

BOFIT Forecast for Russia 30 March 2026

BOFIT Russia Team

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for Russia 2026–2028



BOFIT

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Growth of the Russian economy slowed to 1 percent last year. Weaker trends in private consumption and fixed investment were major drags on growth, following decelerating real wage growth, increased tax burden and high interest rates. Economic growth should remain around 1 percent this year. High prices for commodities will maintain economic growth this year, but the effect fades in 2027–2028. Decelerating private demand and lack of growth in fixed investment are main constraints on growth, which are driven by slowdown in real wage growth and the ability of companies to invest remains curtailed by low profitability and tight monetary policy. Strong growth in fiscal stimulus will no longer foster economic growth witnessed over previous years as Russian labour force continues to be close to full use and the state's options for funding its deficit are more restricted. Therefore, further high increases in state spending heightens the risk of economic overheating. Our latest forecast assumes sanctions pressure remains at the same level as at the start of 2026 and that the Russian economy experiences no other significant external or internal shocks during the forecast period.

Era of lavish state spending driven growth comes to an end

Russian economic growth slowed to just 1 percent last year, down from nearly 5 percent in 2024. Although private demand was the most significant driver of growth, it also experienced a sharp deceleration in on-year growth. Despite Russia's slowing economy, real wages and real disposable incomes continued to rise as unemployment plied historical lows. Growth in fixed capital investment was subdued compared to previous years due largely to weak demand and tight monetary policy. Net exports in 2025 had a negative impact on GDP growth. Exports were depressed by new sanctions on the oil sector.

Economic growth last year was hurt most by contractions in extractive industries and the wholesale sector. The polarisation of manufacturing trends intensified: the value added of branches involved in the war effort grew by 20 %, while the combined value added of all other manufacturing branches rose by a mere 0.4 %.

Diminishing returns from state stimulus measures

We expect Russian economic growth in 2026 to remain close to last year's levels of around 1 percent and to decelerate to around ½ per cent for 2027–2028. High commodity prices are upholding growth this year, but the effect fades in the

coming years. Private consumption will continue to rise, but at a slower pace than in previous years. Household consumption will be supported by wage hikes in excess of inflation as some wage increases are necessary keep the dwindling labour supply on the job. The spending of savings and interest income built up in recent years will support consumption. Nevertheless, the sizzling wage growth of 2023–2025 is over. As businesses struggle with weaker financial conditions, the prospect of substantial wage increases becomes more remote. Thus, we expect the purchasing power of wages to erode this year even if inflation slows along with overall demand. Higher 2026 value-added tax (VAT) rates and increases in rates for municipal services will also dampen consumption growth. The Central Bank of Russia (CBR) expects the key rate to decline gradually even with the monetary stance remaining tight throughout the forecast period.¹ The combination of tight monetary policy and stricter government limits this year on the availability of subsidised loans should decrease borrowing incentives.

Russia's labour shortage remains a significant bottleneck even with slowing economic growth easing the acute lack of workers. At the end of 2025, Russia was effectively at full employment, with rising immigration doing little to boost the supply of educated workers. The labour shortages are due above all to the Ukraine war's exacerbation of demographic trends in Russia over the past three decades.

Public sector to remain in deficit despite high oil prices

Increased public sector spending was the biggest driver of Russian economic growth in 2023–2024, but growth in public sector consumption is now expected to slow. Spending in Russia's consolidated budget (federal budget, regional budgets and social security funds) is projected to rise by 4 % under the 2026 budget plan, which translates to a spending cut in real terms. The defence budget is set to shrink in nominal terms, matched by a near equal increase in spending on domestic security. If the Russia continues the war throughout this year, a nominal cut in defence spending seems unlikely. As the war enters its fifth year, Russia has largely exhausted its easy fixes for covering additional spending and will likely resort to precise targeting of spending priorities and is forced to seek new sources of revenues through additional taxes and the sale of state assets.

Tax rates and fees are increased this year to narrow the deficit. The biggest changes are the two-percentage-point increase in VAT rates and the harmonisation of taxation categories, which the budget plan suggests could generate revenues up to a trillion roubles (about 11 billion euros, or 0.5 % of GDP). Actual tax revenues could fall below target due to slowing economic growth and depressed private consumption.

¹ The Central Bank of Russia currently sees its key rate averaging 13.5–14.5 % this year, 8–9 % in 2027 and 7.5–8.5 % in 2028.

Oil & gas revenues are projected to rise by 3 % at an average price of \$59 a barrel for exported Russian crude according to the budget law approved in the the lower-house Duma end of last year. Over the last six months Russia's crude oil was sold at a roughly \$20 a barrel discount compared to the average price of benchmark Brent crude. If a similar-sized discount continues this year, based on the average price of oil futures contracts in the middle of March, the export price of Russian crude would average \$61 a barrel this year, \$52 in 2027 and \$50 in 2028. Based on these assumptions, oil revenue projections in the Russian budget plans are plausible for 2026 but will not yield a remarkable increase in state revenues. The Russian public sector will remain in deficit.

Global oil prices have experienced exceptionally wide swings in recent weeks. With the outbreak of the Iran war in late February, and particularly the limitations on shipments via the Strait of Hormuz, oil prices have spiked globally. It is unclear how long the situation will continue. The US granted Russia an exemption from oil sanctions on current oil shipments. The exception applies to oil cargoes loaded on or before March 12. On the other hand, Russia may also have to grant significantly larger discounts than on average in 2025, and the situation could change quickly. At the start of 2026, the average discount on Urals crude rose close to \$30 a barrel as even harsher sanctions were placed on Russia's oil sector.

Russia's public sector deficit is currently planned to shrink to 1.6 % of GDP, with the shortfall funded through increased government borrowing. War has drained the liquid assets of the National Wealth Fund from the equivalent of 6.5 % of GDP before the 2022 invasion of Ukraine to just 1.8 % of GDP at the end of 2025. Russia's finance ministry has stated that no further assets will be withdrawn to cover spending shortfalls. By international standards, the level of Russia's government indebtedness is still quite modest (less than 20 % of GDP). However, government debt servicing costs have risen with increased borrowing and higher interest rates, which the current budget framework anticipates to be in the range of 1.5–1.7 % of GDP over the next three years. The implementation of the budget as planned is uncertain and as a result, borrowing costs are likely to rise.

Significant upward adjustments to the budget, especially with respect to military spending, have become a common feature of fiscal planning in recent years. If the war continues, we expect 2026 to be no different and amendments to the budget plan will follow during the course of the year. The 2025 consolidated budget deficit was initially planned to be 0.8 % of GDP but came in at almost 4 % of GDP.

Widening split between companies serving the military-industrial complex and firms struggling in the civilian sector

Growth in fixed investment could come to a standstill as high-priority military investment continues, but other fixed investment declines. Private firms not involved in military-industrial production chains or otherwise receiving government subsidies are not able to make significant investments during the forecast period. Sanctions have also increased prices of production technologies and spare parts, as well as generally reduced their availability. The financial condition of many firms has been degraded by weak demand, high interest rates, increased wage costs and heavy tax burdens.

Table 1. On-year change in volume of Russian GDP, %

	2021	2022	2023	2024	2025	2026	2027	2028
GDP growth	5.9	-1.4	4.1	4.9	1	1	1/2	1/2

Sources: Rosstat 2021–2025 figures as of February 16, 2026; BOFIT 2026–2028 projections as of March 30, 2026.

Military-industrial investment is unlikely to raise the future growth potential as large amounts of investment goods produced by the economy are consumed at the front. Productivity gains would ease labour-shortage effects, but they would have to be accompanied by massive technology investments in civilian industries, which is currently constrained by for example access to the newest technology due to sanctions. Thus, a two-track economic structure consolidates: firms that benefit from military spending thrive over those that struggle to achieve market-based growth. The situation for private firms not serving the war effort will become increasingly dire.

Russia an increasingly isolated economy

There is little likelihood that Russia's export volumes rise significantly in coming years. Oil and natural gas, Russia's main exports, remain subject to sanctions. Import volumes are restrained by weakening aggregate demand in the economy and sanctions sustain high prices for imported products. Net exports are expected to have a neutral impact on economic growth throughout the forecast period.

The combined value of exports and imports relative to GDP last year fell to around 33 %, its lowest level in 15 years. Assuming that sanctions pressure continues at its current level throughout the forecast period, Russia's isolation from global markets should continue. However, Russia will continue to post

substantial current account surpluses, even if they are likely to be smaller than in 2022–2024.

Upside and downside risks from weaker private demand, public finances, commodity markets and maintaining impactful sanctions' pressure

The uncertainty surrounding this forecast is exceptionally high. Despite the current peak on oil prices, one emerging risk is the government's ability to cover its deficits if the sanctions pressure remains unchanged.

Shifts in private demand will have the biggest impact on the Russian economy, with risks clearly tilted to the downside. Although unemployment in Russia will remain low, firms are finding it harder to increase wages. If wage and income growth slows significantly and consumer confidence collapses, Russian economic trends could significantly undershoot our baseline forecast.

Development of the Russian economy could also be weaker than expected due to a sudden turn in the war. In such case, other branches of the economy than those already part of the war effort will be increasingly subordinated to the financing the costs of the war. In such a case, war-related sectors will crowd out the private sector's surplus labour and financial resources further to satisfy its needs. On the other hand, a ceasefire or an actual end to the war would free up resources for civilian production and help with a positive rebalancing of the Russian economy.

Potential factors that boost or limit growth could also come from a traditional source – global crude oil markets. At the start of 2026, Russia oil exports still faced significant sanctions, domestic oil refineries and pipelines were pounded by missile and drone attacks, and export volumes were lower than in 2025. Costly detriments to the Russian economy could emerge in coming years. On the other hand, a prolonged closure of the Strait of Hormuz, which caused oil prices to spike in March 2026, could cause global oil prices to hold at an extremely elevated level for a long time. Moreover, the US grant of a one-month exemption to Russian oil sanctions could be extended if oil prices remain at elevated March 2026 levels.

The unavailability of certain important statistical data adds to the uncertainty surrounding this forecast. Among other issues, Russia no longer itemises the main components of the government budget and has ceased publication of oil production statistics and volume changes in foreign trade.

Table 2. Key economic indicators taken from BOFIT Russia statistics, on-year change.

	2021	2022	2023	2024	2025
Industrial output, %	6.3	0.7	4.3	5.6	0.8
Fixed investment, %	8.6	6.7	9.8	7.4	0.5
Retail sales, %	7.8	−6.5	8.0	7.2	2.5
Inflation, %	6.7	13.8	5.9	8.5	8.7
M2, %	10.7	19.4	23.1	19.1	14.6
Urals blend price, USD/bbl at year's end	68.8	76.0	62.8	66.0	41.1

Source: [BOFIT Russia statistics](#).