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Russian Investment Growth Stalls as High Rates Deter New Projects

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Marina Lystseva / TASS

Investment growth in Russia has stalled, Deputy Prime Minister Alexander Novak told senators Tuesday, signaling an end to several years of rapid expansion fueled by state spending and import substitution.

Investment rose just 0.5% in the first nine months of 2025, Novak said, adding that full-year growth would likely be "zero or slightly above."

That is well below the Economic Development Ministry's September forecast of 1.7% growth.

Shortly after that projection, state statistics agency Rosstat reported the first annual decline in investment in five years, with capital spending down 3.1% year on year in the third quarter.

The Economic Development Ministry now expects investment to fall 0.5% this year.

Analysts attribute the slowdown to high borrowing costs, weakening demand and tighter fiscal conditions.

The largest contribution to the decline came from transport, construction — which has been hit by the Central Bank's elevated key rate — and parts of the extractive sector, particularly coal, oil and gas, the Center for Development at the Higher School of Economics (HSE) said.

Investment remained more resilient in sectors linked to defense production and import substitution, including specialised transport equipment, chemicals and pharmaceuticals.

But that support is heavily dependent on state funding, analysts said. When government financing is reduced, investment quickly contracts.

HSE cited the electronics industry, where investment fell in the third quarter after subsidies were cut as part of efforts to balance the budget.

"The crisis is out in the open," said Dmitry Belousov, deputy head of the pro-government Center for Macroeconomic Analysis and Short-Term Forecasting, blaming a "prolonged ultra-tight monetary policy."

High interest rates have made new projects unattractive, prompting companies to postpone expansion plans, analysts at brokerage Aton said.

Economists at the Gaidar Institute expect borrowing costs to remain at "investment-unfriendly" levels in 2026, even as economic growth slows.

Investment has been supported by inertia, with companies completing projects already under way.

Last year, the heads of Sberbank and Rosselkhozbank said their banks were financing only previously launched projects, noting a lack of demand for funding for new ones.

"Investment held up because the flywheel was still spinning," said Alexander Shokhin, president of the Russian Union of Industrialists and Entrepreneurs.

The group estimates investment will fall around 1.5% this year, three times the Economic Development Ministry's forecast.

The sharpest declines are in infrastructure and machinery and equipment, where investment fell 15% year on year, analysts at Promsvyazbank said, warning that the trend points to a halt in the expansion of Russia's economic capacity.

Some economists question whether the investment boom of recent years significantly boosted long-term growth. Between 2020 and 2024, investment rose 36.5% in real terms, compared with 10.1% growth in GDP.

Much of that spending was substitutive rather than productivity-enhancing, analysts said, citing investment to replace foreign software and equipment disrupted by sanctions.

The Central Bank has noted that modest productivity gains in investment-heavy sectors suggest capital spending has largely compensated for broken supply chains.

Natalia Orlova, chief economist at Alfa Bank, said the slowdown was natural after the completion of infrastructure and logistics projects linked to Russia’s pivot to Asia. Over time, part of that investment may have to be written off, she added.

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