Country Risk Analysis: Russia

**Brief highlights of developments across Dun & Bradstreet's country risk indicators – written as of 25th February 2025*

Short-Term Economic Outlook

- The Russian economy grew by 3.1% in Q4 2024, compared to 4.1% in Q2 2024. While there is expansion, the rate is declining, and the economy is showing signs of weakness.
- As of February 2025, Russia's inflation rate reached 10.1%. This greatly surpasses the Russian Central Bank's target of 4% and is the highest level seen over the past two years. Russia has maintained a record-high interest rate of 21% to counteract these inflationary challenges, which is restricting investment and consumption.
- The Russian economy has been heavily reliant on fiscal stimulus, particularly due to the ongoing war in Ukraine, economic sanctions and the COVID-19 pandemic. Meanwhile, the budget deficit reached $31.5bn in January 2025. When considered in conjunction with Russia's GDP growth and inflation trajectories, this elevated level of spending will be difficult to sustain going forward.

Long-Term Economic Potential

- Russia continues to face a range of international sanctions, particularly from Western countries. These sanctions limit Russia in accessing foreign investment and global financial markets, for example. Sanctions will continue to pose a risk to Russia's long-term economic potential unless relations between Russia and Europe improve substantially.
- Given the recent improvement of US-Russia relations under Trump's presidency, Russia's economy may become less isolated and could benefit from higher trade levels with the US.
- Russia has been strengthening its political, economic and financial ties with Iran. Russia and Iran signed a bilateral strategic partnership in January for example. This bolstered alliance will likely benefit Russia significantly, particularly through strengthened cooperation in the energy sector.

Market Potential

- Russia's limited access to technology and innovation has hindered its ability to modernise its industries, causing its markets to fall behind in development compared to other countries.
- In February, EU envoys agreed on a ban on Russian aluminium imports through a new sanctions package. Given that in 2022, EU imports of aluminium from Russia totalled $2.99bn, this will cause major disruption to Russian trade flows.
- As a result of reduced tensions between the US and Russia, there may be some alterations in the sanction regime towards Russia (at least from the US). This could shift trade dynamics in Russia's favour relative to previous years.

FX Risk

- Ruble volatility has reduced in recent months, particularly in comparison to 2022. The Ruble has made gains against the US dollar, closing at 88.1 RUB/USD on 24th February 2025. Factors such as the recently improving US-Russia relations and Marc Fogel's release have contributed to the strengthening of the Ruble. However, the gains may reverse, given that this trend has been driven more by short-term sentiment than by economic fundamentals.
- Mounting long-term risks (such as the rising budget deficit, declining foreign investment and a broadly deteriorating economic landscape) will continue to put downward pressure on the Ruble going forward.

- FX reserves have seen a decrease from $616.49b in December 2024 to $609.07b in January 2025, increasing FX risk.

Transfer Risk

- Russia's second largest bank VTB plans to open a branch in Iran by the end of 2025 (subject to approval from Iranian regulators). As a result, transfer risk specifically in relation to Iran will reduce, as the ease of currency conversion increases.
- Improved relations between the US and Russia will serve to reduce transfer risk, particularly if diplomatic ties improve sufficiently and lead to a resumption of business relationships.
- The persistent geopolitical tensions between Russia and Western countries add to transfer risk due to restrictions in cross-border transactions.

Business Regulatory Environment

- Russian authorities have imposed more regulations on foreign IT companies. In December 2024 for example, a new law was introduced that requires foreign tech companies to store user data within Russia.
- There is greater regulation in the cryptocurrency market as of January 2025. As a result of a new law, businesses are required to report any cryptocurrency transactions above a certain threshold and to implement more stringent anti-money laundering controls. While these developments appear positive, they also increase the administrative burden on businesses.
- The fiscal policy landscape adjustments will have a restrictive impact on the business regulatory environment. Multiple amendments to the Russian Tax Code came into effect on 1st January 2025, aiming to increase revenue to meet the government's financing needs. New measures include a progressive income tax system (as opposed to a flat 13% rate) and a rise in corporation tax from 20% to 25%.

Business Continuity Risk

- Ongoing and new sanctions from Western countries continue to pose significant risks to business continuity, such as the ban on Russian aluminium imports mentioned previously.
- There have been significant supply-side complications, as Ukraine closed off the last route (Urengoy–Pomary–Uzhhorod pipeline) that allows Russia to sell natural gas to Europe. This pipeline is worth approximately $6.5bn per year to Gazprom and the disruption in pipeline flows will put pressure on prices going forward.
- There has been a notable skilled labour exodus out of Russia due to political and economic instability. This has caused complications in the technology, finance and energy sectors.

Political Insecurity Risk

- Russia's domestic political environment has been problematic due to rising economic challenges and public perceptions of autocratic mismanagement. However, mass protests continue to be repressed.
- Russia's deepening bilateral ties with existing allies Iran and China will strengthen Russia's position in the global arena and its geopolitical influence in the Middle East and Asia.
- Improved relations between the US and Russia could bring major political changes. For example, Putin and Trump met in Saudi Arabia (without Zelensky) on 18th February 2025, agreeing to create a high-level team to focus on the Ukraine conflict. If a ceasefire agreement is reached, Russia would shift away from its "war economy" structure.

Expropriation/Nationalisation Risk

- The trend of expropriation/nationalisation has become more pronounced in past months due to intensifying geopolitical tensions. For example, there was a prominent case in January 2025 where assets of foreign shareholders of Sibur (a petrochemical group) were nationalised. Ongoing tensions with the West are likely to sustain this trend.
- Going forward however, the trend of expropriation/nationalisation may weaken in relation to the US. In fact, US oil companies including Chevron and ExxonMobil could even be de-nationalised if relations between the countries improve sufficiently.

I have rated Russia's overall outlook as deteriorating because it is trapped in a state of stagflation, and prospects for recovery remain uncertain. Overcoming its severe economic challenges will be difficult, even with potentially improving US-Russia relations.

Russia's economy finds itself in an economic deadlock, facing dual threats of slowing economic growth and stubbornly high inflation. Economic growth has been upheld by an unsustainably high level of fiscal stimulus, which has been masking Russia's unstable economic foundations, namely its over-reliance on energy exports and weak levels of innovation. Long-term structural improvements are required to revive the economy at a fundamental level. Politically, there is cautious optimism given the recent improvement of US-Russia relations, which brings the possibility of an end to the war in Ukraine. However, the exact course of political developments remains uncertain, much is contingent on the outcome of the Ukraine ceasefire negotiations. Furthermore, the decoupling of the US from Europe casts doubt on the extent to which European countries would ease sanctions on Russia in the future.