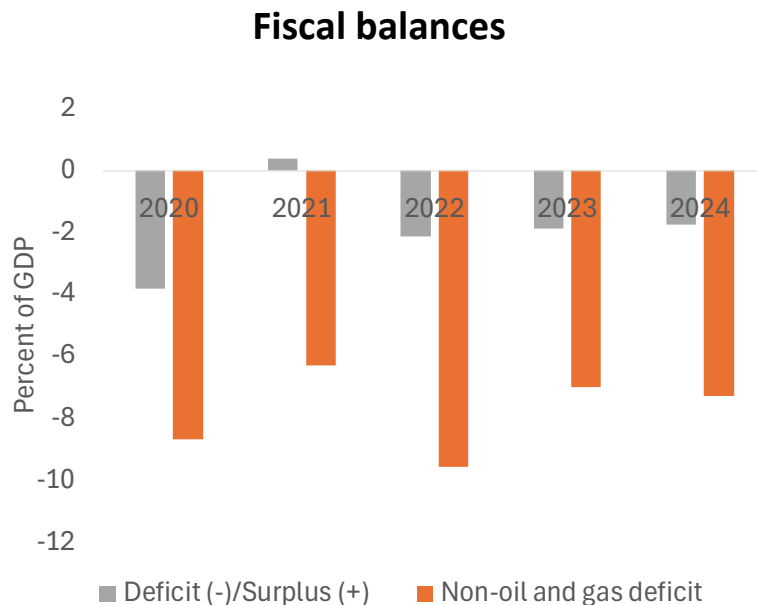


Russian economy and oil price



The prices that Russia gets paid for its oil determines all important macro and financial variables, true before the war, still true!

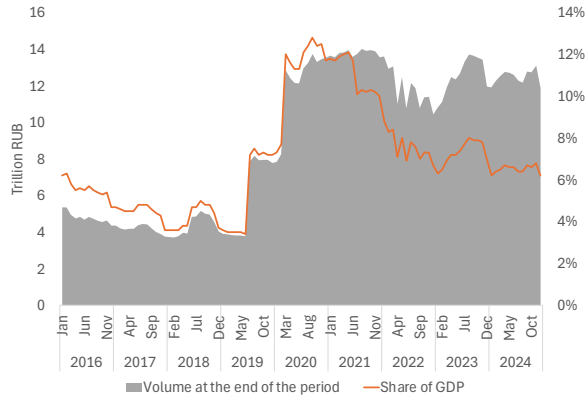
Fiscal and monetary policy divergence



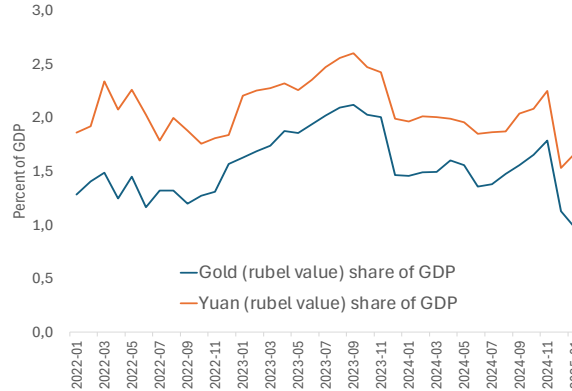
Plenty of fiscal war stimulus not through gov't budget but through banks lending to MIC which leads to inflation that cannot be controlled by policy rate

War financing getting tighter

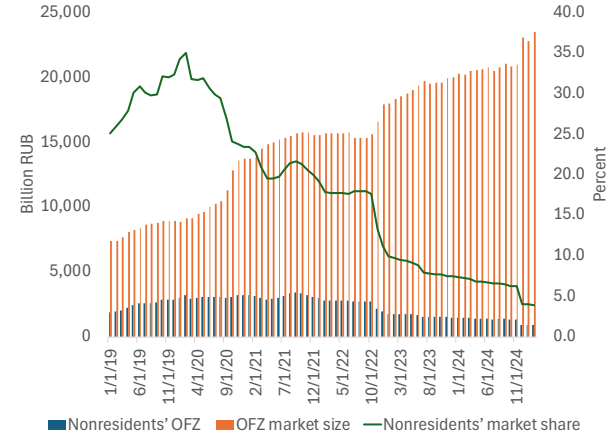
National wealth fund (NWF)



Liquid parts of NWF



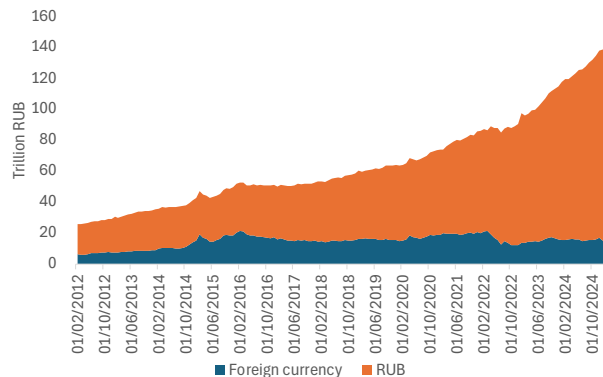
OFZs



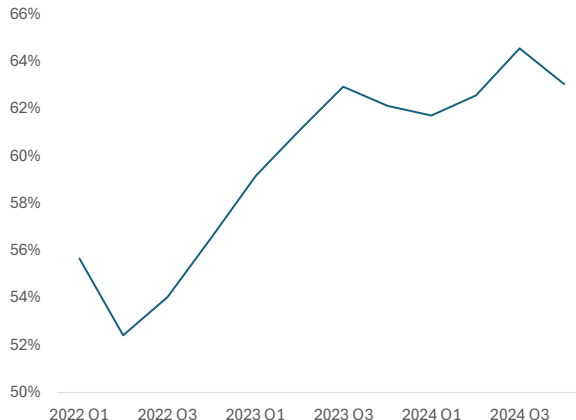
- Savings in NWF, and in particular liquid parts, running low
- Foreigners not interested in buying Russian debt

Mounting risks in financial sector

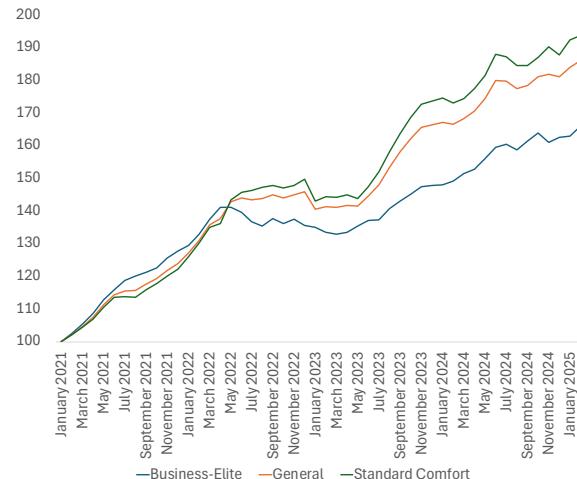
Companies' and individuals' deposits



Credit to GDP



Housing index in Moscow



- Indicators that are correlated with banking crises going up in Russia
- Does not predict crash tomorrow but signals significant increase in risks

What could the EU/West do?

- Two principles that could guide discussions
 - Autocratic states also have budget constraints that limit what they can do
 - Wars are determined by the relative strength of the fighting parties so limiting one and strengthening the other should be part of a package to influence the outcome of war
- Limit the resources available to Russia => sanctions on oil, gas and financial sector
 - Limiting incomes from **oil** and **gas** still the most efficient way of limiting war financing, **EU KEY!**
 - Keeping sanctions on financial sector also important to prevent future debt financing of the war
 - Increase cost of war by making circumvention of trade in sanctioned goods harder
- Provide significant and predictable support to Ukraine
 - Challenge to replace US support?
 - Create a fund from principal of the frozen Russian assets, not just the returns they generate
- Latest paper from the *The International Working Group on Russian Sanctions*
 - **Message: “Time for Europe to Take the Lead on Sanctioning Russia”**
 - Full report at https://fsi9-prod.s3.us-west-1.amazonaws.com/s3fs-public/2025-05/action_plan_4_russian_sanctions_5-6-25_final2.pdf



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Thanks!