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Could Russia's Wartime Debt Boom Trigger a Banking Crisis?

By Moscow Times Reporter

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Sophia Sandurskaya / Moskva News Agency

Russia's wartime borrowing boom, which helped prop up the economy following Western sanctions, has left the country's banking sector increasingly vulnerable as high interest rates and slowing growth make it harder for companies and households to repay their debts.

Since 2022, the government has aggressively rolled out subsidized lending programs, either as newly introduced measures or expanded emergency schemes left over from the Covid-19 pandemic. They have helped underwrite not only defense-related industries but also agriculture, small businesses and factories seeking to replace lost Western suppliers and expand production.

At the same time, officials have encouraged Russians to borrow more, including by expanding subsidized family mortgage schemes, which helped buyers afford increasingly expensive homes.

As a result, Russian corporate debt has grown by 93% since 2021, while household debt has risen by 57% over the same period.

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That accumulation of debt is now turning into a systemic pressure point as high interest rates make servicing loans more expensive and recent tax hikes squeeze corporate profits.

A record 636,000 Russians declared bankruptcy in 2025, up 30% from the previous year and more than three times the roughly 197,000 recorded in 2021. The trend continued into 2026, with bankruptcies rising 13.7% year-on-year in the first quarter to 137,500.

Russian courts declared 3,550 companies bankrupt in the first half of 2026, up 10.8% from a year earlier. The number of firms entering insolvency proceedings — the first stage of corporate bankruptcy — jumped 20.9% to 2,970, according to Fedresurs, Russia's official bankruptcy register. However, both figures remained below the levels recorded in the first half of 2024.

Smaller businesses appear to have been hit hardest. Central Bank data show that by April 2026, nearly 10% of microenterprises — defined as firms with fewer than 15 employees and annual revenue below 120 million rubles ($1.5 million) — had experienced significant difficulties with loan repayments over the previous 12 months, compared with about 6% of small businesses.

By May, roughly one in six of Russia's 600,000 small and medium-sized enterprises with outstanding loans had fallen behind on repayments.

Officially, bad corporate loans account for around 4% of total lending. Analysts say the true figure is likely higher because large borrowers often restructure loans instead of defaulting outright, allowing banks to avoid classifying the debt as impaired.

The Central Bank has repeatedly said that Russia's commercial banks are financially healthy and hold enough cash reserves to handle a wave of unpaid loans. Policymakers also argue that allowing struggling borrowers to reorganize payment plans instead of forcing them into default does not necessarily mean the country's financial system on the whole is in danger.

In July, the Central Bank told lenders to continue restructuring loans for companies facing what it described as "temporary difficulties," allowing borrowers more time to make payments.

A recent European intelligence report cited by Reuters said this practice creates an "illusion of a dynamic economy" that masks an "explosive situation" for the Russian banking sector.

The report estimates that 10% of corporate loans are of "doubtful" quality, well above the official figure.

Its conclusion: Western governments now have an opportunity to impose "ambitious" new

sanctions that could trigger an economic shock and potentially tip Russia into a full-blown banking crisis.

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The alarm bells are also ringing inside Russia.

CMAKP, an influential Moscow-based economic think tank, said in a May report that banks' combined stock of "problem assets" held against both corporate and household borrowers had exceeded what it called the "critical threshold" of 10%.

"The crisis is unfolding in a latent form, as the deterioration in asset quality is being masked by the restructuring of overdue loans and by the dominance of state-owned banks," the report said, adding that these factors were preventing a bank panic from breaking out.

Ten percent of all bank loans to Russian companies and households amounts to about 12 trillion rubles ($153.6 billion), slightly more than the roughly 10 trillion rubles ($128 billion) the federal budget has typically collected in annual oil and gas revenue since 2022.

Banks also appear to be shifting toward safer assets. Their holdings of Russian government bonds, known as OFZs, rose 3% between January and May to 19.4 trillion roubles ($248.3 billion), a trend that may reflect a more cautious approach to lending.

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If the 10% estimate is accurate, it would pose a serious challenge for the Kremlin, said Maximilian Hess, founder of the political risk consultancy Enmetena Advisory and a fellow at the Foreign Policy Research Institute.

"The International Monetary Fund has long considered a 10% non-performing loan rate a sign of significant banking distress, and one that usually takes a long time to recover from," Hess told The Moscow Times.

To ease the pressure, the Kremlin may ultimately have to step in and use money from the federal budget or the National Wealth Fund to inject cash into banks weighed down by these bad loans — something the government may already be doing behind the scenes.

This would put further strain on Russia's already stretched budget, but it is unlikely to trigger an immediate shock, Hess said. That's because the country continues to receive fresh revenues from energy exports and can spread the cost of supporting banks over several years.

A more serious crisis could emerge if Western sanctions succeed in curbing Moscow's hard-currency earnings and its oil and gas exports, particularly to Asian buyers, Hess said.

"But I do not think European policymakers are yet prepared to impose sanctions of that kind," Hess said. "It also remains to be seen whether Ukrainian drone strikes — what Kyiv

calls ‘long-range sanctions’ — will have a noticeable impact on Russian exports.”

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