

Letter n°150

Russia, soon 5 years lost.

“Choosing a path means having to miss out on others.” Paulo Coelho.

The “special military operation” in Ukraine was supposed to last 48 hours, but it has been difficult and has continued for more than 4 years with no prospect of success for Russia. In this, Russia has lost just as much time and opportunity:

- ***On the domestic front***, according to Robert Nigmatulin, economist at the Russian Academy of Sciences, cumulative inflation since 2015 is said to be 77%, the purchasing power of the majority of households has been reduced by tax increases, and the declining birth rate or the exile of qualified young people is a handicap for the future. Money invested in military equipment that is quickly destroyed is money unavailable for investment in infrastructure and the technologies of the future. This represents further delay compared to other powers.
- ***On the military front***, is Ukraine not a new Afghanistan for Russia? After more than 4 years of war, fear has changed sides. At the May 9 parade on Red Square, there were no Duma deputies, no battle tanks, no missile launchers, and Ukraine strikes Russian infrastructure everyday.
- ***On the international stage***, Russia, absorbed by Ukraine, is being forced to give ground, retreat, or even abandon positions it once considered strategic: Syria, Venezuela, Armenia, Mali, and no doubt soon other African footholds, Central Asia to the benefit of China, perhaps tomorrow Cuba, or even Iran.

To better understand Russia’s difficulties, we will successively analyse 8 aspects:

- ***A frustrated political ambition:***

Dugin, the Kremlin’s ideologue, wants the overthrow and destruction of liberalism. He supports an extension of Russian imperial power. He seeks the elimination of what he calls fictitious states, namely the Baltic countries and Ukraine. He wants to create Greater Russia through attacks against countries where Russian minorities are supposedly threatened, for example in Ossetia and Abkhazia, as well as in the Donbass and Crimea.

But history teaches the difficulty for a power, however strong it may be, to defeat a national sentiment. Invading a country means strengthening patriotic defence. Putin’s speech claiming that Russia has never been defeated in history is false because it suffered defeat during the Crimean War in 1853–56, a defeat against Japan in 1905, a collapse in 1917, and a failure in Afghanistan.

Today, the country is sliding toward totalitarianism. At the age of 4, children learn how to handle weapons, history books have been rewritten, access to social networks is restricted...

- ***Initial setbacks in Ukraine:***

Official military spending amounts to €150 billion, or 30% of the budget, a stable figure in 2026, but in reality, the amount is said to be closer to €250 billion and, relative to GDP of €2 trillion, this confirms the transition to a war economy. Nevertheless, the loss of access to Starlink has reduced the precision of strikes and halted the advance of Russian troops.

Since the beginning of the conflict in 2022, the Russian army has conquered only 1% of Ukrainian territory, less than 6,000 km². Russia currently occupies slightly less than 20% of Ukrainian territory, including 7% in Crimea. The Ukrainians have recently retaken around 300 km² of territory. Ukraine is becoming increasingly effective and, since the beginning of the year, has successfully struck 135 targets in Russia and is now capable of sending drones 1,700 km inside Russia.

Provisional and estimated toll of this war, according to the Center for Strategic and International Studies in Washington, Russia is said to have lost more than 1.2 million men since the start of the war, including 325,000 dead and 900,000 wounded. Recruitment stands at 30,000 to 35,000 per month, but remains below the number of dead or wounded.

- ***Growing discontent within the country:***

The Russian army is struggling to recruit and is now trying to enlist students, but this is fuelling discontent and concern.

The population is also complaining about Internet shutdowns and restrictions on access to WhatsApp and Telegram. Even the president of Russian employers, Shokhin, deplored this Internet blockage.

The official inflation rate fell from 10% in 2024 to 6% in 2025, but the population complains that inflation is not 6% but rather 15%, eroding purchasing power.

The population also complains about the slowdown of the economy and the poor maintenance of infrastructure, which left certain regions of Russia unable to heat themselves during part of the winter. Putin finally acknowledged in 2025 the need to invest nearly \$60 billion to maintain this network, but the war effort is depriving the country of available budgetary resources.

The result of this discontent, just a few months before the legislative elections, is a clear decline in support for Putin.

- ***The loss of influence on the international stage:***

In Europe, the failure of Viktor Orban means the loss of a Trojan horse.

In Asia, it is a loss of influence in Armenia and Azerbaijan, which are now closer to the West. Russia expressed its dissatisfaction at seeing Armenia move closer toward joining the European Union and for having welcomed Zelensky a few weeks ago.

In Africa, it is the recent setback in Mali, the sudden withdrawal at the end of April of the 400 Russian mercenaries from the Africa Corps, and the abandonment of Malian soldiers to their fate after the jihadists' show of force. Enough to disappoint the Malian state and the African countries supposedly protected by Russia.

In the Middle East, after Syria, and with its inability to play a role in the Iranian situation, Russia is losing influence while Ukraine, with a sense of opportunism, has signed contracts with the Gulf monarchies.

- ***Trump's ambivalence toward Russia:***

Trump, a man of Moscow perhaps, but he does not always help Putin as much as one might imagine. He did not hesitate to move closer to the countries of the Caucasus traditionally within Russia's orbit, for example in trying to make peace between Armenia and Azerbaijan. Likewise, with his intervention in Venezuela and Iran, he targeted Putin's allies and had refused Putin's mediation on Iran in July. Finally, he did not respond to Putin's invitation to renegotiate the nuclear agreements that had expired, he did not invite Putin into the negotiations on Gaza, and in Libya he is relying on local militias to push the Russians out.

Just a few months ago, Trump imposed sanctions on the transport of Russian oil and pressured India to stop buying Russian oil.

Ambivalence nevertheless, as is often the case with Trump, because by supporting far-right parties in Europe, he aims to weaken Europe to Putin's great satisfaction, and if he withdraws troops from Germany or if he pulls out of NATO tomorrow, he serves Russian ambitions.

- ***Economic difficulties:***

If the war stimulated the economy at the beginning of the conflict, today it is weakening it. In 2025, GDP growth was limited to 1% compared with 4.9% in 2024; in the first quarter of this year, Putin acknowledged a 0.3% decline in GDP and expectations for the year were revised downward from 1.3% to 0.4%.

Despite an increase in VAT from 20 to 22%, which reduced purchasing power, an increase in the corporate tax rate from 20 to 25%, and higher income tax, the budget deficit reached 2.6% of GDP in 2025 and could approach 4% in 2026. At least 30% of the budget, and evidently more, is allocated to the war effort, which creates little wealth, and nearly 10% of the budget is allocated to debt interest payments.

The budget deficit appears low compared with the United States, but Russia receives very little foreign investment and cannot access international markets.

Sectors such as aeronautics and electronics, dependent on imported equipment, are being penalised by international sanctions. There has been an increase in non-performing loans and, in several sectors such as steel and timber, declines in activity are being observed.

Because of the increase in taxation on small and medium-sized enterprises (a 6% tax on turnover and 5% VAT), there are fears of a risk of bankruptcy for one-third of the 7 million SMEs employing 15 million workers.

In fact, according to Swedish experts, the figures are said to be worse. Over the past 10 years, average annual growth is believed to have been only 1.5% and the budget deficit underestimated by \$30 billion.

The economy remains insufficiently diversified and nothing justifies optimism because the sovereign wealth fund is shrinking dramatically to \$55 billion compared with \$113 billion before the war. Since the beginning of the conflict, the sovereign wealth fund has sold gold. It held 406 tonnes in 2022 and 179 tonnes at the end of 2025.

Nothing justifies optimism because foreign direct investment has collapsed, high interest rates are penalising growth and weakening small companies, and many foreign companies have left the country. Nothing justifies optimism because, as Russian business leaders complain, the Central Bank is maintaining interest rates at 15.5% because of inflation.

The only nuance to the points analysed above is the bonuses distributed to soldiers, because they allow an increase in consumption among part of the middle class, in the form of purchases of durable goods or real estate, but conversely these bonuses weigh on public finances.

- ***Oil and gas, uncertain windfalls:***

Energy revenues fell between 20 and 30% in 2025. Energy now represents only 25% of budget revenues compared with 50% before the war. In 2025, the rouble appreciated by 45% against the dollar due to very high interest rates, and this resulted in lower revenues from oil sales for the government.

Gazprom's sales to the EU fell from 180 billion m³ in 2022 to 18 billion, or €6 billion, and are expected to stop in 2027. They are not compensated by sales to China, 38 billion, or to Turkey, a contract for 22 billion m³. The EU is expected to completely stop purchases of Russian gas in 2027.

Damaged by Ukraine, refining capacity is at its lowest level in the past 20 years. Oil production in the first quarter of 2026, at 9.1Mb/d, was 0.4Mb/d below its OPEC+ quota and in April it reportedly fell by another 300,000 to 400,000 b/d. Exports were limited to 2.3Mb/d at the end of March compared with a capacity of 4Mb/d because Ukraine damaged export port facilities.

Despite these declines in production, but thanks to the surge in oil prices, revenues from oil exports amounted in March to \$19 billion compared with \$10 billion in February, and the Philippines, Vietnam, and Indonesia are negotiating with Russia to compensate for losses from the Middle East.

- ***Demographic decline as a lasting trend:***

The population has fallen to 146 million compared with 148 million before the war. Many qualified young people preferred to leave the country, others died at the front or are now disabled.

According to a member of the Academy of Sciences, the population is decreasing by 600,000 people each year.

Conclusion: “*Great works are performed, not by strength, but by perseverance.*” *Samuel Johnson.*

- ***A triumph of perseverance?*** Through perseverance, the Ukrainian David recently pushed back the Russian Goliath. Vladimir Putin, after having spent a great deal of money, deprived the economy of young people requisitioned to the front, and weakened Russia’s presence in the world, can hope at best for a Pyrrhic victory. Putin says the end of the war is near, but let us recall that in Vietnam, peace negotiations lasted from 1968 to 1973 and, certainly, in Ukraine, they risk being long.
- ***A multifaceted war but without breakthrough:*** A war of attrition along a 1,000-kilometre front, a technological war of which the remarkable Ukrainian advances in the use of drones are only one aspect, a dirty war against Ukrainian populations and their energy facilities, a hybrid war combining cyberattacks and interference in European countries – these are the different faces of the Russian offensive since the beginning of 2022 against Ukraine and the West, a costly offensive but without breakthrough.
- ***A war that will have awakened or reawakened Europe:*** After NATO’s enlargement to Sweden and Norway, after the beginning of a vigorous German rearmament with a budget of \$115 billion in 2025 (+24% over one year according to SIPRI), or 2.3% of GDP, the stated objective by EU member states of a military budget at 5% of GDP, the gradual emancipation from an American ally that is becoming more ambiguous and ambivalent everyday, the massive aid to Ukraine of which the release of the €90 billion loan is only one component, and the long-term prospect of Ukraine joining the EU are all signs of determination in the face of the Russian threat.
- ***A war now without influence on international financial markets:*** at the beginning of the war, the prices of gas, oil, fertilizers, and agricultural commodities recorded sharp increases. Everything has subsided and today the conflict has no direct impact on the markets but carries major geopolitical significance that only an invasion of Taiwan could surpass.

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