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Russia's Investment Slips for First Time Since Pandemic

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Dmitry Feoktistov / TASS

Russia's investment in fixed capital fell 2.3% in 2025, state statistics agency Rosstat said, marking the first annual decline since the pandemic and highlighting growing strains on the economy from high interest rates and tightening state finances.

The drop was the steepest since 2015, when investment plunged 10.1% following Russia's annexation of Crimea and Western sanctions. Investment last fell during the pandemic year of 2020, though the decline then was marginal at 0.1%.

The slowdown intensified as the year went on. Investment grew 6.5% year-on-year in the first quarter but then turned negative, falling 1% in the second quarter, 4.3% in the third and 5.3% in the fourth.

Economy Minister Maxim Reshetnikov had earlier warned that investment would likely decline in real terms, describing the slowdown as the "natural price" of tight monetary policy aimed at reducing inflation.

He said he expected investment to decline by a further 0.5% this year.

High interest rates have made it more attractive for companies to keep funds in bank deposits rather than expand production, said Anton Tabakh, chief economist at rating agency Expert RA.

"It's a year of 'climbing into the fridge' and a budgetary crisis," he said.

At the same time, government efforts to stabilize the federal budget have also dampened investment activity. Analysts at research group Tverdye Tsifry said the share of companies' own funds in fixed capital investment reached nearly 59% last year — the highest level on record except for 1997.

Related article: Russian Investment Growth Stalls as High Rates Deter New Projects

The period also marks the first time Russia has seen a decline in fixed capital investment in absolute terms, analysts said.

They warned that any reduction in government spending would further weaken investment activity, while higher tax burdens could also weigh on business spending.

Using investment programs from 61 major companies as a leading indicator, Tverdye Tsifry analysts said investment growth this year could be close to zero in nominal terms, implying another decline in real terms as companies cut spending.

Business surveys by the Central Bank showed that most investment last year was directed at maintaining existing production capacity rather than expanding it. The regulator attributed the slowdown to cooling domestic demand but said overall investment levels remained close to recent highs.

The decline was driven mainly by transport, construction and some extractive industries, particularly coal and parts of the oil and gas sector, according to the Higher School of Economics' Development Center.

The pro-Kremlin analytical center CMACP has also questioned the quality of investment amid the war, noting that much of the spending has been forced by restrictive external factors like import substitution. For example, Russian companies spent about 1.6 trillion rubles ($200 billion) replacing foreign software in 2024 alone.

The investment report by CMACP notes that Russia has a history of high fixed capital investment, even at times outpacing GDP growth, creating a positive investment gap.

However, analysts note that this has been driven by adaptation and structural transformations in the sanctioned Russian economy.

"The situation is much more complicated and in fact, far from positive," the report noted.

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