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Sanctions and the Russian Economy: 2025 Year-End Assessment

Prepared by the KSE Institute Sanctions Hub, January 2026

Key Sanctions-Related Developments in 2025

The sanctions coalition applied new pressures to the Russian economy in 2025 that focused primarily on reducing its oil and gas export earnings. From sanctions on oil majors to shadow fleet designations and plans to phase out Russian energy imports, sanctions aimed to impose both short-term and long-term costs while ensuring energy security. Developments predominantly came from Europe, but the US' surprise actions in October contributed to major disruptions in the Russian oil industry amid an oversupplied global oil market. Beyond the energy sector, the EU indefinitely immobilized €210 billion of sovereign Russian assets and sanctioned a handful of third-country financial institutions that facilitate sanctions circumvention. The most significant sanctions developments in 2025 included:

- **The United States sanctioned Russian oil majors Rosneft and Lukoil.** On October 22, 2025, Rosneft and Lukoil—together with 34 subsidiaries—were added to OFAC's SDN list, triggering full blocking sanctions, i.e., asset freezes and transaction bans. Foreign financial institutions were put on notice that they could face "secondary" sanctions for conducting or facilitating transactions involving these companies, which provided a powerful extraterritorial component to the measures. This was the first major set of sanctions against the Russian energy sector that targeted the volume of exports instead of attempting to reduce export earnings through lower prices, i.e., higher discounts. The US had made the entire sector sanctionable under EO 14024 in January 2025, but designations had not been applied by the Trump administration. The UK also sanctioned Rosneft and Lukoil in October 2025 (after sanctioning most other oil majors in January 2025), while the EU has partially sanctioned Rosneft.
- **The European Union adopted measures to phase out Russian oil and gas imports.** The EU took these steps through a combination of sanctions and the REPowerEU framework—which can be adopted with a qualified majority as it does not fall under the Union's common foreign and security policy (CFSP). With its 19th package, the EU banned imports of Russian LNG under short-term contracts from April 2026 and Russian LNG imports entirely from January 1, 2027. The 18th and 19th packages also prohibited the provision of services to the Russian LNG sector and imposed a full transaction ban on Nord Stream 1 and 2. In late January 2026, the EU formally adopted legislation to fully end imports of all Russian natural gas in 2027, introducing a stepwise ban on both pipeline gas and liquified natural gas (LNG) with transitional arrangements for existing contracts. The legislation introduces full prohibitions on LNG imports from early 2027 and on pipeline gas from autumn 2027, while formal measures regarding pipeline oil imports are expected to be adopted in 2026. Meanwhile, the UK announced its intention to introduce a phased ban on maritime services for Russian LNG.
- **The EU and UK banned the import of products made from Russian oil.** To complement their bans on the import of Russian crude oil and petroleum products, the EU and UK adopted measures to end those of petroleum products *refined from Russian oil* in third countries—in July 2025 as part of the 18th package and in October 2025, respectively. After the EU ended Czechia's pipeline derogation in July 2025—the country had diversified supplies and ended imports from Russia—flows to Hungary and Slovakia are now the only remaining imports of Russian oil that will be affected by REPowerEU.
- **Coalition countries continued the shadow fleet designation campaign.** In 2025, the EU sanctioned 503 shadow tankers, the UK 426, and the US 161 (all in January). As a result, alignment between EU and UK designations rose to 476 vessels, while 172 vessels are listed by all three jurisdictions. Other

coalition countries—Australia, Canada, New Zealand, and Ukraine—joined the campaign. Altogether, 654 shadow tankers (~84% of the fleet active in 2025) have been listed in at least one jurisdiction. Importantly, the focus has expanded to measures against the ecosystem that enables shadow fleet operations. Also noteworthy are Nordic-Baltic (NB8++) countries' establishment of systematic insurance checks in the Baltic and North Seas and the EU's listing of vessels outside major sanctions packages.

- **Coalition countries appear to be taking a tougher stance on the interdiction of shadow tankers.** In recent weeks, several countries stepped up measures to impede their physical movement, most notably the U.S. in the Venezuela context, which involved ships that had connections to Russia (including flagging). European countries, including Denmark, Norway, and Finland, have tightened checks on shadow fleet tankers, citing environmental concerns. In recent days, France (in coordination with the UK) seized a sanctioned tanker carrying Russian oil, accusing it of flying a false flag.
- **Most countries lowered the price cap for Russian crude oil.** With its 18th sanctions package in July 2025, the European Union lowered the oil price cap from $60/bbl to $47.6/bbl—taking effect on September 2—and introduced a dynamic mechanism that adjusts the cap every six months to 15% below the average market price. Other countries—such as Australia, Canada, Japan, New Zealand, Norway, Switzerland, and the UK—followed suit and adopted the lower price cap, while the US' remained unchanged, thereby introducing inconsistency in the price cap system.
- **The EU ensured that sovereign Russian assets will remain immobilized.** In December, the EU changed the procedure for immobilizing around €210 billion in Russian sovereign assets. Namely, it moved from a temporary restrictive measure under the common foreign and security policy (CFSP) to an indefinite one under Art. 122 of the Treaty on the Functioning of the European Union (TFEU). This simplified the process for immobilizing the assets by replacing a biannual, unanimous decision with an indefinite, qualified majority decision. While this decision was initially taken in the context of negotiations over a "reparations loan" that was ultimately put aside in favor of joint EU borrowing, it addressed a long-standing concern that individual member states could unfreeze the assets.
- **The EU tightened trade restrictions on non-energy commodities and expanded export controls.** The EU's 16th package in February phased out imports of primary aluminum from Russia, while new tariffs on agricultural products and fertilizers from Russia and Belarus were phased in beginning in July. Throughout 2025, the 16th–19th packages each introduced new export controls that targeted dual-use and advanced technology exports (including software and spare parts for CNC machines), chemical and industrial goods, as well as construction services. The EU also updated its list of dual-use products subject to enhanced export controls in September 2025.
- **Coalition countries tightened sanctions on the Russian financial system.** The EU progressively tightened measures across the 16th–19th sanctions packages, beginning by expanding restrictions on smaller banks used to reroute flows of sanctioned goods. The 18th and 19th packages then marked a qualitative shift, as they targeted financial infrastructure itself: bans on the provision of financial messaging services became full transaction bans, foreign banks connected to Russia's SPFS were sanctioned, and offshore crypto exchanges and a ruble-backed stablecoin were banned. With the 18th package, the EU created the option to sanction third-country financial institutions involved in sanctions circumvention; in the 18th and 19th packages, it sanctioned two Chinese banks and five Central Asian banks, respectively. The UK also sanctioned much of Russia's banking system, including the St. Petersburg International Currency Exchange and the Russian Deposit Insurance Agency, in 2025.

The Russian Economy at the End of 2025

Russia's macroeconomic picture changed fundamentally in 2025 as the war-induced economic boom of the previous years came to an end, the budget deficit rose sharply due to suppressed oil and gas revenues and soaring spending, fiscal financing increasingly required unorthodox measures such as extensive liquidity provision to the domestic banking system, and the central bank's extremely tight monetary policy—while reining in inflation—weighed heavily on economic activity. Sanctions played a key role in these outcomes, but so did an increasingly unfavorable macroeconomic environment with low global oil prices. The most significant macroeconomic developments included:

- **Russia's war-induced boom reached its limits and the economy entered a phase of stagnation.** In 2023–24, the Russian economy grew at a fast pace—4.1% and 4.3%, respectively—supported by, among other factors, the war-related fiscal stimulus, a dramatic extension of credit to the private sector, and strong wage growth driven by a tight labor market (see Figure 1). This boom began to slow noticeably starting in 2024 as the CBR dramatically increased interest rates to fight soaring inflation, and growth has gradually declined ever since (see Figure 2). The Russian economy, in fact, contracted in Q1 2025 (by 0.7% q-o-q) and subsequent growth has yet to overcome the decline. For the full year, the IMF expects real GDP growth of only 0.6%, followed by ~1% growth per year in the following years.

  Industrial production growth had been weak for most of 2025 but turned negative at -0.7% in November (see Figure 3). Many key sectors of the Russian economy are currently contracting (see Figure 4), led by vehicles (-24% y-o-y) but also including cement (-9.1%), metallurgy (-3.8%), and coal (-1.5%).

- **The federal budget deficit reached a record high 5.6 trillion rubles—63% more than last year** (see Figure 5). At this level, the realized deficit is in line with the (twice revised) budget plan and amounted to ~2.6% of GDP. However, there is reason to believe that some creative bookkeeping may have been involved, especially on the expenditure side. Total spending in 2025 was 6.8% higher than in 2024, while it had been 13.2% higher year-over-year in January–November (see Figure 6). The full year number was only reached due to December spending 21% (or 1.6 trillion rubles) below December of 2024. In real terms (i.e., deflated using CPI), this represents a 25% decline compared to 2024 and the lowest December spending level since 2019. If expenditures have been delayed to remain within the planned deficit, this will become clear in early 2026. If they have not, it means that Russia had to significantly cut spending due to insufficient revenue mobilization, which will inevitably impact the war.

  Oil and gas revenues came in 24% below their 2024 level, with challenges growing towards the end of the year; in December, they were 43% lower y-o-y as the discount on Russian oil widened considerably in response to new sanctions (see Figures 7 & 8). Non-O&G revenues grew only 13%—less than half the rate in 2023-24—which left total revenues almost flat. Those related to imports (e.g., import VAT and excise tax) dropped 14% y-o-y in January–November 2025, while those related to domestic production (e.g., domestic VAT, personal and corporate income taxes) rose 31%. Revenue collection will likely come under additional pressure in 2026 as the stalling economy weighs on these items. In the draft budget for 2026—which is largely a political document—offical military spending is moderately reduced (to 12.9 trillion rubles, -1.5%) for the first time since the start of the full-scale war. While the level is still elevated, this represents a significant spending cut in real terms (i.e., inflation-adjusted).

- **Russia relied on domestic borrowing to finance the deficit in order to preserve NWF assets.** In 2025, the Ministry of Finance issued a record 7.0 trillion rubles in domestic debt (i.e., OFZ) to cover the deficit—74% more than in 2024 and one third above the previous record issuance during the Covid pandemic (see Figure 9). Due to the—possibly artificially—low December deficit, this was sufficient to fulfill financing needs without reliance on the National Welfare Fund (NWF), which had been extensively used for budget financing in recent years (see Figure 10). Valuation effects—the soaring gold price and a somewhat stronger ruble—have increased the NWF's total assets despite some gold sales (see Figure 11). In addition, assets were purchased under the fiscal rule during a time of higher oil prices and transferred to the fund in mid-2025. At the end of 2025, the NWF stood at 13.4 trillion rubles (or $171.5 billion), of which 30% (4.1 trillion) consisted of liquid assets: yuan and gold (see Figure 12).

With the reliance on domestic borrowing, Russia's MinFin managed to preserve the NWF as a second budget financing channel for at least some time. However, should budgetary challenges persist with rising expenditures, suppressed oil and gas revenues and slowing non-O&G revenue growth, the ability to issue more OFZ will be constrained at some point and NWF assets will need to be used once more. As non-residents have largely disengaged from the OFZ market, Russian banks are essentially the only meaningful buyer left and have, in fact, increased their holdings of domestic sovereign debt dramatically (see Figures 13 & 14). To enable them to do so, the central bank has pushed ever-increasing amounts of liquidity into the system via repo operations (see Figure 15), which are inflationary once they become semi-permanent. At the end of 2025, Russia also issued 220 billion rubles in yuan-denominated OFZ for the first time in an attempt to broaden the buyer base, although the overall amount is relatively small.

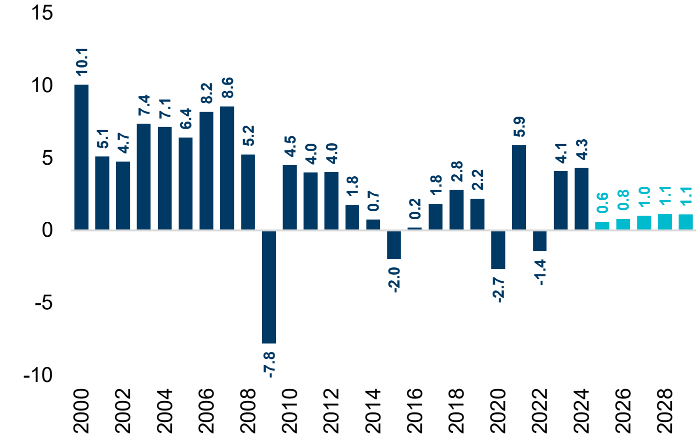
Aside from the question of banks' absorption capacity, heavy reliance on OFZ issuance has significantly increased the stock of debt—by 88% vs. the time of the full-scale invasion to 29.8 trillion rubles at the end of 2025 (see Figure 16). However, at ~14% of GDP, the debt level remains low. Nevertheless, in relative terms, debt repayment and service burdens are rising, which will require substantial refinancing and crowd out other spending in the future. Already, debt service accounts for 9% of total expenditures.

- **Persistently tight monetary policy has reduced inflationary pressures but at a high cost.** In response to rising inflation, the CBR began to forcefully tighten its monetary policy in mid-2023 with the policy rate reaching its peak of 21% in October 2023. With a lag of around half a year, inflation started to moderate in Q1 2024 and has since fallen to 5.6% y-o-y for headline and 5.4% y-o-y for core CPI—reasonably close to the CBR's 4% target (see Figure 17). This dynamic has allowed the central bank to gradually cut interest rates in 2025 to 16%. The prolonged period of extremely tight monetary policy has exerted a heavy toll on the economy, however, with interest rates for businesses and households alike rising noticeably (see Figure 18) and new private sector credit dropping sharply (see Figure 19). This is a key factor behind the economy's meaningful slowdown in recent quarters. NPLs have not been affected by tight monetary conditions yet and their share remains relatively low.
- **External conditions have worsened but the ruble has remained stable.** The state of Russia's external accounts is largely determined by fossil fuel exports. Oil exports have gradually weakened throughout 2025, reaching an average of $11.2 billion per month in November–December (see Figure 20), driven by the announcement and subsequent implementation of US sanctions on Rosneft and Lukoil. Altogether, Russia earned $160 billion from sales of oil in 2025—16% less than in 2024. For natural gas, we estimate that 2025 exports reached $39 billion—15% less than in the previous year.

  Overall trade dynamics have been remarkably stable over the last three years (see Figure 21), with exports of ~$35 billion, imports of ~$25 billion, and, thus, a trade surplus of ~$10 billion per month. Based on data for Q1–Q3, the trade surplus and current account surpluses will likely turn out to have been smaller in 2025 than in 2024 (see Figure 22); over Q1–Q3, the former decreased 11% y-o-y and the latter 34%. Risks are to the downside due to weak oil revenues in the final months of the year.

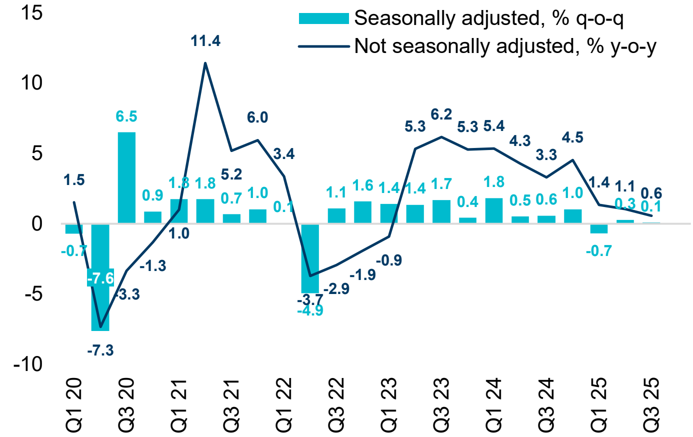
Despite less supportive trade dynamics, the ruble has been broadly stable vs. the euro in 2025 at an average exchange rate of 94 RUB/EUR—6% stronger than in 2024 (see Figure 23). Against the U.S. dollar, the ruble strengthened by 11% in 2025 vs. 2024, in line with the dollar's moderate depreciation against the euro and other currencies. Smaller resident capital outflows contributed to the ruble's stability (see Figure 24), potentially influenced by expectations of better relations with the U.S.

Figure 1: Annual real GDP growth, %



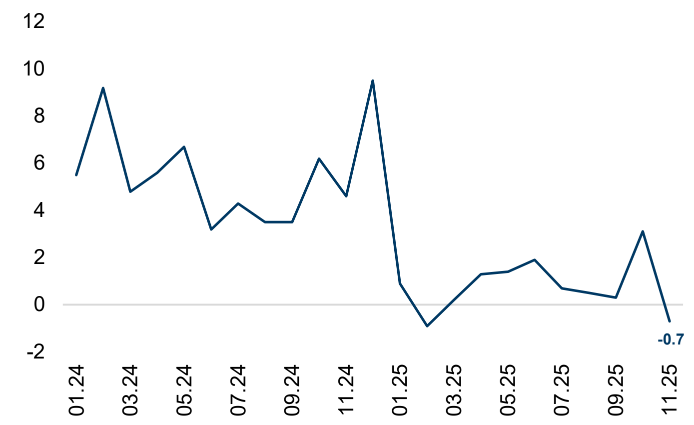
Source: International Monetary Fund

Figure 2: Quarterly real GDP growth, %



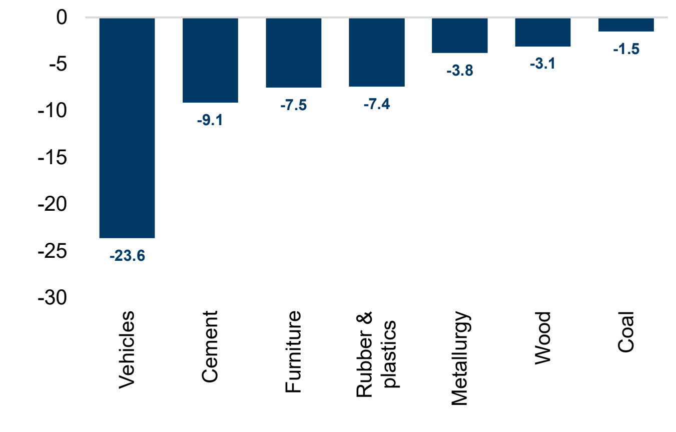
Source: Rosstat, KSE Institute

Figure 3: Industrial production, % change y-o-y



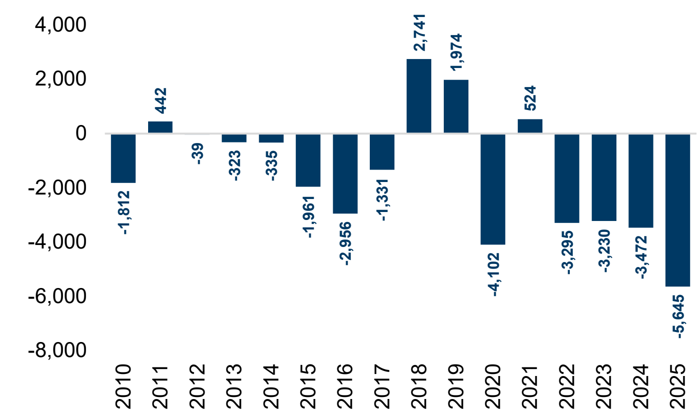
Source: Rosstat, KSE Institute

Figure 4: Sectors, % change y-o-y (Jan.-Nov.)



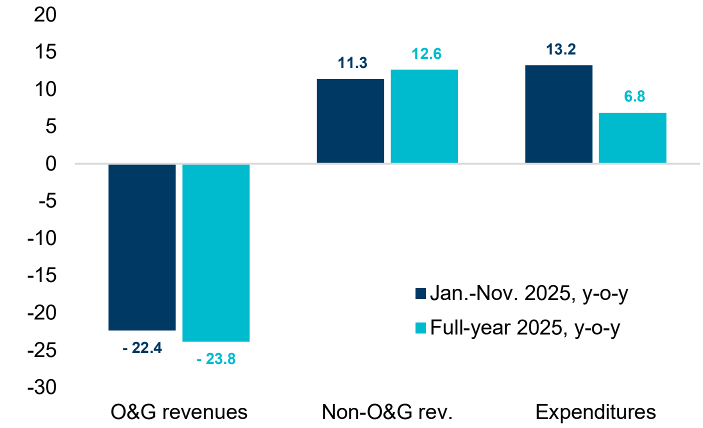
Source: Rosstat, KSE Institute

Figure 5: Federal budget balance, ₽ bn



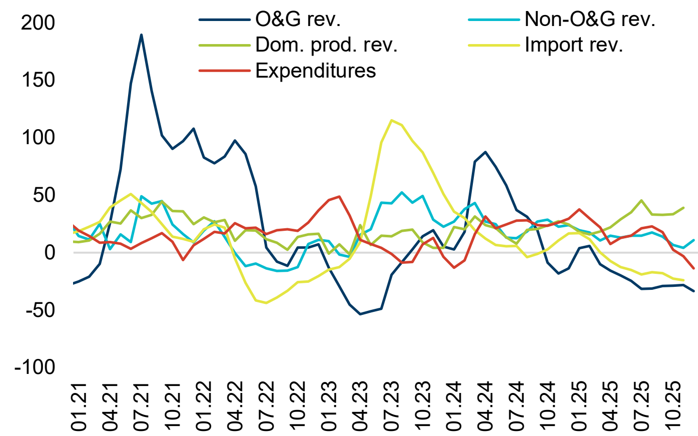
Source: Ministry of Finance

Figure 6: Change in key budget indicators, %



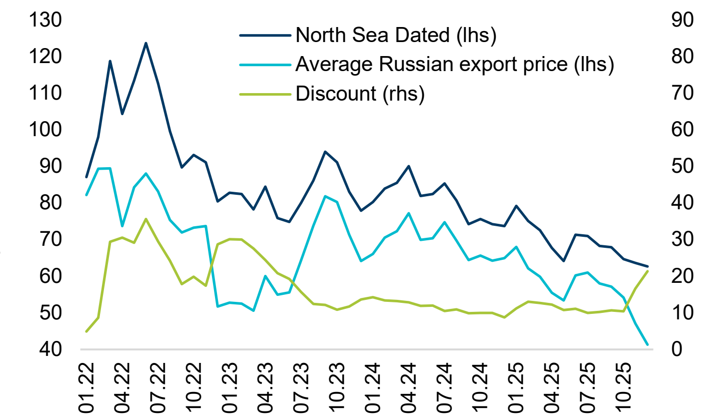
Source: Ministry of Finance, KSE Institute

Figure 7: Change in indicators, % y-o-y (3mma)



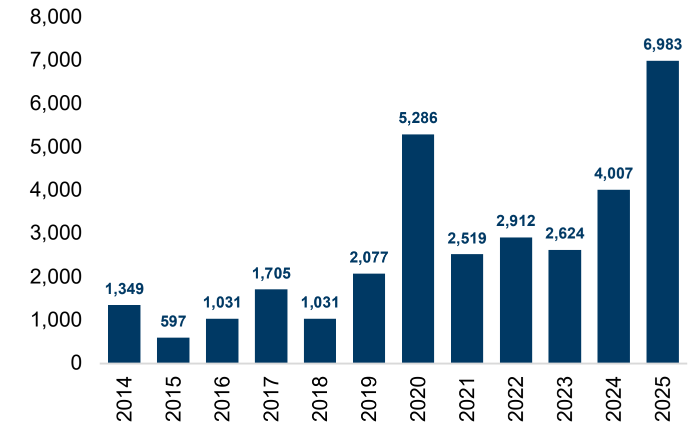
Source: Ministry of Finance, KSE Institute

Figure 8: Oil prices, $/bbl



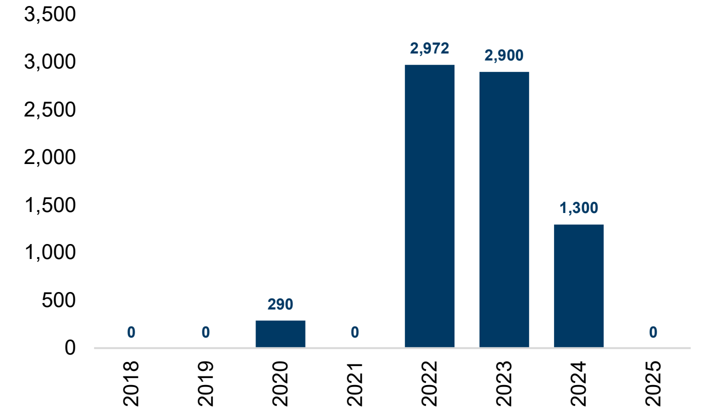
Source: International Energy Agency, KSE Institute

Figure 9: New OFZ issuance, ₽ bn



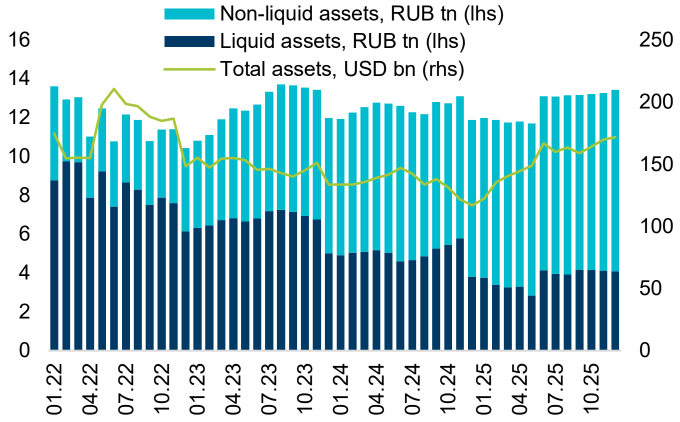
Source: Ministry of Finance, KSE Institute

Figure 10: NWF use for the budget, ₽ bn



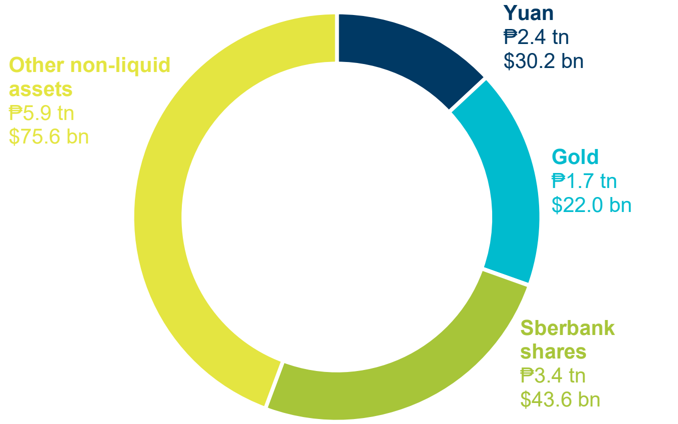
Source: Ministry of Finance, KSE Institute

Figure 11: NWF assets



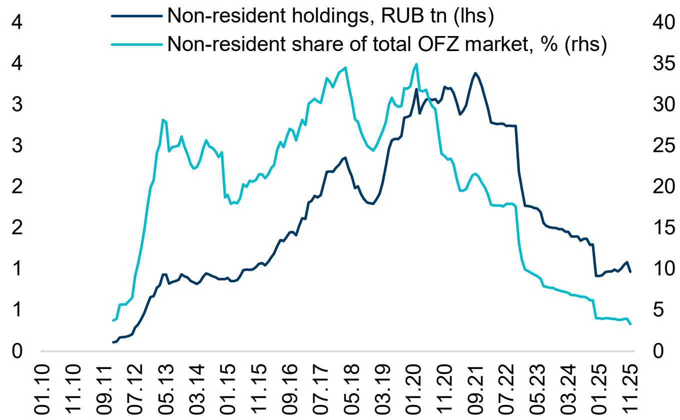
Source: Ministry of Finance, KSE Institute

Figure 12: NWF assets on January 1, 2026



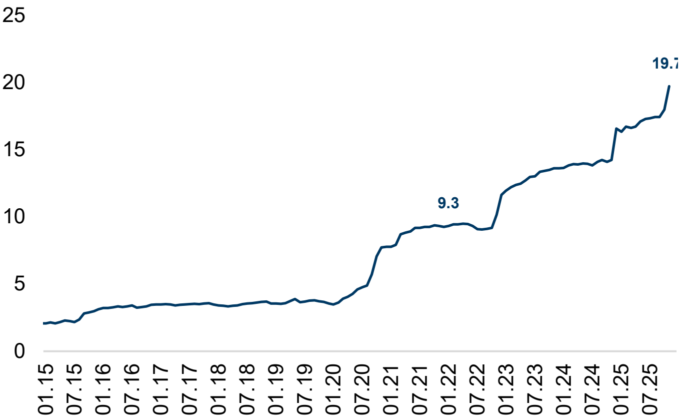
Source: Ministry of Finance, KSE Institute

Figure 13: Non-resident OFZ holdings



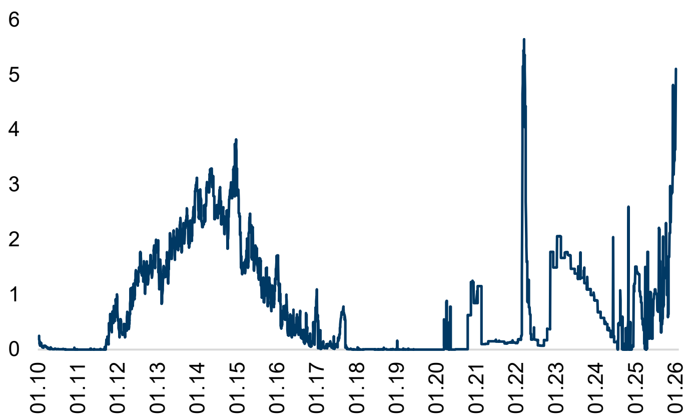
Source: Bank of Russia

Figure 14: Banks' OFZ holdings, ₽ tn



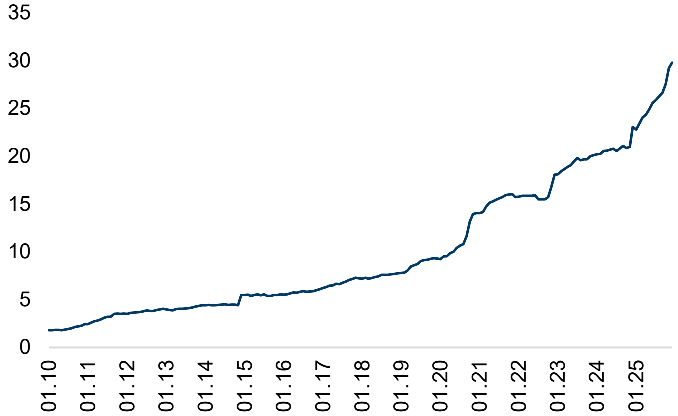
Source: Bank of Russia

Figure 15: Outstanding repo loans, ₽ tn



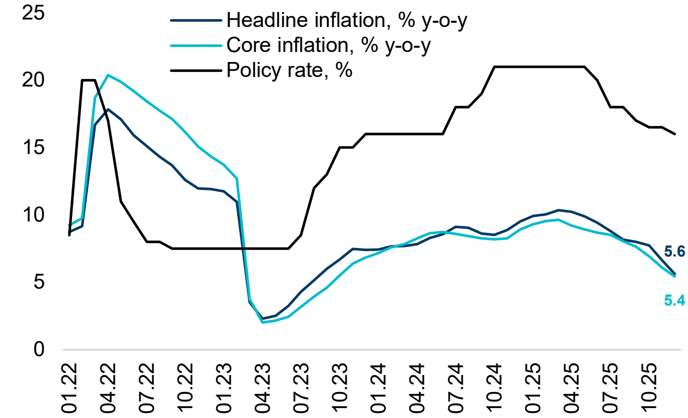
Source: Bank of Russia

Figure 16: Total outstanding OFZ, ₽ tn



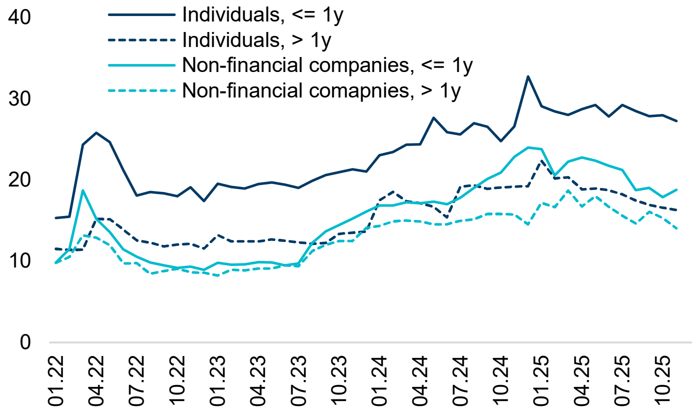
Source: Bank of Russia

Figure 17: Inflation and monetary policy



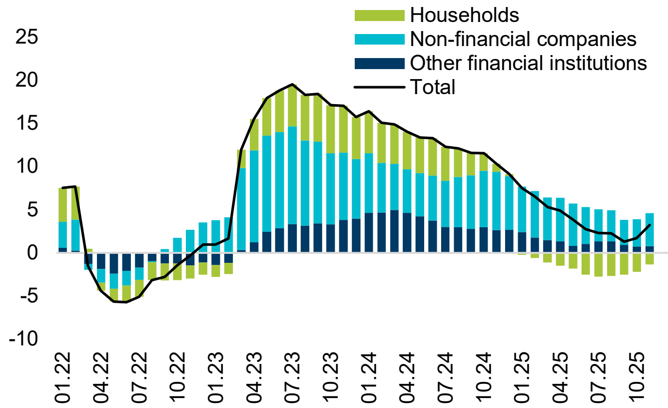
Source: Bank of Russia

Figure 18: Commercial interest rates, %



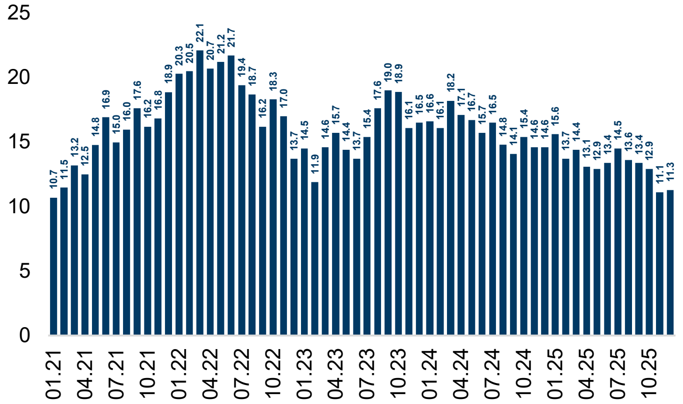
Source: Bank of Russia

Figure 19: New credit to the private sector, ₽ tn*



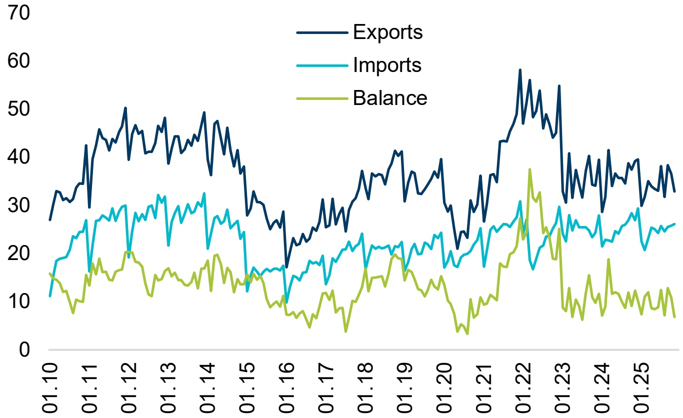
*Source: Bank of Russia *deflated using CPI*

Figure 20: Oil export earnings, $ bn



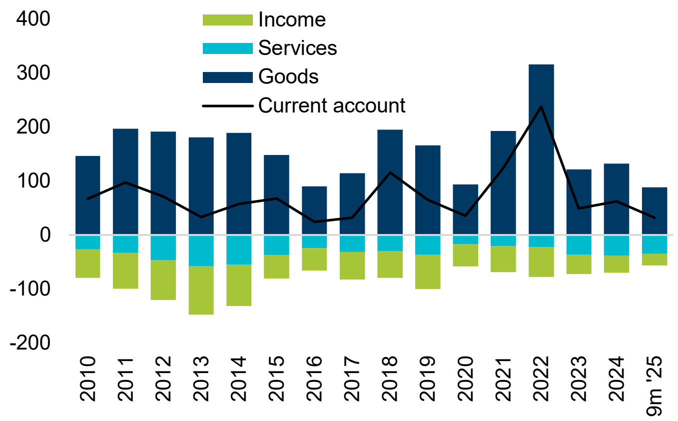
Source: International Energy Agency

Figure 21: Trade dynamics, $ bn



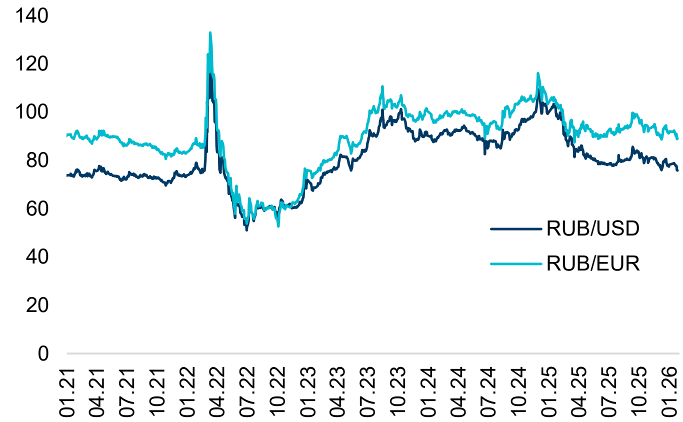
Source: Bank of Russia

Figure 22: Current account and composition, $ bn



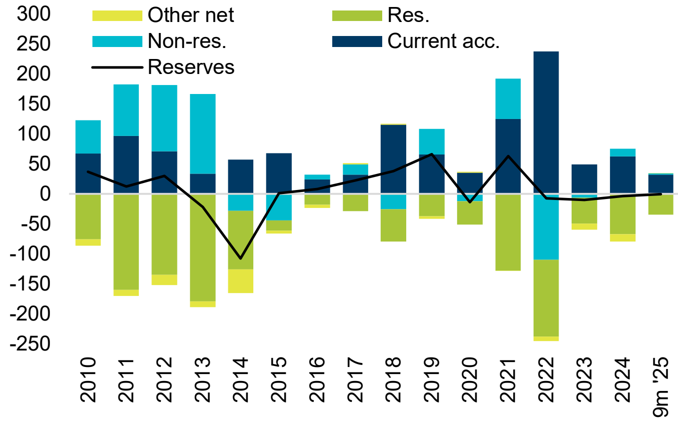
Source: Bank of Russia

Figure 23: Exchange rates



Source: Bank of Russia

Figure 24: Balance of payments, $ bn



Source: Bank of Russia

Prospects for the Russian Economy in 2026

The macroeconomic conditions that Russia is facing—and the challenges that come with them—will likely persist in 2026, including fundamental growth constraints, low global oil prices, and persistent clashes between policy priorities, i.e., sustaining the war effort and maintaining macroeconomic stability, particularly inflation. In addition, US sanctions on Rosneft and Lukoil have the potential to significantly weaken Russia's external accounts and further weaken its fiscal position in the context of persistently high war spending and constrained financing. Key risks for 2026 include:

- **The combination of low global oil prices and stepped up energy sanctions will constrain the budget further in 2026.** Moreover, in order to reduce the 2025 budget deficit on paper, we suspect that expenditures were moved from December into early 2026, which will further exacerbate constraints this year. Risks for energy revenues are predominantly to the downside, as late-2025 trends—particularly regarding a significantly elevated discount on Russian oil prices—are set to continue into 2026. These risks' materialization depends to a significant extent on the strictness of enforcement of sanctions on Russian oil and the adoption of new measures (see "Next Steps on Sanctions" below).

  The 2026 budget expects O&G revenues to increase by 5.7% y-o-y, which we assess to be overly optimistic given current trends in the global oil market and sanctions environment. With global oil prices set to slide to the mid-$50s/barrel, O&G revenues are more likely to decline in 2026. The budget more realistically foresees an 8.7% y-o-y increase in non-O&G revenues, partially thanks to the increase in VAT rates (from 20% to 22%), but risks here, too, are to the downside as the economy stalls.

  On the other side of the ledger, a planned rise in expenditures of just 2.7% y-o-y is also unrealistic as it effectively means a meaningful cut in real terms, and could come in considerably higher if defense and security spending increases even moderately, or if bailouts for indebted regional governments are necessary. Considering the high likelihood of O&G revenues falling below the budget's expectations and expenditures surpassing them, the projected deficit of 1.6% of GDP will likely need to be revised.

- **Low revenues and high borrowing costs make continued fiscal stimulus untenable.** Fiscal stimulus has been the primary growth engine in the Russian economy since the full-scale invasion, even if much of it has gone to the military-industrial complex. With revenues flat or declining, expenditures can only be financed via the NWF or domestic debt (OFZ) issuance. In 2025, the government financed its deficit through record-high OFZ issuance but is ultimately limited by the capacity of domestic banks to absorb higher and higher volumes of government debt, as they are the last remaining buyers. If interest rates remain elevated to fight inflation, so will borrowing costs and the share of expenditures dedicated to servicing debt (now ~9%). The combination of these two factors could drive the government back to NWF withdrawals in 2026, potentially depleting this critical buffer.

- **Macroeconomic stability and sustainable growth are incompatible with the Kremlin's commitment to the war effort.** After two years of the central bank holding interest rates at 16% or higher, inflation finally slowed in 2025 and ended the year at 5.6% y-o-y. This has come at a significant cost, however, as the economy has stagnated. Now, with war-related spending non-negotiable and organic growth constrained by the labor market and sanctions, the government is left to choose between macroeconomic stability—particularly keeping inflation in check—and growth. Judging by recent years' cautious monetary policy, authorities are likely to choose stability over growth.
- **Stratification between war-related sectors and the rest of the economy will continue, though even war-related sectors have lost steam.** In the manufacturing sector, war-related industries exhibited double digit growth, while others—most notably the automotive sector—largely contracted.

Next Steps on Sanctions in 2026

With the global oil market well supplied for the foreseeable future, the sanctions coalition is in a strong position to reduce Russian oil revenues without spiking their own prices. Two measures should headline this approach: a continuation of the designation campaign of Russian oil companies, including those that have replaced Rosneft and Lukoil after they were sanctioned, and a maritime services ban for all Russian oil. These efforts should be complemented by an expanded campaign against shadow fleet ecosystems and an alignment of designations across the coalition. To curb Russia's ability to circumvent export controls on sensitive technologies, the coalition should target third-country intermediaries and require stricter due-diligence requirements for its own companies.

- **Continue sanctioning Russian oil companies, including those that have taken the place of Rosneft and Lukoil.** The sanctioning of Russia's two largest oil majors, Rosneft and Lukoil, by the US and UK was a major disruption for the Russian oil sector, adding uncertainty and driving up discounts on Russian oil. Nevertheless, the efficacy of the sanctions has been limited by Russia's ability to shift export volumes to unsanctioned entities. Thus, it is critically important to continue designating Russian oil exporters in order to maximize the effect of the Rosneft and Lukoil sanctions, which can reduce Russian oil revenues by increasing the discount rate or even reducing total volumes.
- **Implement a maritime services ban for Russian oil.** While Russia has built alternative export capacities that do not rely on G7+ services (i.e., the shadow fleet) to circumvent the oil price cap, G7+ service providers continue to play a role for Russia's seaborne oil exports. A maritime services ban would target the volume of Russian oil exports by prohibiting the provision of services for Russian oil exports altogether, independent of price. It would reduce Russia's revenues significantly by lowering oil export volumes and increasing the discount that buyers demand when purchasing Russian oil.

- **Target the ecosystem of EU-sanctioned shadow tankers, and designate the remaining ships of the shadow fleet.** While activities of EU-designated shadow tankers decline after they have been listed, a significant number continue to operate. To rein in these operations, the EU should target the ecosystem of entities that facilitates activity, focusing on those elements where evasion is most difficult, e.g., buyers and ports. Such a campaign would reduce Russian export volumes and, thus, revenues. Efforts to limit shadow fleet activities are also necessary to ensure the efficacy of a maritime services ban as Russia would otherwise be able to quickly replace mainstream fleet capacity.
- **Align designation across key coalition jurisdictions.** The US has not designated any new shadow tankers in relation to Russian oil exports since January 2025. The EU and UK, however, have done so aggressively over the last year. While EU and UK sanctions have reduced the ability of many shadow fleet tankers to deliver Russian oil, sanctions are most effective when they are aligned across European and American jurisdictions. Thus, the campaign to rein in the shadow fleet would benefit from full alignment of designations, i.e., US sanctions against ships already listed by the EU and UK.
- **Target intermediaries and banks in third countries.** As export-controlled goods from EU producers rarely reach Russia directly, but rather are channeled through extensive networks of intermediaries in countries outside of the sanctions coalition—including China, the UAE, Turkey, as well as Central Asian and Caucasian countries—it is critical to aggressively use existing tools against companies (adopted in the 11th sanctions package) and financial institutions (adopted in the 18th sanctions package) in these jurisdictions. In addition to slowing down the flow of war-critical goods to the Russian military-industrial complex, this will drive up the prices for Russian buyers further.
- **Tighten due-diligence requirements for EU operators, compelling non-financial companies to use "Know Your Client" and "Know Your Client's Client" (KYC) procedures.** The EU's current regulatory regime has serious loopholes when it comes to companies' responsibilities. Due-diligence requirements are particularly lax for subsidiaries, joint ventures, and contractual partners in third countries, which is extremely problematic in industries such as microelectronics, which rely heavily on offshored production. In addition to KYC, the EU should mandate periodic post-execution investigations of distribution companies working with sensitive technologies. Such inquiries are conducted only occasionally and usually in response to obvious red flags; this has allowed companies to claim ignorance over the illicit transactions that involve their products.

We urge the sanctions coalition not to limit its actions to these measures and to **continue stepping up pressure on Russia across other domains**, as well. Such measures should include, but not be limited to, the regular designation of entities within Russia's military-industrial complex and their affiliated networks, and the further expansion of sanctions targeting the nuclear sector. For the EU in particular, we encourage scaling up the practice of regular listings between major sanctions packages, as demonstrated in December 2025.

Finally, we call on the sanctions coalition to **remain firmly united and refrain from any premature easing or lifting of sanctions** against Russia until it fully ceases its war of aggression against Ukraine and complies with the terms of a comprehensive peace agreement.