

THE RESILIENCE OF THE RUSSIAN ECONOMY UNDER THE CURRENT GEOPOLITICAL OUTLOOK

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Abstract. *Despite the widespread consequences of the Russian-Ukrainian war and the unprecedented international sanctions imposed by the EU, USA, and other Western economies, the Russian Federation's economy has demonstrated surprising resilience. This research examines the key drivers that have sustained the Russian economy and how the current economic climate has influenced its international cooperation. We utilize a mixed methodology that combines a literature review with quantitative analyses of international trade and foreign direct investment (FDI). Our findings reveal that while the sanctions initially had a severe impact, increased energy exports have since boosted economic growth, and legal initiatives have helped mitigate the decline in FDI.*

Key-words: Russian economy, sanctions, trade, FDI

JEL: F20, F51, F52, F53, H56, N40

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Introduction. Since the Russian authorities made the ill-fated decision to illegally invade Ukraine in 2022, the economy of the Russian Federation has faced unprecedented economic sanctions from much of the international community, particularly the EU Member States and the USA. This has led to serious challenges for many of its international partnerships, especially with Western democracies. The relationship between Western countries and Russia can now be characterized as a "frozen partnership." In response to the negative impact on international trade, Russia has expanded cooperation with "friendly" states—those that have chosen not to impose sanctions. Despite this pronounced isolation in global financial markets, the Russian economy has demonstrated resilience during the two years of sanctions. Its strengths lie in abundant natural resources that support massive energy exports, low external debt, and monetary policies that have managed to control inflation while aiding the recovery of the ruble.

Literature review. The ongoing Russian-Ukrainian conflict has sparked extensive academic debates (Lin et al., 2023; Izzeldin et al., 2023; Maurya et al., 2023) regarding its geopolitical implications for trade (Kivalov, 2023) and the international sanctions' impact on the global economic. While some studies discuss the conflict's implications for sustainable development goals (Pereira et al., 2022) and the Russia-China-India relationship (Luo, 2023), others examine sanctions'

effects on energy trade (Chen et al., 2023). Recent research (Clichici & Drăgoi, 2023) highlights how financial sanctions have reshaped the Russian monetary and banking systems, demonstrating their resilience. Kuvulin (2022) notes that under foreign policy pressure, Russia must address structural economic challenges. Some scholars argue that Russian authorities have prompted significant reforms and shifts in international cooperation (Galbraith, 2024). Our research aims to examine the tangible effects of the conflict on the Russian economy, emphasizing the factors contributing to its resilience.

Research methodology. Our methodological design employs a mixed-methods approach, combining quantitative and qualitative analyses to provide a comprehensive understanding of the Russian economy during the post-sanctions period. The selected macroeconomic indicators aim to provide a comprehensive overview of the Russian economy, focusing on GDP growth in the post-sanctions era, inflationary pressures, trade dynamics under sanctions, and the fiscal-budgetary situation. Finally, our analysis will include a discussion on the effectiveness of sanctions as they pertain to the Russian economy.

Main results. According to the latest report published by the Central Bank of the Russian Federation (Bank of Russia, 2024), in 2023, the Russian economy experienced a remarkable recovery, with a GDP growth rate of 3.6%. This revival, considered surprising by analysts from the European Commission (European Commission, 2024), is all the more impressive given that it followed the recession of 2022, triggered by multiple waves of sanctions imposed on the Russian Federation as punitive measures for launching the illegal and unprovoked military invasion of Ukraine. According to EU analysts, the economic recovery in 2023 occurred mainly due to increased private consumption, driven by rising wages and heightened consumer confidence (Figure 1).

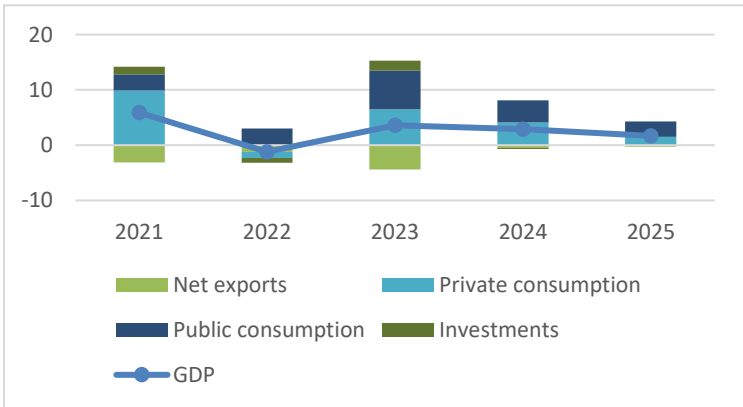


Figure 1. **GDP Growth and Main Contributors (%)**

Source: Author based on European Commission (2024). Spring Economic Forecasts. Russian Federation.

Note: The data for the year 2025 are forecasts by EU

Regarding the situation of foreign direct investment (FDI), it should be noted that, against the backdrop of sanctions and the isolation of the Russian economy, its attractiveness to foreign investors diminished significantly. Thus, according to UNCTAD (2023) data, in the first year of sanctions, the inward FDI flows into the Russian Federation experienced a dramatic decline (-15.2 billion dollars in 2022, compared to 38.6 billion dollars in 2021), while in the second year (2023), these flows showed a slight recovery, reaching 0.8 billion dollars (UNCTAD, 2024). The drop in FDI inward flows in 2022 occurred because the tense geopolitical climate prompted various Western companies to suspend or limit their activities in the Russian market, while the slight increase in 2023 was due to various restrictive measures introduced by the Russian authorities to halt the outflow of foreign capital. Against this background, starting in 2023, the Russian authorities managed to slow down the outflow of foreign capital by continuously complicating bureaucratic procedures. A recent analysis (AK&M, 2024) reveals that the number of transactions involving asset sales by foreign companies decreased to 97 in 2023 (from 109 in 2022), with the total value dropping to 11.14 billion dollars (compared to 16.31 billion dollars in 2022). The decrease in the unemployment rate to 3.2% in 2023, down from 3.9% in 2022, was due to high labor demand, caused by the reduced influx of foreign workers (resulting from the decline in immigration to the Russian Federation) and the increased demand for labor in the military sector. These trends are expected to persist as long as the war in Ukraine continues. In 2023, Russian authorities achieved a remarkable reduction in the inflation rate, bringing it down to 5.9% compared to the peak of 13.7% reached in the first year of sanctions (2022). In 2023, Russian authorities successfully stabilized the ruble exchange rate against both the most representative currencies, the euro and the US dollar (USD), as mentioned earlier (Figure 2).

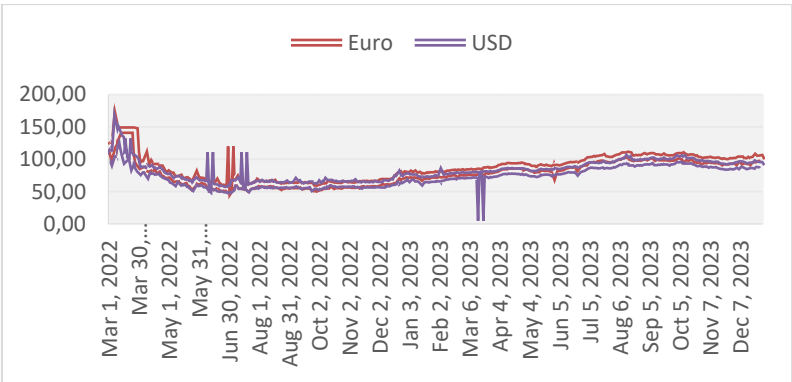


Figure 2. Ruble Exchange Rate from March 2022 to December 2023

Source: Author based on data from the Central Bank of the Russian Federation (2024) and Moscow Exchange.

In 2023, as in 2022, the Russian Federation continued to face a budget deficit. Moreover, in 2023, the budget deficit increased to 2.3% of GDP, compared to 1.4% of GDP in the previous year.

The growth rate of the Russian Federation's exports was significantly affected, recording -8.9% in 2023. Although there was a slight recovery compared to the previous year (-13.8% in 2022), it remains significantly lower than in the pre-sanction period. It is worth noting that the imposition of sanctions targeting Russia's energy trade led to a change in the hierarchy of the main countries that are the preferred destinations for these exports. In the first year following the imposition of international sanctions, EU countries no longer held supremacy as they did before the sanctions (Figure 3).



Figure 3. **Main trading partners of the Russian Federation in 2022 (billion dollars)**

Source: Author based on "Russia trade data analysis."

<https://www.tradeimex.in/blogs/russia-export-and-import-statistics>

Note: The year 2022 is the year for which we hold the latest available data.

Most international analyses estimate that the recovery of the Russian economy will slow down in the 2024-2025 horizon, but the growth rate will be higher than in 2023. The European Commission's forecasts indicate a GDP growth rate of 2.9% in 2024 and 1.7% in 2025, while the latest IMF estimates are even more optimistic, predicting a GDP growth rate of 3.2% in 2024 (according to the World Economic Outlook Update data from July 2024).

In 2024, a strong recovery of exports is estimated, with a growth rate of 4.5% (compared to a collapse of -8.9% in 2023), driven by the Russian economy adapting to sanctions and identifying new export destinations. This positive trend is likely to continue into 2025. Meanwhile, the growth rate of imports is projected to decrease in 2024 compared to the previous year (12.5% in 2023), down to 8.0%, with an even more significant deceleration anticipated in 2025 (5.2%). These developments could occur amid the imposition of new sanctions, as well as efforts by sanctioning countries to curb sanction evasion. Currently, many sanctions are being circumvented, with goods from the EU being imported by "friendly" countries and resold to the Russian Federation, evidenced by the remarkable increase in imports from CIS countries, with which there was no similar relationship prior to the sanctions.

Discussion and conclusions. We identify three potential scenarios for the Russian economy.

The first scenario maintains the current status quo, where stable growth continues amid unchanged sanctions. However, prolonged sanctions are likely to exert pressure on the ruble, as past measures like monetary controls have short-term effectiveness but could exacerbate economic slowdown if replicated. The sustained sanctions and isolation reveal deeper vulnerabilities, suggesting a strict monetary approach may fail to balance inflation stabilization with economic growth.

The second scenario envisions the risk of new sanctions. While Russian Federation has pivoted some energy trade to Asia, this dependency on China comes at a significant cost, including lower prices and infrastructure development expenses.

The third scenario foresees intensified fragmentation of the world economy, with countries localizing production and seeking regional partnerships. This would further strain Russian Federation's economy, likely resulting in contraction by 2025. Overall, the Russian economy's future depends on the energy export trends, impacted by global oil price fluctuations and sanctions.

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