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GLOBAL ECONOMY ON THE EVE OF NEW SHOCKS: OPPORTUNITIES AND RISKS FOR RUSSIA

Fundamental Trends

In 2024, the global economy showed partial adaptation to the challenges it had faced since 2022, amid sharply intensifying geopolitical turbulence. According to IMF data, global economy growth rate reached 3.3% for the year – 0.2 percentage points (p.p.) below 2023 and 0.3 p.p. lower than in 2022. Nevertheless, this reflects a certain rebalancing of global economic processes. In advanced economies, which were significantly affected by geopolitical shocks (as evidenced by a slowdown in GDP growth from 2.9% to 1.7% over 2022–2023), growth in 2024 stabilized at 1.8% level. Meanwhile, emerging market economies grew 2.4 times faster, at a rate of 4.3%. Global trade volume for goods and services increased by 3.8% in 2024, recovering from a near-record low (since 2010, excluding the 2020 crisis dip) of just 1.0% in 2023. The rate of goods export grew by 3.3%, reversing a 0.4% decline the previous year and even surpassing the 2022 level of 2.5%. The threats of inflation also showed signs of abating. Average consumer price inflation in advanced economies fell to 2.6%, down from 7.3% in 2022 and 4.6% in 2023. In emerging markets, inflation slowed to 7.7% in 2024, compared to 9.5% in 2022 and 8.0% in 2023. However, it would be premature to interpret these trends as signs of sustainable global economic stabilization.

First, the main contributor to the modest recovery in advanced economies was the post-shock correction (after 2023) in Europe. Economical growth in the euro area accelerated from 0.4% to 0.9%, compared to the previous year; in the EU overall, from 0.6% to 1.1%; and in the UK, from 0.4% to 1.1%. In contrast,

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economical growth rates in the USA remained virtually unchanged (2.8% versus 2.9% for the previous year), and Japan saw a steep decline from 1.5% to 0.1%.

Second, although GDP growth in emerging markets slowed to 4.3% from 4.7% in 2023, it still remained above 4.1% level recorded in 2022. Over the two-year period, however, this effect was entirely explained by the growth dynamics in the countries of East, Southeast and South Asia, as well as in Russia. Herewith, in the mentioned group of Asian countries, China mainly contributed to the regional economic recovery, the GDP of which increased by 5.0% in 2024, compared with 3.1% in 2022. On the contrary, in India, the GDP growth decreased, compared to not only in 2023 (9.2%), but also in 2022. (7.6%), which may indicate that the Indian economy has already received its main "geopolitical dividend" associated with the acquisition of Russian energy resources (primarily crude oil) on favorable terms, and accelerating the economic growth due to this factor is unlikely in subsequent years. In general, we have to admit that neither advanced economies nor emerging markets have managed to develop a successful adaptation strategy in the face of the challenges to have arisen in the new geopolitical realities.

Third, the nascent recovery in global trade in late 2024 and early 2025 has encountered risks, the full scope of which remains to be assessed. These risks are related to the tariff initiatives by D. Trump, who returned to the post of President of the United States, suggesting a large-scale increase in US import tariffs. On the day of his inauguration (January 20, 2025), D. Trump made public new principles of the America-First Trade Policy based on the need for overcoming "unfair and unbalanced trade". Since the beginning of February, he has imposed increased customs tariffs on goods from China, as well as from the closest partner countries - Canada and Mexico, which, together with the United States, are members of the trilateral Free Trade Area (USMCA). While negotiations with Canada and Mexico led to partial delays in the new tariffs, relations with China entered a new phase of reciprocal tariff escalation (which was stopped in 2020), reviving fears of a full-scale USA-China trade war. In early April, D. Trump imposed tariffs on nearly all imports from 184 countries and territories, as well as from the European Union. Given that there are only 193 UN member states at the moment, this amounts to a trade war with almost the entire world. Although a temporary suspension of most tariffs was later introduced to allow time for negotiations with some states, such a radical shift in U.S. trade policy could significantly undermine global economic growth potential in 2025.

Current Situation For Main Countries And Regions Of International Economy

Given the new trade policy initiatives announced by the Trump administration, developments in the U.S. economy warrant particular attention. In 2024, the same as the previous year, the USA once again posted the highest GDP growth rate (2.8%) among major advanced economies, as well as the highest real domestic demand growth (3.1%). However, in 2024, import demand in the American economy grew even faster: goods imports rose by 6.0% and services imports by 8.8%. Given that the growth rate of goods exports was more than 3 times lower than the growth rate of imports, the USA recorded an outstandingly high goods trade deficit exceeding $1.2 trillion in 2025. The services trade surplus was just $293.4 billion – over four times smaller. Four partners – China ($295.4 billion), the EU ($235.6 billion), Mexico ($171.6 billion), and Vietnam ($123.5 billion) – accounted for more than 2/3 (68.1%) of the U.S. trade deficit in goods. The worsening international trade deficit was a central rationale for Trump's administration to raise import tariffs to combat what he described as “unfair and unbalanced” trade.

Unlike the United States, the economies of the Eurozone countries continued to be under negative pressure caused by geopolitical factors. Five of the twenty countries in the Eurozone (Germany, Austria, Finland, Latvia and Estonia) experienced economic recession, although only in one case it exceeded 1 percentage point. Austria turned out to be the most affected country, the economy of which, due to its geographical location, was particularly shocked by the restriction of access to Russian energy resources (the 1.2% decline in GDP). In the Eurozone as a whole, the GDP growth rate was almost 4 times less than in 2022 (0.9% compared to 3.5%). The particularly alarming situation has developed over the past few years in the manufacturing industry of the advanced Eurozone countries, which have traditionally been among the industrial leaders of the modern world. A continuous decline in monthly indicators of manufacturing production (compared to the same period last year) has been observed in Austria since May 2023, in Germany since June 2023, in Italy and the Netherlands since July 2023, and in France since May 2024. A similar pattern emerged in the UK in 2024, as minimal growth in manufacturing production was observed for only two months since June.

The long-term decline in the competitiveness of manufacturing industries in European countries can be explained by the range of causes – from rising labor costs due to population aging and increased social contributions from businesses, to higher expenditures on environmental projects and the abandonment of hydrocarbon fuels in the context of implementing high-priority concepts of the "green economy" and "green energy." Since 2022, these factors have been accompanied by the consequences of sanctions on energy exports from the Russian Federation, which have had a particularly severe impact on the European natural gas market. In 2024, futures prices for natural gas tripled. Rising energy prices are objectively contributing to the further weakening of the market positions of European industrial producers. Against this backdrop, it is not surprising that, despite the continuing political hysteria in the EU around economic cooperation with the Russian Federation, European businesses remain willing to purchase Russian hydrocarbon resources. According to Eurostat, the volume of liquefied natural gas imports from Russia in Q4 2024 exceeded the level of Q1 2021 by 18% in physical terms and by 2.74 times in value terms. As of Q4 2024, Russia ranked second among LNG suppliers to the EU, accounting for 22% of its imports – being behind only the United States (36%).

Despite the fact that in the group of emerging market countries, the average growth rate in 2024 (4.3%) exceeded the same indicator in 2022 by 0.2 percentage points, compared to 2023 they decreased by 0.4 percentage points. The decrease was mainly contributed by the slowdown in growth in China (from 5.4% to 5.0%) and in India (from 9.2% to 6.5%). To a large extent, this process had objective nature: as the main beneficiaries of rising geopolitical tensions (in particular, having capitalized on opportunities linked to the eastward reorientation of Russian goods exports), these countries had already realized much of the growth potential from those impulses by 2023. In the coming years, the contribution of these factors to GDP dynamics will diminish, although they will continue to play an important role in sustaining output levels in national economies.

In early 2025, short-term risks to the Chinese economy were dominated by the threat of a full-scale trade war with the United States, associated with a reciprocal escalation of trade tariffs as part of tariff initiatives developed by the D. Trump administration. Despite the 2020 announcement of a transition to a “dual circulation” economic development strategy, which emphasizes the role of the domestic market, China's economic growth still heavily depends on the export sector. According to Chinese statistics, goods exports grew by 7.1% in 2024, including an 8.7% increase in mechanical and electronic goods and a 6% rise in high-tech and innovative products. Under these circumstances, a decline in export potential due to U.S. tariffs and indirect pressure on China’s trade partners could seriously impact the Chinese economy.

The slowdown in economic growth in China and India has become a determining factor in the situation when in 2024, the growth rates in the countries of East, Southeast and South Asia were 0.8 percentage points lower than in 2023. Meanwhile, many economies in the region showed a steady acceleration in growth: Vietnam - from 5.1% to 7.1%, Malaysia - from 3.6% to 5.1%, Thailand -

from 2.0% to 2.5%. In case of a trade war between the USA and China, Southeast Asian countries may emerge as primary beneficiaries, hosting Western investors relocating from China, while also serving as "transshipment bases" for indirect Chinese exports to the United States.

Most other regional groups of developing economies managed to avoid a slowdown in growth in 2024. Latin America maintained a growth rate similar to 2023 (2.4%). Sub-Saharan Africa remained the second fastest-growing regional group (after East, Southeast, and South Asia), with the sharpest increase – by 0.4 p.p. (to 4.0%). The Middle East and Central Asia also saw increase, but more moderate, in average annual GDP growth – by 0.2 p.p. (to 2.4%). Post-Soviet regional economies showed positive dynamics, with annual GDP growth of 4% or more: Tajikistan saw 8.4% growth, Kyrgyzstan 9.0%, and Georgia 9.4%. This indicates the fundamental soundness of these countries' strategy of continuing and deepening economic cooperation with the Russian Federation, despite the sanctions imposed on it.

Russian Economy: Continued Growth Is Under Threat

In 2024, the Russian economy faced the challenge of transitioning from short-term crisis adaptation to laying the groundwork for sustained economic growth – at least in the medium term. This required a third major turnaround in economic policy and economic development in recent years. In 2022, thanks to a large-scale reorientation of foreign trade and macroeconomic stabilization measures, Russia avoided the economic collapse expected by the initiators of anti-Russian sanctions. As a result, GDP fell by a moderate -1.4% – not only significantly less than the catastrophic forecasts during the peak of the sanctions escalation (e.g., in April 2022, the IMF predicted an 8.5% GDP drop for Russia) but also less than the actual decline during the COVID crisis in 2020 (-2.7%). In 2023, boosted domestic demand – through both fiscal stimulus and market channels (through import substitution policies) – enabled a robust GDP growth of

4.1%. This allowed Russia to outpace global economic growth for the first time since 2012 and significantly outperform the economies of the sanctioning developed countries. To maintain this momentum in 2024–2025, Russian economy needed mechanisms to boost output at current demand levels by eliminating supply-side bottlenecks.

According to revised data from the Federal State Statistics Service of Russia, GDP grew by 4.3% in 2024 – 0.2 p.p. above 2023 and 1.0 p.p. above the global average, marking the second consecutive year of global outperformance. Industrial production growth also accelerated, rising 4.6% in 2024 compared to 4.3% the previous year. Manufacturing industries demonstrated outpacing dynamics – by 8.5%. Notably, manufacturing growth occurred across a broad range of sectors: finished metal products (35.3%), computers, electronics, and optical devices (28.8%), motor vehicles (16.5%), pharmaceuticals and medical materials (18.0%), beverages (9.4%), furniture (7.7%), and clothing (5.9%). This indicates that domestic demand expansion benefited both investment and consumer goods production.

Regarding growth-limiting factors, the changes in the foreign economic environment (including those related to the sanctions imposed on the Russian Federation) had an impact primarily on the volume of raw material exports and, as a consequence, on the performance of the mining and extractive industry, the physical volume of which decreased by 0.9% in 2024 compared to 2023. However, labor shortages were seen as an even more significant constraint on economic growth in expert discussions in 2024. The total number of the unemployed (according to International Labor Organization methodology) fell by 20.2% in 2024 to 1.9 million people. On one hand, this signals progress toward full employment, which is traditionally considered one of the key priorities of economic policy. On the other, labor shortages impose additional costs on employers (nominal average monthly wages rose by 18.3% during this period) and, in many cases, make it fundamentally impossible to hire qualified workers – even with higher pay – if competitors offer better conditions.

Another issue tied to rising domestic demand amid limited supply extension possibilities is accelerating inflation. Consumer price growth in Russia reached 8.5% in 2024, up from 5.9% in 2023. The Bank of Russia, guided by its longstanding 4% inflation target indicator (set in 2015), in 2024 responded with a consistent increase in its key interest rate, aiming to bring inflation back to the target value. By late October, the key rate had reached 21%, where it remained in subsequent months. However, this policy has faced some criticism.

First, the 4% inflation target indicator may be a reasonable benchmark in stable macroeconomic conditions, but under today's geopolitical turbulence – with new challenges for both the Russian economy and its stimulus policy – it is far from universally appropriate. Yet a robust public discussion of this issue is still lacking. Second, in 2024, the highest price increases were seen in fruit and vegetable products (22.1%), with prices for potatoes up 91.9%, onions 48.2%, and cabbage 44.7%. It is extremely naive to expect that raising the key rate would lower prices for such goods. Third, by November 2024, interest rates on bank deposits – linked to the Central Bank's key rate – had become comparable to the profit margins of many business sectors, undermining incentives to invest in the real economy. Fourth, reducing consumer credit rate growth incentives could be a more effective way to combat inflation without the adverse effects associated with high key rates.

Nevertheless, in Q4 2024, Russian economic policy focused on combating the so-called "overheating" of the economy rather than eliminating supply-side bottlenecks that hinder economic growth amid rising domestic demand. Meanwhile, development of conditions for expanding the supply of goods and services in the context of increased domestic demand should be the highest priority in current conditions, the achievement of which will contribute to solving three problems at once. First, it would enable a full transition to a new development model centered on domestic demand and supported primarily by national business initiative. It is significant that this model is especially relevant in the face of new challenges emerging in early 2025, such as risks to export revenues amid global uncertainty caused by D. Trump's tariff initiatives. Second, it would ease inflationary pressures by expanding the supply of Russian-made goods. Third, it would increase Russia's production capacity, vital in the context of heightened geopolitical confrontation with leading developed economies. If these objectives are achieved, the factors slowing Russia's economy in 2024 could be significantly mitigated, making GDP growth of 2.5–3.0% in 2025 feasible. If not – i.e., if there is no progress on supply-side support and high interest rates persist – economic growth is unlikely to exceed 2%.