

Russia's Defense Industry Shows Signs of Slowdown After Years of Wartime Growth

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T-90 Armata tanks stand at the UralVagonZavod machine-building plant in Nizhny Tagil. **Vladislav Burnashev / TASS**

Russia's defense-industrial complex, the main driver of the country's economy thanks to massive wartime spending, has shown its first signs of stalling after nearly three years of double-digit growth, according to new <u>data</u> from state statistics service Rosstat.

Industries linked to the military sector, which have been buoyed by trillions of rubles in state defense contracts, entered stagnation or decline in September for the first time since the invasion of Ukraine began, the data show.

Production of "fabricated metal products," which <u>surged</u> 26.4% in 2023 and 31.6% in 2024, dropped 1.6% year-on-year in September after growing <u>21.2%</u> in August.

Output of "other transport equipment" — a category that includes tanks and armored

vehicles — slowed sharply to 6% year-on-year growth in September from 61.2% the previous month.

Compared to August, production of fabricated metal goods fell 6%, while output of other transport equipment plunged 20%, according to <u>estimates</u> by Raiffeisenbank.

The data on military production "look shocking," analysts at MMI <u>wrote</u>, noting that defense-related industries, which had previously propped up industrial growth, this time dragged the broader manufacturing index lower.

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Manufacturing output rose just 0.4% year-on-year in September — eight times slower than in August, when growth stood at 2.4%.

Manufacturing is Russia's largest economic sector, and its growth last month was the weakest since early 2023, said Denis Popov, chief analyst at PSB Bank.

Overall industrial production, which accounts for roughly 30% of Russia's GDP, "has almost stopped growing," he added — rising just 0.3% in September compared to 5.6% a year earlier.

Industrial output has fallen 3.6% since December, <u>according to</u> analysts at the Center for Macroeconomic Analysis and Short-Term Forecasting (CMASF).

Civilian industries have been contracting throughout 2024 and were down 1.1% year-on-year as of September, their data show.

The Russian Academy of Sciences' Institute of Economic Forecasting <u>reported</u> that 18 of 24 manufacturing sub-sectors, which together produce nearly 80% of the country's goods, are now in recession.

The slowdown appears to be linked to tightening budget constraints, said Natalia Orlova, chief economist at Alfa Bank.

The machine-building sector, which is heavily dependent on state defense orders, fell 0.1% in September after surging 15.7% in August.

"This may signal that planned fiscal tightening will begin to weigh on industrial growth in the near term," Orlova warned.

To meet budget targets amid a 21% drop in oil and gas revenues and a deficit five times higher than projected, the Finance Ministry may need to cut spending in the fourth quarter — raising the risk of an economic "cooldown," said PSB's Popov.

According to the Institute of Economic Forecasting, Russia's GDP shrank 0.6% between January and August, with annual growth nearly flat at 0.4% in both July and August.

New U.S. sanctions targeting Rosneft and Lukoil, which could disrupt Russian oil sales to India, will further pressure the economy, <u>said</u> Petr Matys, senior analyst at Touch Capital

Markets.

"The risks of a hard landing for the Russian economy are increasing," he added.

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