Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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How the Iran Crisis Shapes Russia's War Economy?

On Sunday, following the U.S. strike on Iran, more than 50 oil tankers scrambled to exit the Strait of Hormuz — controlled by the Iranian government — fearing an imminent blockade.

The same day, Iran took steps to fulfil its promise of closing the Strait. As of today, the escalation in the region has dragged on for two weeks, with analysts around the world examining how it could affect not only U.S.-Middle East relations but also Russia — and, by extension, its war in Ukraine.

The Strait of Hormuz serves as the world's most crucial oil shipping route. Over 20% of global oil exports pass through this narrow waterway between Oman and Iran, and a shutdown could halt the transit of roughly 20 million barrels of oil and fuels per day.

Oil prices reacted instantly — even before Iran's direct threats — with Brent crude soaring over 13% to an intraday high of $78.50 per barrel, the strongest level since January. In the worst-case scenario, prices could rise by up to 70%.

Kremlin's revenue under pressure

Russian oil and gas giants like Gazprom and Rosneft initially celebrated. Their stock prices jumped, and the European Union reversed plans to lower the oil price cap from €60 to €45 — a step meant to further curb Russia's ability to finance its war on Ukraine. Many experts rushed to the conclusion that Moscow would soon have more resources to produce weapons and intensify attacks.

But a new analysis soon emerged, making the case that "Russia is barely benefiting from the recent surge in oil prices because of its strengthening currency, keeping the Kremlin's revenue under pressure."

> Price levels only matter for Russia over longer timeframes — what matters most is volume

"As a result, even if oil prices climb, the ruble's current exchange rate would allow only modest relief for the Finance Ministry — shifting the budget from 'strained' to 'normal'. And even now, that strain isn't too severe. It's not as though 'the budget will collapse', as some say. It just means there won't be extra spending at year's end," explains Sergey Aleksashenko, former Russian Deputy Finance Minister, who helped guide the country through its 1998 default and later moved to the U.S. after Vladimir Putin came to power.

Russia's profits come not from short-term price spikes but from consistently selling large volumes of oil. Price levels only matter for Russia over longer timeframes — months, not weeks. What matters most is volume.

"Production volumes are what matter for Russia. Everything else can be offset through ruble devaluation — you can weaken the ruble, and revenues will stabilise. But physical oil volumes drive the economy — orders for other industries, transport: rail, maritime, and pipeline. The more oil is physically pumped, the more money other sectors make," Aleksashenko says.

A deadlock in weapons production

Meanwhile, Russia faces a deadlock when it comes to weapons production capacity. Even if the budget improves, it is unlikely to translate into higher arms output. No new military factories are being built — except a few for electronic warfare — and existing facilities are overstretched.

Diversifying import channels for weapons production is also difficult because of sanctions against Russia, especially as the global arms industry is already running at full capacity. Drones remain Russia's primary fallback. In this light, higher oil prices alone will not significantly shift the equation.

"The one area where this conflict could hurt Russia is drone production," says Yuliia

Pavytska, Manager of the Sanctions Programme at KSE Institute. “Despite local assembly of Iranian Shaheds, Russia still relies heavily both on Iranian components (warheads, antennas, navigation antennas, software) and Iranian-produced drones — confirmed by battlefield wreckage. If Iran’s defence industry is hit or if Tehran redirects those components for its own needs, Russia’s drone production will slow down. It won’t stop entirely, but it will sting—forcing Moscow into a scramble for costly alternatives.”

> Russia cannot produce more weapons simply because of rising oil prices. This isn’t about money — Sergey Aleksashenko, former Russian Deputy Finance Minister

An improvement in Russia’s budget position — and with it, a stabilisation of inflation and a stronger ruble driven by rising oil prices — is likely to ease domestic social tensions. In turn, this could lower public anxiety about the ongoing war against Ukraine.

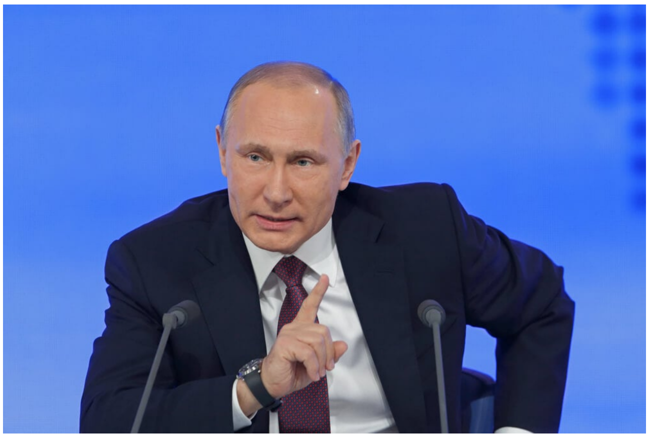
“Russia cannot produce more weapons simply because of rising oil prices. This isn’t about money. Putin is currently spending about 7% of GDP. Could he spend 8%? Of course. But to do that, he would need a larger army — and what’s the point if there are no weapons to equip them?” says Aleksashenko.

A long list of “ifs”

With Ukraine’s economy severely damaged — and itself largely reliant on drones and questionable Western aid — the war may ultimately be decided less by Russia’s strength and more by Ukraine’s vulnerability.

However, if the current escalation between Iran, Israel, and now the U.S. de-escalates; if the European Union can once again unite and lower the oil price cap to $45; if President Trump manages to pressure Saudi Arabia into increasing oil output — further squeezing Russia’s market share — and if sanctions on Russia’s shadow fleet remain intact, then these combined factors could again push Russia’s budget into strain and bring its economy back towards stagnation.

Still, how realistic is this long list of “ifs”? And is it even the right way to achieve the goal? Because at present, this strategy looks more like a punishment for Russia than a tool that could immediately limit its ability to wage war.



Putin once again vowed to press forward on the battlefield, stating, "Wherever the Russian soldier steps—that is ours”

The measures having the greatest effect right now are the sanctions that restrict Russia’s capacity to produce and buy weapons — sanctions that Moscow is constantly trying to evade.

There is, however, another dimension in which this crisis could weaken Russia: a collapse of the current Iranian regime and its replacement with a more democratic government. Such a shift could break the Tehran–Moscow partnership and pull Iran closer to the international sphere in which Ukraine now operates.

No one expects Ukrainian-Iranian relations to be rebuilt quickly under a future democratic Iran. And such political change — even if driven by successful U.S. and Israeli operations this summer — would take many months to materialise.

But even a halt in Iran’s military aid to Russia could have an immediate effect. Since 2022, Iran has supplied drones to Russia. The exact number remains uncertain — estimates range from 600 to 8,060 drones either built in Iran or with its assistance. Iran was also allegedly helping Russia establish a domestic drone factory in Yelabuga, within the Alabuga Special Economic Zone in Tatarstan.

This plant focuses on manufacturing Shahed-136 drones — rebranded in Russia as Geran-2 — with a production target of 6,000 drones by mid-2025, providing a consistent flow of weapons for the Russian military.

At his most recent press conference, Putin once again vowed to press forward on the battlefield, stating, "Wherever the Russian soldier steps—that is ours."

Is this a signal that Moscow might compromise on its territorial demands for the parts of Kherson and Zaporizhzhia that remain under Ukrainian control? Or is this simply another rhetorical move from a leader who remains confident in his military strategy—and who continues to benefit from today's global instability?

We may have clearer answers in the months ahead.