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Can Russia's Economy Sustain the War Against Ukraine?

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KEY TAKEAWAYS

- The Russian economy has adapted and thus far been largely able to manage the trade-offs necessary to fuel its war effort in Ukraine, circumvent Western sanctions, and maintain macroeconomic stability.
- Should the current sanctions regime persist, Russia will be able to continue its war in Ukraine, at least at the current level of intensity, over the next three years. This is reflected in Putin's continued reluctance to negotiate a peace deal with Ukraine.
- If there is a partial removal of sanctions, the Russian economy will gain some breathing space and additional resources for its war effort, but the overall macroeconomic position of the country will not radically shift.
- If additional energy-focused sanctions are added or the enforcement mechanisms of the current sanctions are strengthened, Russian revenues would contract, forcing more trade-offs in the allocation of spending, and potentially reinforcing Ukraine's position both on the battlefield and at the negotiating table.

BACKGROUND AND CONTEXT

Despite the high costs of the ongoing war in Ukraine, Russia's economy has yet to collapse and continues to adjust to sanctions while maintaining its war effort at the current level of intensity. It has benefited from a combination of technocratic skill; adaptable supply chains; a low debt-to-GDP ratio; critical assistance from China, Iran, and North Korea, among other countries; and, most importantly, a consistent flow of energy revenues. The country has adapted to support both its war machine and social spending programs at levels that preserve social stability.

However, the Russian economy still faces constraints. Expansive government spending on the defense industry has reinforced long-term imbalances within Russia's macroeconomic trajectory, aggravated labor shortages, and increased inflation. Now, the country faces a projected economic slowdown. In addition, Russia remains vulnerable to expanded sanctions due to its dependency on energy revenues, hard currency, and Chinese imports. But while Russia's wartime economic adaptation is imperfect and comes at the expense of its long-term development goals (particularly hindering modernization and retainment of human capital), it appears generally sustainable in the near term.

LEGISLATIVE AND POLICY IMPLICATIONS

CSIS's findings confirm that the West's approach to sanctions is a key variable for the viability of the Russian economy. If implemented correctly, expanded sanctions could hamper Russian export revenues and continue to raise the costs of imports critical to the Russian war machine.

Russia has significant economic weaknesses: a persistent labor shortage, continued inflation, an overdependence on oil revenues for the federal budget, a current account potentially vulnerable to a balance of payments crisis, and a risk of overreliance on subsidized credit in key industries. Effective sanctions could aggravate these existing choke points.

However, barring unforeseen factors, Russia's domestic economic position will remain constrained but not overwhelmed in most sanctions scenarios. In this context, Russian diplomats are unlikely to make major concessions to Ukraine and its partners at the negotiating table based on economic considerations alone. Both the rhetoric and actions of the Russian leadership point to its continued desire to radically curtail Ukrainian sovereignty, despite the costs to the Russian people in both financial outlays and human lives. Altering Russia's posture will require a significant increase in international pressure.

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RECOMMENDATIONS

- To pressure Russia into real concessions at the negotiating table, U.S. policymakers should coordinate with their G7 counterparts to expand economic sanctions on Russian export revenues and strengthen the enforcement of existing sanctions. Russia remains highly dependent on high oil prices: A moderate oil price decline earlier this year immediately prompted the Kremlin to revise its budget for 2025.
- Efforts to strengthen sanctions must be matched by continued direct support for the Ukrainian military, such as funding for key weapons systems like air defense, to signal to Moscow the U.S. and European commitment to Ukraine over the long term.
- U.S. lawmakers must be clear-eyed in their engagement with a Russian leadership that is still committed to confrontation with Western capitals, no matter the ultimate outcome in Ukraine.

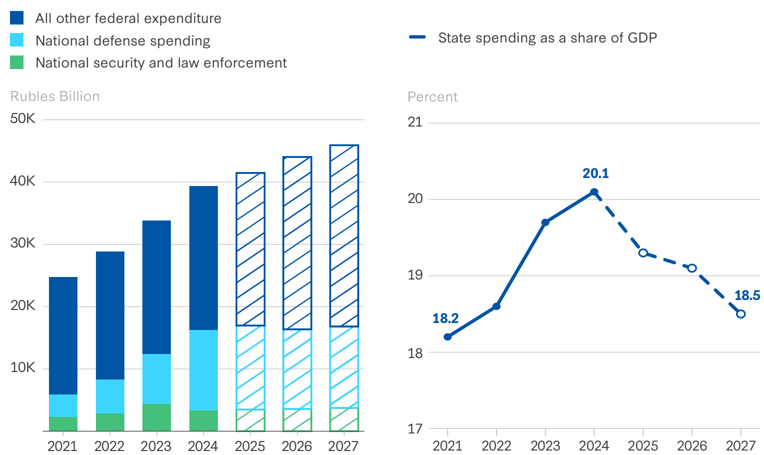
CHALLENGES AND RISKS

This analysis is based on three assumptions: First, it looks at the immediate time horizon of the next three years. Second, it excludes the likelihood of a major crisis in the Russian economy arising from internal factors. Third, it assumes the war will continue at the current level of intensity. Additional challenges to Russian macroeconomic stability could arise if these assumptions no longer hold.

An expansion of sanctions significant enough to effectively remove Russian commodity exports from the global marketplace could have a marked impact on international trade and economic growth. While Russia would experience substantial pain, its leadership would be loath to surrender its current momentum on the battlefield, even with escalating economic costs. In the face of international economic hardship, the United States and its allies may struggle to sustain political support for the expanded sanctions regime, which could in turn negatively impact the larger effort to support Ukrainian sovereignty.

FIGURE 1

Russian Defense, National Security, and Total State Spending, 2021–27



*Projected in the state budget for 2025–2027.

Note: Russia's government spending has consumed an increasing portion of the country's GDP, exceeding 20 percent in 2024 (but the gap is projected to narrow in 2025–27). National defense and national security spending make up 41 percent of all state expenditures in 2025.

Source: CSIS calculations based on the data gleaned from the Federation Council (2021, 2025-27), Luzin (2022-24 defense), TASS (2022 national security), State Duma (2023 national security), and RBC (2024 national security).

The figures above can be found in Maria Snegovaya, Nicholas Fenton, Tina Dolbaia, and Max Bergmann, *The Russian Wartime Economy: From Sugar High to Hangover* (Washington, DC: CSIS, June 2025), 5, https://www.csis.org/analysis/russian-wartime-economy-sugar-high-hangover.

Additional Resources and Contact Information

Maria Snegovaya, Nicholas Fenton, Tina Dolbaia, and Max Bergmann, *The Russian Wartime Economy: From Sugar High to Hangover* (Washington, DC: CSIS, June 2025), https://www.csis.org/analysis/russian-wartime-economy-sugar-high-hangover.

Nicholas Fenton and Alexander Kolyandr, "Down But Not Out: The Russian Economy Under Western Sanctions," CSIS, April 11, 2025, https://www.csis.org/analysis/down-not-out-russian-economy-under-western-sanctions.