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Russia's Turbulent Economic Situation After the Outbreak of War in 2022

Turbulentna sytuacja gospodarcza Rosji po wybuchu wojny w 2022 roku

Russia: Never as strong as she appears,
or weak as she seems.

OTTO VON BISMARCK (1871)

Introduction

The purpose of this article is to present the economic situation of Russia during the war waged in Ukraine and to verify the impact of economic sanctions against Russia on the basic macroeconomic parameters (Gurvic, 2016; Klinova, Sidorova, 2014; Timofeyev, 2020, 2022; van Bergeijk, 2012).

The rationale for taking up the topic is the belief that there is a need to indicate the effects of the war and the economic sanctions applied on the Russian economy. This is because there is a functioning belief in Poland that there are many sanctions directed against Russia by many countries of the world and that they have a significant impact on the Russian economy. There seems to be a deficit of reliable information on this subject. There is a lot of information about what is happening in Russia in terms of the military, social or political situation. However, what is missing is a presentation on the economy and an assessment of the changing economic situation under the conditions that have emerged after Russia's armed assault on Ukraine on February 24, 2022. Meanwhile, the future of the conflict, the chances to put an end to the conflict taking into account the interests of Ukraine, security in Europe, with particular attention to the border countries, including Poland, depends on how the economic situation in Russia will develop. The Polish public should be particularly sensitive to these issues, as our history creates a justification for concern for peaceful stability in the neighborhood with a country formulating territorial claims.

The research methods adopted for the scientific analysis are a critical evaluation of specialized studies by Russian institutions and scientists. Statistical data showing the situation and changes in the Russian economy, especially occurring during the period of Russia's armed aggression against Ukraine, i.e. after February 24, 2022, was also used.

The research thesis was formulated as follows: Russian aggression against Ukraine has set in motion processes that have had a limited impact on Russia's macroeconomic stability. Russia's economy after 2022 is developing unstably and will not use the internal potential it has in the medium term. As of 2023, the Russian economy is growing, but it is riding on an "applied brake."

1. Macroeconomic determinants of economic development

The Russian economy recorded positive growth rates in the first months of 2022. This was a trend that, according to the World Bank, also occurred in 2021, when Russia's GDP growth was recorded at 4.7% (World Bank, 2021). Several factors contributed to this. Among the key ones were Russia's favourable price situation on global commodity markets, particularly stable demand for energy commodities and strong domestic demand. The cumulative impact of the positive factors on economic dynamics outweighed the consequences of the negative demographic trends that arose as a result of excess mortality during the pandemic (the decline in Russia's population in 2020–2021 exceeded more than 1 million people).

However, the start of the war with Ukraine in February 2022 radically changed the conditions for Russia's economic development in the following months. The ongoing war and the activation of sanctions by a number of countries created great economic uncertainty and negatively affected Russia's socio-economic situation in 2022 (Economic Encyclopaedia of Russia, 2022). Already in the first weeks of the war with Ukraine, Russia was forced to face the introduction of various types of sanctions, including economic ones (Zernova, Farzarian, 2017; Żukowska, 2018). The Russian Federation "lost" half of its international reserves due to the blockade, the dollar exchange rate skyrocketed and exceeded 130 roubles, queues formed in front of shops. Experts surveyed by the Russian Central Bank at the beginning of March 2022 expected an 8% decline in GDP, annual inflation of more than 20% and an average annual exchange rate of 110 roubles per dollar. This did not happen, the impact was not so severe – but the uncertainty of tomorrow was significant for economic development.

The nominal GDP volume of the Russian Federation in 2022 was RUB 151,455.6 billion. The decrease in GDP (-2.1%) was influenced by a decrease in the value-added index particularly in the following industries: wholesale and retail trade; construction and manufacturing industry; and administration.

At the end of 2022, the following sectors of the economy, representing domestic demand, showed growth: agriculture (+6.6%); the construction sector (+5%); hotels and catering (+4.3%); public administration, social security (+4.1%); financial and insurance activities (+2.8%); and mining (+0.4%; Ivanovich, 2022).

The following industries contributed to the decline in GDP in 2022: wholesale and retail trade (-12.7%); water supply and sanitation (-6.8%); manufacturing (-2.4%); transport and storage (-1.8%). Wholesale and retail trade and SME activities struggled severely. The poor performance of the manufacturing sector was impacted by Western sanctions and supply chain disruptions (Timofeyev, 2021).

Despite the many problems the Russian economy faced in 2022, the fall in GDP was not as severe as predicted in the first half of 2022. This was due to high energy prices, anti-crisis government measures, and prior preparations to face the effects of sanctions (Pavlova, Pavlov, Amiraslanov, 2022). The Russian authorities had been aware of the economic consequences caused by the aggression against Ukraine and had prepared accordingly in advance. Ensuring the economic security and stability of Russia's economy in a situation of internal and external risks was the subject of relevant political decisions and the adopted economic strategy – internal and external. This was served by the *Strategy for Russia's Economic Security in the Perspective to 2030* – Decree of the Russian President of 13 May 2017 (Ukaz Prezidenta Rossijskoj Federacii ot 13.05.2017 № 208 “O Strategii ekonomičeskoj bezopasnosti Rossijskoj Federacii na period do 2030 goda”). It was a document that already in 2017 prepared the Russian Federation for an expansionary strategy, assumed the need to estimate risks in the situation of Russia's aggressive policy towards the external environment. This strategy was applied on 24 February 2022.

Immediately after the start of the war, many experts believed that the Russian economy would be in a deep crisis following the imposition of sanctions (Rakhmonov, 2023). However, the Russian authorities took various measures to limit the negative consequences and prevent the economy from collapsing. The focus was on keeping as much currency in the country as possible and preventing or limiting the outflow of funds from foreign currency bank accounts. Appropriate regulations by the Bank of Russia and the government proved largely successful. Of no small importance was the responsible and effective policy of the central bank led by Elvira Nabiullina. According to Bloomberg, Nabiullina wanted to

resign from her post after Russia's attack on Ukraine, but President V. Putin did not accept her resignation. The leadership of the central bank appears to be a major contributor to Russia's favourable economic situation despite the war and the severe effects of economic sanctions. The central bank has amassed significant stocks of foreign currency and gold, has undertaken an effective fight against unreliable borrowers and has successfully curbed inflation despite huge inflationary pressures (Walewska, 2023).

Substantial and growing foreign exchange earnings from energy exports in 2022 were very helpful in stabilising the economy. It should be noted that in the first months of the Russian invasion, sanctions had a negligible impact on hydrocarbon exports; the European Union continued to buy Russian oil and gas. In March 2022, a barrel of Russian Urals oil cost over USD 90 on average. In its forecast, the Bank of Russia assumed a change in the oil price between 2023 and 2024 and 2025 of USD 70, USD 60 and USD 55 per barrel respectively (Bank of Russia, 2022). Taking into account the depreciation of the rouble, the Ministry of Finance of the Russian Federation reported that at the end of March, record oil and gas revenues of 1.2 trillion roubles per month were achieved. In April, another record of 1.8 trillion roubles of oil and gas revenues was achieved. The economy was sufficiently supplied with stable oil and gas export revenues in the first half of 2022. At the same time, however, imports began to decline, both due to sanctions banning the supply of certain goods to Russia and due to the withdrawal of foreign companies from the Russian market. In March and April 2022, imports fell by more than 40% compared to March 2021. A peculiar situation arose in Russia's economy in 2022 – there was an increase in exports, mainly of energy raw materials, and a decrease in imports, as difficulties arose in acquiring goods and services that could not be replaced by substitutes due to sanction restrictions.

According to Russian statistics (Federal Statistical Service, 2022), in the first nine months of 2022, the real income of the population fell by 1.7% compared to the same period in the previous year (Table 1). The Ministry of Development expected a decline of 2.2% at the end of 2022 – relatively little in the context of the declines recorded with other recent crises in the Russian economy. Thus, according to results from 2015, when the country's economy experienced the burden of sanctions for the annexation of Crimea and oil cost an average of just over USD 50 per barrel, Russians' incomes fell by 4% (Minèkonomraèvitià. Federal'naà sluzhba Statistiki, 2023, p. 164). A favourable trend in Russia is the stably low level of unemployment. Since 2012, unemployment has been below 5%.

The situation of the Russian economy in 2023 – despite the ongoing war and the maintained economic sanctions – is stable. Rosstat estimated, based on the results of the second quarter of 2023, that Russia's GDP had grown by 4.9% since the beginning of the year. It can – according to Russian experts – be considered that the economy has freed itself from the slump caused by the sanction restrictions in the first half of 2022. The highest growth in output was recorded in the following sectors of the economy: communications (+19.8%), wholesale trade (+12.5%), manufacturing (+11.3%), construction (+9.8%) and mineral extraction (+ 1.1%). The labour market situation and the associated level of real monetary income of the population are stable. This has had a positive impact on the pace of recovery in consumer demand – the combined turnover of retail trade, paid services to the public and catering grew by 8.3% in the second quarter of 2023 (Minèkonomraèvitiâ. Federal'naâ služba Statistiki, 2023, pp. 9–16).

It should be noted, however, that the rouble has lost around 40% of its value since the beginning of 2023. In August 2023, the euro exchange rate reached 109 roubles, the USD exchange rate 99 roubles. Bloomberg placed the rouble in the top three of the “worst emerging market currencies,” alongside the Turkish lira and the Argentine peso. A weakening rouble is resulting in higher prices for imported goods, which is consequently reducing economic activity for importers. The International Monetary Fund has revised upwards Russia's GDP growth forecast for 2023 to 1.5%. The IMF estimates that Russia's GDP will grow by 1.3% in 2024 (Grozovsky, 2023).

Table 1. Macroeconomic indicators (per cent) compared to the same period of the preceding year

Indicator	2020	2021	2022	Q1 2023
GDP	97.3	104.7	97.9	–
Consumer price index	103.4	106.7	113.8	108.6
Industrial production index	97.1	106.3	99.4	99.1
Investment in fixed assets	99.5	107.7	104.6	–
Real disposable income of the population	98.0	103.2	99.0	100.1
Real wages	103.8	104.5	99.0	107.3
Retail trade	96.8	107.8	93.5	92.7
Export of goods	78.3	146.8	86.1	–
Import of goods	94.4	126.8	85.0	–

Source: Ministry of Economic Development of the Russian Federation, Federal Statistical Service, 2023.

2. Russia's foreign exchange reserves

Foreign exchange reserves and gold (Table 2) are held in the Central Bank of Russia and the State Fund of Precious Metals and Precious Stones of the Russian Federation. Russia's foreign exchange reserves are convertible currencies of a few selected countries. Gold reserves are refined precious metal contained in bars, gold coins, etc. They are an important part of the Russian Federation's foreign exchange reserves. From the point of view of Russia's economic interests, foreign exchange reserves and gold reserves help stabilise the economy and reduce dependence on foreign loans. Gold reserves reduce the likelihood of insolvency or devaluation of the national currency. A specific lesson in humility for Russia can be found in the 1998 crisis, when the country, in the conditions of the crisis, not having sufficient gold and foreign currency reserves, was forced to declare a "default".¹

Table 2. Russia's foreign currency and gold reserves from 2013 to 2023

No.	Year	Foreign exchange reserves	Gold reserves
		(USD billion)	(tonnes)
1	1.01.2013	537.6	957.76
2	1.01.2014	509.6	1,035.21
3	1.01.2015	385.5	1,208.19
4	1.01.2016	368.4	1,414.54
5	1.01.2017	377.7	1,615.19
6	1.01.2018	432.7	1,838.78
7	1.01.2019	468.5	2,113.36
8	1.01.2020	554.4	2,271.31
9	1.01.2021	595.8	2,298.54
10	1.01.2022	630.6	2,301.65
11	1.01.2023	581.9	No data available
12	1.03.2023	574.2	2,329.65
13	25.08.2023	580.5	No data available

Source: own compilation based on: Bank of Russia, 2023c.

According to the World Gold Council, in 2023 the Russian Federation ranked 6th in the world in terms of gold reserves. The reserves of this precious metal accumulated by Russia are caused not so much by the investment attractiveness of the asset, but by the increased distrust of convertible currencies and,

¹ Gold and currency reserves as of 1.01.1997 amounted to USD 15.3 billion.

especially in recent times, the US dollar. To compare the size of the reserves: in July 2023, Poland held 263.4 tonnes of gold, placing it 22nd in the world ranking of holders of reserves of this bullion. Currently, the NBP's foreign exchange reserves amount to €156.5 billion, of which gold accounts for 9.4% of official reserve assets (Money, 2023).

Regarding the currency structure of reserves, the Central Bank of the Russian Federation provided statistics for 2022 late – only in 2023. As of 1 January 2022, the basket of currencies' was as follows: euro – 33.9%, gold – 21.5%, Chinese yuan – 17.1%, US dollar – 10.9%, pound sterling – 6.2%, Japanese yen – 5.9%, Canadian dollar – 3.2%, Australian dollar – 1.0%, Singapore dollar – 0.3%. Gold reserves are held in various countries: Russia – 21.5%, China – 16.18%, Germany – 15.5% France – 9.9%, Japan – 9.3%, USA – 6.4%, England – 5.1%, Canada – 2.7%, Austria – 2.5% (Federal Statistical Service, 2022). Following the outbreak of war with Ukraine, efforts were launched in Brussels to block Russian currency assets. In May 2022, European Commissioner for Justice and the Rule of Law Didier Reynders announced that EU countries had frozen the Central Bank's international reserves. The head of the European Commission, Ursula von der Leyen, reported that the EU intended to confiscate them, but this proved legally impossible. As a result of Western sanctions, some USD 300 billion of Russian foreign exchange reserves were eventually frozen (Èrozzbek, 2022). Russia's foreign exchange and gold reserves decreased from USD 630.6 billion in 2021 to USD 582, billion in 2022.

The Bank of Russia responded in 2022 to the freezing of gold and currency reserves by Western countries. It restricted the flow of foreign capital into Russia, blocked the sale of securities held by foreigners and restricted the withdrawal of foreign currency assets from Russia (Rassohin, Sizov, 2022).

3. National Wealth Fund

The National Wealth Fund is the country's financial reserve, created to maintain the stability of the economy in times of crisis and to provide the necessary funding for the state's infrastructure projects. The Fund is part of Russia's federal budget. The money in it comes from taxes on revenues from the sale of oil, gas and their processing products and is accounted for autonomously from other budget funds (Chistyakova, 2022).

The origins of the National Wealth Fund can be traced back to the Stabilisation Fund, also known as the National Wealth Fund, which was established in

2008 to strengthen the Russian economy, a source of financing for the budget deficit, including supporting the pension system and developing the country's social infrastructure.² The Fund is managed by the Ministry of Finance of the Russian Federation and the Central Bank of the Russian Federation. From 2008 to 2023, the size of the National Wealth Fund increased almost 20 times (from 783 to 13,313 billion roubles). In August 2023, the FMN accounted for 8.9% of projected GDP in 2023. This is equivalent to USD 146,3 billion (Economic Information Agency of Russia, 2023).

The Fund is created from the taxes of companies involved in the sale of oil, gas and their processing products. The excess revenue over a set base value goes into the Fund; the base value of the oil price was set at USD 40 per barrel in 2017 and increases by 2% annually. In 2023, the base value was USD 45.04. If oil revenues exceed the baseline, then the amount of the surplus goes into this Fund.³ The Fund's assets are accumulated and held in various currencies to minimise the risk of depreciation (Federal Statistical Service, 2023). After 30 December 2022, the Ministry of Finance approved a new structure for the fund: no more than 60% of the Fund will be invested in yuan and up to 40% in gold. The Fund's resource structure expresses Russia's political strategy of strengthening economic, political and military ties with China (Economic Information Agency of Russia, 2023).

4. Public finances

Following Russia's aggression against Ukraine, the Russian Ministry of Finance abandoned the implementation of the state budget for 2022 adopted in 2021. It was decided that all oil export revenues would be allocated to federal budget revenues, without replenishing (as previously regulated) the National Property Fund. The financing of war-related expenditure has become a priority objective of the Russian government. Thus, Russian budget expenditure in 2022 was increased by 22.4%, i.e. from 23,694 to 29,006 billion roubles. Russia's budget deficit ultimately stood at 8.9% of GDP at the end of 2022. Russia's budget deficit was mainly financed from the National Wealth Fund (Federal Statistical Service, 2023).

² The prototype of the Russian National Wealth Fund is the Norwegian Government Pension Fund (created from part of the revenue from oil and gas sales).

³ This reference and analytical material has been prepared by Newton Investments LLC for information purposes only. Estimates, forecasts of financial instruments, and changes in their values represent opinions formed as a result of analytical research by Newton Investments LLC staff.

Russia's public debt as at 1 January 2023 stood at RUB 25,984 billion or 17.2% of GDP, 9.3% higher than a year earlier, and increased by 0.4% as a proportion of GDP.

5. Balance of payments, international monetary position and external debt of the Russian Federation

Despite the economic sanctions introduced, favourable trends are noticeable in Russia's balance of payments, mainly due to the country's favourable situation on international commodity markets (Johnson, 2015). As a result of the favourable conditions, a positive balance of payments has taken shape, especially as far as foreign direct and portfolio investments are concerned. The situation in 2022 was not significantly different from financial flows in 2021. With Russia being isolated in the international arena, it sought to repay its forward liabilities and redeem its bonds at maturity. An increase in the value of exports and restrictions on imports resulted in an increase in the current account balance from USD 190.3 billion in 2021 to USD 308 billion in 2022.

In 2022, Russian exports of goods and services amounted to USD 588.3 billion (this was USD 94.0 billion more than in 2021). Exports of crude oil and petroleum products increased the most (by 42.8%, i.e.) and reached USD 388.7 billion. Imports to Russia in 2022 decreased and amounted to USD 280.4 billion (against USD 304.0 billion in 2021). Imports of machinery and equipment and transport equipment decreased to the greatest extent (down 18.6% to USD 108.5 billion). However, a several per cent increase in imports compared to 2021 was recorded in the group of chemical industry products (up 6.0%) and food products (up 4.9%). In the group of exports and imports of services, Russia recorded a turnover deficit of USD 22.2 billion in 2022. However, exports of transport services (down 17.5%) and tourism services (down 16.6% – partly as a result of restrictions still in place after the COVID-19 pandemic) declined, but mainly as a consequence of Russia's aggression against Ukraine.

The Russian Federation's net international foreign exchange position amounted to USD 770 billion. It should be noted that as of 1 January 2023, the volume of foreign assets of the Russian Federation amounted to USD 1,613.2 billion and decreased by USD 38.7 billion. Foreign direct investment in Russia fell by USD 89.2 billion, mainly as a result of a decrease in the share of foreign investors in the ownership capital of Russian enterprises, a decrease in residents' investment in foreign financial instruments (by USD 36.8 billion), but also an increase (by USD 141.1 billion in 2022) in capital exports by Russian citizens and

their placement in foreign banks. It is estimated that some 1.5 million citizens left Russia after the aggression, and they probably also moved their savings abroad (Bank of Russia, 2023a, pp. 26–35).

6. Russia's national public debt

Russia's national public debt (Table 3) is the financial obligations of the state incurred in connection with raising funds from non-governmental organisations and the population for the implementation of state programmes and tasks. It includes debt obligations of the Government of the Russian Federation (expressed in Russian currency) to both natural and legal persons. It can take the form of various loans, government borrowing through the issue of securities (most often bonds) and also other debt obligations guaranteed by the Russian Government.

Table 3. Russia's national public debt – dynamics from 2013 to 2023

Year	National public debt (billion rubles)
1.01.2013	4,977.90
1.01.2014	5,722.24
1.01.2015	7,241.17
1.01.2016	7,307.61
1.01.2017	8,003.46
1.01.2018	8,689.63
1.01.2019	9,169.63
1.01.2020	10,171.93
1.01.2021	14,790.47
1.01.2022	16,486.44
1.01.2023	18,780.96

Source: own compilation based on: iFinance, 2019.

The national public debt is steadily increasing, which is not beneficial for the economy. It results in the need to look for sources of financing for budget commitments. In the current environment, this is made more difficult as foreign sources of financing are difficult to access and domestic resources are diverted to finance the needs of the ongoing war in Ukraine.

7. Foreign debt

Russia's foreign debt (Table 4), according to the Bank of Russia, stood at USD 347.7 billion as at 1 July 2023, having fallen by USD 33.0 billion since the beginning of 2023. The structure of Russia's foreign debt is 63.3% of the liabilities of various sectors to foreign entities, the liabilities of the central bank and commercial banks account for 24.6% of total foreign debt (USD 93.4 billion), and public sector debt accounts for 12.1% of total debt (USD 46.1 billion). In 2022, the external debt of all the aforementioned sectors has decreased. Short-term debt increased slightly (from 16.0% to 17.2% of total debt) and long-term debt decreased significantly as a result of the repayment of loans taken out by Russian entities (Bank of Russia, 2023a, pp. 26–35).

Table 4. Russia's foreign debt 2013–2023

No.	Year	Foreign debt	
		billion USD	per cent GDP
1	1.01.2013	636.4	32
2	1.01.2014	728.9	29
3	1.01.2015	599.9	38
4	1.01.2016	518.5	40
5	1.01.2017	511.7	33
6	1.01.2018	518.4	28
7	1.01.2019	455.1	29
8	1.01.2020	491.5	31
9	1.01.2021	467.6	31
10	1.01.2022	482.1	26
11	1.01.2023	380.5	17

Source: Bank of Russia, 2023d.

According to the Bank of Russia, the foreign debt of the Russian Federation stood at USD 347.5 billion as at 1 July 2023, having declined by USD 33.0 billion, or 8.7%, since the beginning of 2023. To a large extent, the dynamics of the indicator was determined by a reduction in debt obligations and direct investment. The decline in government debt as a result of the sale of sovereign securities by non-residents played an important role.

8. Russia's foreign trade

An important factor determining the situation of the Russian economy is foreign trade (Table 5). In August 2012, Russia became a member of the World Trade Organisation (WTO). The Russian Federation actively cooperates with members of the Eurasian Economic Union, the EU Customs Union and signatories of the CIS Free Trade Area Treaty (Soglašenje o sozdanii zony svobodnoj trgovli ot 15 aprilâ 1994 g.). Foreign exchange earnings from exports of goods and services account for a significant proportion of federal budget revenues. Many domestic industries are also heavily dependent on imported products. The Russian Federation's most important export commodities (in terms of value) are crude oil, petroleum products, natural gas, machinery and equipment, diesel fuel, ferrous metals and coal. The most important imported products are machinery and equipment and various highly processed products.

Table 5. Russia's foreign trade 2014–2022 (USD billion)

Year	Total exports	Total imports	Total turnover	Balance
2014	497.3	287.0	784.3	210.3
2015	343.5	182.9	526.4	160.6
2016	285.6	182.4	468.0	103.2
2017	357.2	227.8	585.0	129.4
2018	449.5	238.4	688.9	211.1
2019	424.6	247.3	672.9	177.3
2020	333.5	253.9	587.4	79.6
2021	494.3	304.0	798.8	190.0
2022	591.5	259.1	850.6	332.4

Source: own compilation based on: iFinance, 2019.

Russia's main trading partners are China, Germany, the Netherlands, Belarus, the US, Turkey, Italy, Korea, the UK and Kazakhstan (Table 6).

According to the Russian Federal Customs Service, Russia's foreign trade surplus in 2022 was a record \$332.4 billion. According to the Central Bank, for the seven months of 2023, the positive balance of foreign trade in goods of the Russian Federation increased and amounted to USD 64.4 billion.

Table 6. The Russian Federation's foreign trade with its most important partners in 2022

No.	Country	Value (in USD billion)	Share in Russia's total trade (per cent)	Growth up to 2020 (per cent)
1	China	140,704.5	17.9	135.2
2	Germany	56,996.0	7.3	135.7
3	Netherlands	46,439.5	5.9	162.6
4	Belarus	38,426.9	4.9	134.4
5	USA	34,414.6	4.4	144.2
6	Turkey	33,024.8	4.2	157.0
11	Poland	29,000.6	No data available	No data available

Source: own compilation based on: iFinance, 2019; Główny Urząd Statystyczny, 2023.

The Russian authorities did not disclose all foreign trade data in 2022, but there is enough information from trading partners to draw conclusions about the transformation in this area. There is no doubt that China has become the number one partner for Russia, while Turkey acts as a major transit hub in Russian foreign trade. This is a qualitatively new situation in which China is seeking to achieve economic and political gains in the international arena, both short- and long-term. However, Turkey, as a NATO country, has different domestic priorities and is influenced by the US and the EU.

Economic sanctions against Russia have led to foreign companies suspending or limiting their activities in the country. Russia started 2022 with a 55% share of foreign trade with the countries that applied sanctions in February. Although these countries' share of trade with Russia has decreased to around 45%, foreign trade turnover with these countries remains high regardless of the sanctions applied.

In October 2022, the Federal Customs Service reported that Russia's exports for nine months amounted to USD 431 billion (up 25% compared to 2021) and imports to USD 180 billion (down 16%). Data from Russia's main trading partners in 2022 (the so-called neutral or friendly countries – China, Turkey, Belarus, India, Kazakhstan), shows that Russia's total turnover with these countries reached USD 261 billion. However, it must be taken into account that these are only estimates, as the data for the calculations are collected from various sources and often vary. The share of the remaining dozens of countries that did not join the anti-Russian sanctions was around 11% of Russia's total foreign trade turnover in 2022.

The decline in Russian exports in 2022 should be noted. The reason for this was the European embargo on Russian oil imports from December 2022 – by 2022, more than 55% of Russian oil exports went to EU countries. The G7's price

cap on Russian oil and the fall in oil prices on world markets were also reasons for the decrease in oil exports.

9. Evolution of oil export directions

It is important to note significant changes in the directions of Russian energy commodity exports. In January 2022, before the start of the war in Ukraine, shipments to the EU accounted for the vast majority of the total volume of seaborne shipments of Russia's reference Urals crude, while in September it was only 24%. At the same time, India started to purchase Urals (from zero at the beginning of the year to just over 40% at the beginning of autumn) and Turkey increased its purchases from 5 to 21%. The growth of Russian oil exports to India is particularly dynamic when compared to 2021. In the period from January to October 2022, the country imported 24.8 million tonnes of crude – more than eight times more than in the same period a year earlier, and in monetary terms nine times more than a year earlier.

Decline in physical offshore supplies of Russian oil, reduction in shipments of Russian oil by sea began from November 2022. Russia is responding to sanctions – it has declared its readiness to reduce oil production from the beginning of 2023 due to the price ceiling imposed by the G7, Russian Deputy Prime Minister Alexander Novak reported on 23 December 2022 (Economic Information Agency, 2022).

The problem for Russia is that the foreign exchange earned by Russia in 2022 from foreign trade cannot be rationally consumed due to the restrictions imposed on foreign exchange and international trade. Russian companies cannot hold currency in bank accounts and manage it freely. They cannot buy many goods and services directly in their countries of manufacture. China and India, on the other hand, are unable to supply goods to Russia on a comparable scale (with Russian exports of oil, gas and petroleum products) because they do not have goods Russia would be interested in. For example – while India purchased USD 28 billion worth of goods from Russia in the ten months of 2022, it managed to export only USD 2.3 billion worth of goods to Russia. As a result of reduced supplies of Western equipment and technology, China has become Russia's main partner. They increased exports to Russia by 13% year-on-year. Meanwhile, US exports of goods to Russia fell by five times. In total, from January to August 2022. The US imported USD 12.1 billion worth of goods

from the Russian Federation and exported USD 1.3 billion worth of goods to the Russian Federation (dp.ru, 2022).

In terms of imports, Russia is currently the most China-dependent country in international trade. The Russian economy's dependence on China will increase over time. However, China cannot fully make up for the lack of supply of Western components and equipment to Russia. China does not produce relevant high-tech products (such as microchips) or is unwilling to supply them to Russia because of the risk of sanctions or for national security reasons. For example, the Chinese government has banned the supply to Russia of Loongson processors based on its own LoongArch architecture (Kornev, 2022).

The second country, after China, to tighten economic cooperation with Russia strongly after the outbreak of the 2022 war was Turkey. According to the Turkish Statistical Institute, between January and October, exports of goods to Russia increased one and a half times (to USD 6.9 billion) compared to the same period a year earlier. Turkey overtook Germany in terms of exports to Russia and moved up to third place on the list of largest suppliers after China and Belarus (*Rossiyskaya Gazeta*, 2022). A significant part of the goods arriving in Russia from Turkey are the result of re-exports. Cargoes from various countries are unloaded at the ports of Mersin, Istanbul and Izmir, then placed in containers owned by local companies and shipped by sea to Novorossiysk or transported by truck through Georgia to Russia. Many European goods enter Russia via Turkey because of its geographical location. It is thus a kind of "Turkish hole" in the sanctions wall (Romanov, 2022).

Conclusions

Russia's economic situation is changing dynamically in 2022–2023. In the first half of 2022, the basic indicators are favourable. However, the whole year 2022 ended unfavourably for the Russian economy.

In 2023, Russia's economic situation is stabilising. GDP is forecast to grow by around 2.0% in 2023, in 2024 it could reach 1.5%, and then in 2025 and 2026 also by 1.5% respectively (Bank of Russia, 2023b). Inflation should stagnate at between 5.6% in 2023 and 4.0% in 2026.

However, despite these positive developments, Russia's economy is failing to take advantage of its external and internal opportunities. The instigation and continuation of the war with Ukraine has prompted a response from Western countries resulting in sanction packages being implemented. These reduce Russia's

export opportunities and import needs. The funding of war expenditure also reduces the pool of resources that could have gone into supporting innovative development of the civilian economy. Formal restrictions are causing the economy to run on a “hand applied brake.” Russia’s economic future in the medium term is a great unknown.

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Normative acts

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Summary

In 2022–2023, Russia's economic situation was dynamic and challenging. Russia's aggression against Ukraine and the introduction of economic sanctions by Western countries have had a significant impact on the Russian economy. As a result of the aggression against Ukraine and the prioritization of the financing of the war effort, the Russian budget for 2022 was significantly increased, leading to a large budget deficit. Russia's public debt increased significantly during the year, reaching 17.2% of GDP. This represents a significant increase compared to the previous year. Despite the sanctions imposed, Russia had a favourable balance of payments, mainly due to exports of raw materials,

especially oil and natural gas. Russia's international currency position was at the level of USD 770 billion. Russia's foreign debt decreased in 2022, mainly due to loan repayments. However, the structure of this debt varies. Despite the sanctions, Russia has maintained significant foreign trade, gaining new trading partners such as China and Turkey. Russia has changed the direction of its energy exports, limiting exports to the EU and increasing them to countries such as China and India.

Despite the stabilization of the economic situation in 2023, Russia still faces challenges related to sanctions and restrictions on international trade. Russia's economic future remains uncertain. This description of Russia's economic situation in 2022–2023 shows the complicated situation of the country, which has to deal with the challenges of hostilities and international sanctions.

KEYWORDS: Economy, Russia, macroeconomics, economic crisis, war in Ukraine

Streszczenie

W latach 2022–2023 sytuacja gospodarcza Rosji była dynamiczna i pełna wyzwań. Jej agresja na Ukrainę i wprowadzenie sankcji gospodarczych przez kraje zachodnie miały istotny wpływ na rosyjską gospodarkę. W wyniku ataku na Ukrainę i priorytetowego traktowania finansowania działań wojennych, rosyjski budżet na 2022 r. został znacząco zwiększony, prowadząc do dużego deficytu budżetowego. Dług publiczny Rosji wzrósł znacząco w ciągu roku, osiągając poziom 17,2% PKB. To oznacza znaczny wzrost w porównaniu z poprzednim rokiem. Rosja, mimo wprowadzonych sankcji, miała korzystny bilans płatniczy, głównie dzięki eksportowi surowców, zwłaszcza ropy naftowej i gazu ziemnego. Jej międzynarodowa pozycja walutowa była na poziomie 770 mld USD, a zadłużenie zagraniczne zmniejszyło się w 2022 r., głównie z powodu spłaty kredytów. Jednak struktura tego zadłużenia jest zróżnicowana. Pomimo sankcji Rosja utrzymała znaczący handel zagraniczny, zyskując nowych partnerów handlowych (np. Chiny i Turcję). Zmieniła także kierunki eksportu surowców energetycznych, ograniczając eksport do Unii Europejskiej i zwiększając go do krajów takich jak Chiny i Indie.

Pomimo stabilizacji sytuacji gospodarczej w 2023 r., Rosja nadal staje przed wyzwaniami związanymi z sankcjami i ograniczeniami w handlu międzynarodowym. Jej przyszłość gospodarcza pozostaje niepewna. Ten opis sytuacji gospodarczej Rosji w latach 2022–2023 pokazuje skomplikowaną sytuację tego kraju na tle prowadzonych działań wojennymi i nałożonych sankcji międzynarodowych.

SŁOWA KLUCZOWE: ekonomia, Rosja, makroekonomia, kryzys ekonomiczny, wojna na Ukrainie

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