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Russian Business Climate Indicator Slips to Near-Stagnation

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Dmitry Feoktistov / TASS

Russia's economy showed further signs of slowing in February, with a key business sentiment gauge hovering just above contraction territory, according to data from the Central Bank.

The business climate index, calculated monthly by the Central Bank from a survey of around 15,000 enterprises, dropped to 0.2 points in February. The figure was down from 1.5 in January, 2.5 in December and an average of 3.2 for 2025.

A reading of zero separates expansion from contraction.

February's reading was the weakest since October 2022, when business activity slumped in the aftermath of Russia's "partial" mobilization for the war in Ukraine and the index fell to minus 1.1.

Companies sharply downgraded their assessment of current conditions. That component of the index fell to minus 7.8 from minus 4.2, its lowest level since May 2022. Firms'

assessments of demand for their products also dropped to their weakest level since that time.

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The share of companies increasing output continues to lag behind those cutting production. The balance of responses on changes in output volumes has remained negative since September 2024.

In February, it fell to its lowest level since last September and was last weaker in the summer of 2022.

The overall index remains marginally in positive territory only because of business expectations. Expectations rose slightly in February to 8.4 from 7.4 in January, but remain below levels seen over the previous three years.

Russia's economy showed resilience in 2022-2025 despite war and sanctions.

However, after nearly four years of conflict, costs have risen significantly and are beginning to threaten macroeconomic and financial stability, said Marek Dabrowski of the Bruegel think tank.

According to a preliminary estimate from state statistics agency Rosstat, GDP growth slowed to 1% in 2025, down from 4.9% in 2024 and 4.1% in 2023.

Sergei Aleksashenko, a senior fellow at the NEST Center in London, compared Russia's economic structure to the letter "K", with war-related sectors climbing while the rest of the economy gradually declines.

In industry, excluding sectors with substantial military production, output fell last year across all branches except pharmaceuticals and tobacco, Rosstat reported.

Another measure of business activity, the manufacturing PMI compiled by S&P Global from surveys of purchasing managers, has pointed to contraction since the middle of last year.

Economist Dmitry Polevoy has attributed the divergence with the Central Bank's index to differences in sample size and coverage, noting that the S&P survey includes far fewer companies and does not cover defense enterprises, where most growth is concentrated.

"Most of the positive momentum in recent months has been driven by higher output in sectors with significant defenze production," the pro-Kremlin CMACP analytical center said in a note.

Because defense firms are included in the Central Bank's survey, the near-zero reading of the business climate index may indicate that even that support is weakening.

A separate Central Bank monitoring report showed a noticeable decline in incoming cash flows at the start of the year, with reductions recorded across most broad sectors of the economy.

Economic conditions remain highly segmented, investment activity is still on pause, the external sector faces risks and concerns about economic overheating persist, analysts at Promsvyazbank said.

“Domestic consumer demand remains the only driver allowing the economy to avoid recession,” they added.

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