



By: *Sergei Guriev*

Putin's Polycrisis



As the war in Ukraine drags on, the economic-policy debate in Russia has shifted from celebrating war-driven growth to arguing over whether the economy is stagnating or has entered a recession.

In the first quarter of 2025, GDP **declined** by 0.6% compared to the previous quarter, and then **grew** by only 0.4% in the second quarter.

Even the most optimistic forecasts **expect** Russia's growth to be around 1% in 2025, down **sharply** from 4.3% in 2024 and 4.1% in 2023.

Despite this deceleration, inflation remains a challenge. As a result, the Russian Central Bank recently **lowered** its policy rate by 100 basis points – a smaller-than-expected cut – to 17%.

Russian consumers are already feeling the pinch. Car sales, for example, are **forecast** to fall by 24% this year.

President Vladimir Putin is also facing a fiscal challenge. Russia's budget **deficit** in the first eight months of 2025 hit 1.9% of annual GDP and is projected to **grow** to 2.6% of GDP by the end of the year – low by American or European standards, but problematic for a country that has been cut off from international borrowing as a punishment for invading Ukraine.

Over the same period, oil and gas tax **revenues** fell by about 20% year on year, thus draining the sovereign wealth fund. The liquid part of this fund now stands at \$50 billion, or 1.9% of GDP.

Understanding that under the current economic model he will run out of cash in less than a year, Putin just **announced** a budget for 2026-28 which includes substantial tax hikes. This will depress the economy further and could trigger a public backlash.

Demographic crisis

In addition to mounting economic pressures, Russia faces a deepening demographic crisis. Around one million **troops** have been killed or wounded in the war, and roughly the same

number of people have **fled** the country, many of them men avoiding conscription.

It is telling that this year Russia has stopped **publishing** demographic data.

Moreover, the West's sanctions regime has limited Russia's access to crucial technologies, undermining investment in the economy and modernization efforts.

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Given these conditions, it is no surprise that a substantial majority of Russians have grown tired of the war.

In a recent **poll**, 66% of respondents were in favor of starting negotiations rather than continuing "military actions" in Ukraine.

Putin seems undeterred

Despite these multiple challenges, Putin seems undeterred. That is because the situation is not yet catastrophic. After all, the Russian economy may be stagnating, but it is not collapsing.

And with a labor **force** of more than 72 million, Putin can still recruit about 30,000 soldiers per month by paying men from Russia's poorest regions ten or 20 times their average wage.

These factors, coupled with his apparatus of repression, have likely convinced Putin that he has the means to keep his war economy running and suppress domestic discontent for as long as necessary.

Perhaps more importantly, Russian forces continue to advance on the battlefield – a critical element of Putin's strategy.

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To be sure, the process is slow and costly in terms of lives and money. But so long as Putin continues to seize more Ukrainian land, he has no incentive to negotiate, regardless of what the US government offers him.

That is not to say that Western sanctions have failed. Putin has limited access to cutting-edge military technology and must rely on China, North Korea, and Iran for spare parts and other supplies.

He has less cash to recruit soldiers, and he may need to spend even more to quell civil unrest.

In the new fiscal plan for 2026, he has to budget the same amount for military and security spending in nominal rubles – thus de facto reducing this expenditure adjusted for inflation.

Concerns for another day

Looking ahead, Russia's demographic troubles imply that the Kremlin will need to offer ever higher bonuses for recruits and spend more on wages for workers in defense industries, while enduring a further slowdown in civilian sectors.

Meanwhile, a recession would undermine fiscal equilibrium and mire the country in a doom loop, as the higher taxes needed to finance the war dampen economic growth and depress revenues further.



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In Putin's view, these are concerns for another day. In the near term, he has sufficient resources to maintain order at home and pay for his army's slow advance in Ukraine.

Yes, it comes at the expense of spending on education, health care, innovation, and infrastructure.

But for Putin, making progress on the battlefield is a better investment in Russia's future: it means that he will have a stronger hand when it comes time to make a settlement.

If Putin cares about territorial gains above all else, the question becomes how to stop Russian troops from advancing in Ukraine.

That will require the West to press as hard as possible on Putin's pain points.

Only by strengthening technological, economic, and financial sanctions against the Kremlin, providing advanced weapons to Ukraine, and incentivizing the Russian brain drain can Western policymakers accelerate the demise of Putin's war machine, freeze the frontline, and save Ukrainian lives.

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