Russia

Russian economy is faltering despite oil windfall, Sweden warns

Stockholm's military intelligence head says Moscow is manipulating data to make its economy look better

Russian President Vladimir Putin recently said its GDP contracted 1.8 per cent in January and February this year © Igor Ivanko/AFP/Getty Images

Max Seddon and **Christopher Miller** in Stockholm

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Russia's ailing economy has failed to recover even as rising oil prices during the war in the Middle East have boosted the Kremlin's depleted coffers, according to Sweden's military intelligence chief.

Thomas Nilsson, head of Sweden's Military Intelligence and Security Service, told the FT that Russia would need prices for Urals crude, its main blend of oil, to remain above $100 a barrel for a year to close its budget deficit, and for significantly longer than that to smooth over its other economic problems.

Vladimir Putin has admitted Russia's economy is performing below his expectations and warned that the jump in oil revenue from the Middle East war, which could amount to up to an extra $150mn daily, would be shortlived.

But Nilsson said Russia would struggle further to finance its own invasion of Ukraine, now in its fifth year, if the US and Israel's ceasefire with Iran held and oil prices stabilised.

Thomas Nilsson: 'If you have created a system like Putin has, he might not know how bad the economic situation really is' © Hampus Andersson/Försvarsmakten

"They still have a systemic problem," Nilsson said in a rare interview in his Stockholm office. "It's not a sustainable growth model to produce material for the war that is then destroyed on the battlefield," he said.

Nilsson said Russia's economic problems had spread to the defence sector itself, which has accounted for most of the country's growth as the civilian sector struggles.

Moscow was diverting funding to the areas where the nature of the war is changing, particularly unmanned systems and long-range weapons, he said.

But outside the drone industry, Russia's military-industrial complex was lossmaking, rife with corruption and embezzlement, and dependent on lending from state-run banks, Nilsson added.

Sweden has intelligence indicating that Russia is systematically manipulating data to fool Ukraine's western allies into believing its economy has withstood the strain of its lavish war spending and western sanctions, Nilsson said.

Russia's official data already paints an alarming picture for the Kremlin. Putin noted last week that Russia's GDP contracted 1.8 per cent in January and February, including a decline in areas crucial to the war effort such as industrial production and construction.

Russian central bank governor Elvira Nabiullina said a day later that "external conditions are now getting worse on an almost constant basis — for both exports and imports".

Sweden's head of military intelligence said Russia's economic problems had spread to the defence sector itself © Tatyana Makeyeva/AFP/Getty Images

Nilsson said the real situation was even worse and the Russian central bank was underestimating inflation, which it believed was closer to the 15 per cent key interest rate than the official 5.86 per cent.

Sweden agreed with the BND, Germany's foreign intelligence agency, that Russia is understating its budget deficit by $30bn, and had also noticed some financial indicators that could point to a future banking crisis, Nilsson added.

"If you have created a system like Putin has, he might not know how bad the economic situation really is. But even with the false info he gets, you ultimately can't run from all of this," Nilsson said.

The Swedish picture of Russia's economy is not universally shared. International forecasts largely concur with the central bank's own prediction that inflation will slow to about 5 per cent by the end of this year.

But Sweden thinks Russia is "living on borrowed time", Nilsson said. "The Russian economy can only enter one of two scenarios: long-term decline or shock. Either way, they will continue on a downslope to a financial disaster."

Sweden is calling on European countries to pass a stalled sanctions package and step up their support for Ukraine to exploit Russia's weaknesses further.

"Europe is not yet doing everything it can to harm the Russian economy. And I think we have to be willing to pay a price. For ourselves," Sweden's foreign minister Maria Malmer Stenergard told the FT in a separate interview. It was "extremely frustrating" that not all EU countries had been willing to change their energy model, she added.

Putin's objective to secure multiple levers that would ensure control over Kyiv had not changed since the start of the war, despite the increasingly gloomy prospects for Russia's economy, Nilsson said.

Russia was treating US-led peace negotiations as "political theatre" to give cover for Putin's territorial ambitions, Nilsson added.

Those probably extended far beyond Putin's stated aim of seizing the whole of the frontline Donbas region, he said, to cutting Ukraine off from the Black Sea coast by capturing Odesa. "And Kyiv itself might also be on the table," Nilsson said.

But Russia's economic struggles were a weak point that would continue to limit its war effort, he added.

"Even if the serious problems in the Russian economy won't change the Russian leadership's strategic goals in the war in Ukraine, or their view of Nato and the EU, it will affect how they can pursue those goals. It will affect how much and how advanced their military capabilities are," he added.

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