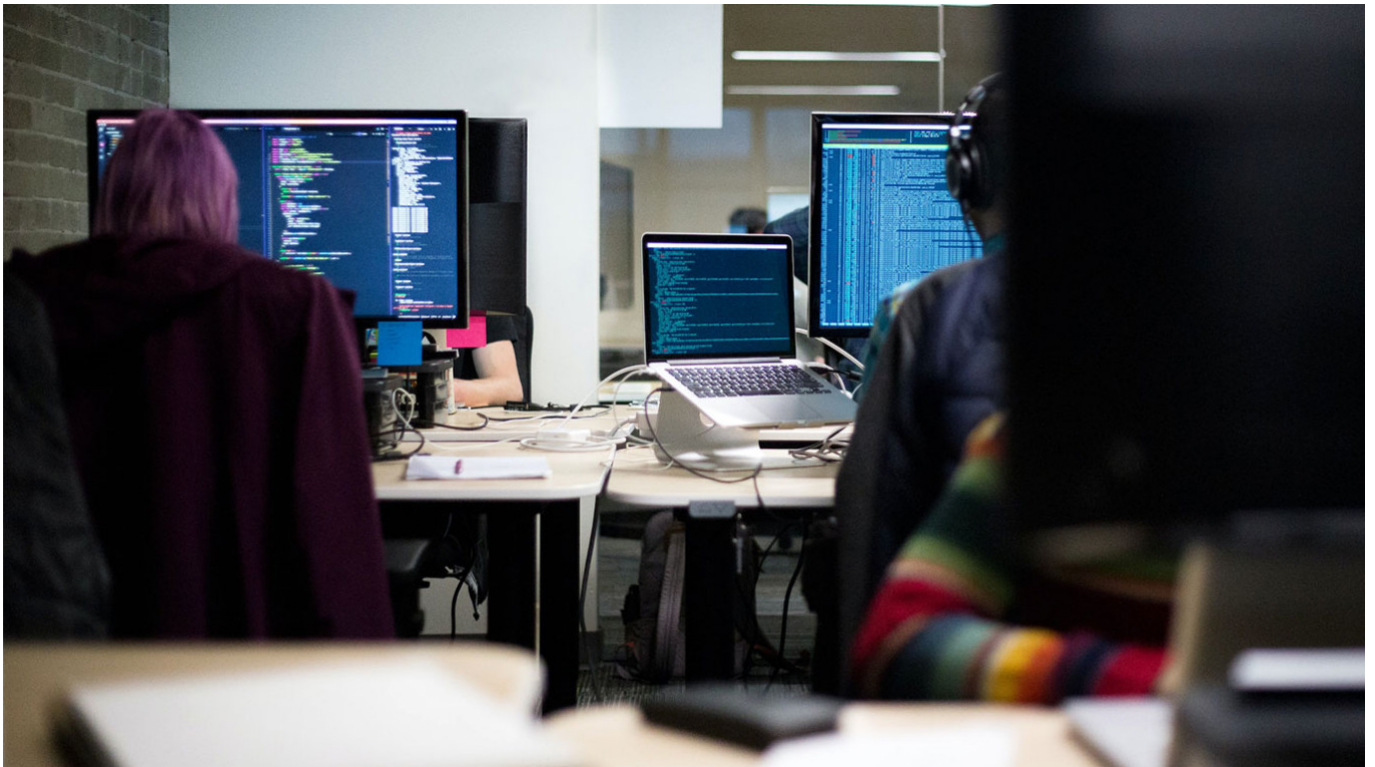# Russian IT Growth Faces an Uncertain Future

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Hack Capital / unsplash

Nearly three years after the departure of major Western IT firms due to the invasion of Ukraine, Russia's tech market is on the rise, but the growth is unlikely to be sustainable.

Window of opportunity

The Russian IT market saw a significant boost following the mass exodus of Western vendors after Russia's invasion of Ukraine in February 2022. Local companies quickly stepped in to fill the void in response, delivering critical IT solutions across various sectors of the economy.

This momentum continued into 2024, with Russia's IT sector expanding by an impressive 63.2% year-on-year in the first six months, reaching 1.7 trillion rubles ($16.4 billion), according to data from the Higher School of Economics.

Still, Russia's IT industry is very limited, with 85% of its value accounted for by only two segments — software development and data processing, including building infrastructure for

hosting or data streaming.

According to the most optimistic forecasts from the Russian government, the country's IT market could grow by an average of 12% per year through 2030 to reach 7 trillion rubles ($67 billion), which would be outstanding compared to the global average of roughly 7.5%. However, there are few indicators that Russia's tech market could really show sustainable growth of that kind.

"Import substitution" as the main driver

So far, the Russian IT sector has thrived on the momentum created by the departure of major global players, but that effect is beginning to fade. Following Russia's invasion of Ukraine, most Western tech giants — including Microsoft, Oracle and Adobe — either scaled back their operations in Russia or fully exited the market.

Their departure led to difficulties in the infrastructure software segment, which includes, for example, operating systems and databases. In 2022, the market for database management systems, which are used in any application that stores and processes data and are demanded by all kinds of companies — from banks to oil producers — fell by 50% y/y to 21.7 billion rubles ($209 million).

Another problematic segment was enterprise management systems. Back in 2021, SAP, Oracle and Microsoft accounted for 60% of that segment, and although some Russian companies tried to replace the Western vendors, there has been no fully fledged local substitute so far.

Demand for local IT solutions was huge around 2022 and 2023, as even those companies that did not fully shut their operations in Russia, heavily restricted maintenance and support options.

The solutions that remained on the Russian market are limited in terms of functionality, as enterprise-class software are normally complex software products with a long history of development.

"When something starts to change around this 'black box,' bugs naturally arise that are corrected by support on the side of the developer who has access to the source code," Igor Bogachev, CEO of Tsifra, a Russian developer of software for the digitalization of industry, was quoted as saying by the Interfax news agency. "This type of support is no longer available to many Russian companies today."

That caused an increase in investment in finding and developing solutions from various Russian companies.

"The departure of foreign players freed up a market of 600-800 billion rubles ($5.8-7.7 billion), thus opening up an opportunity for domestic companies to occupy these niches," Oksana Vorobyeva, CEO of MTS Digital, was quoted as saying by the RAEX rating agency's website.

In the second half of 2022, the total revenue of the largest Russian software developers and integrators increased by more than 28% y/y, while that of foreign companies in the local

market decreased by 62% on average.

Demand for locally developed software solutions was growing, while clients increasingly preferred to order complex solutions rather than individual options.

The growth was also spurred by the Russian government, which totally banned the use of foreign software by a number of companies and government agencies starting from 2025 and promised support to the industry. Deputy Prime Minister Dmitry Chernyshenko announced that 521.9 billion rubles ($5 billion) was invested in the development of Russian IT solutions in 2022 and another 300 billion rubles ($2.9 billion) the following year.

By now, however, this import substitution effect has faded, and it would be impossible to repeat growth figures from 2022 to 2024 in the future.

Prospects far from rosy

While Russian companies have been able to replace basic solutions previously provided by Western vendors, there are entire areas of the IT sector where local firms don't have sufficient expertise and capacities.

Key areas of that kind include compatibility and integration of various platforms, development of domestic technologies and increasing their competitiveness, as well as ensuring information security and data protection from cyber threats, Pavel Gontarev, managing director of VK Tech, was quoted as saying by the Vedomosti business daily.

The Russian market needs complex integrated solutions, rather than separate pieces of software, said Gontarev, adding that the overall growth in the Russian software development segment this year is likely to be "moderate."

As more and more solutions previously supplied by foreign vendors are substituted by Russian equivalents, the local IT sector's growth is likely to slow, industry players admit. In addition, the uncertain overall economic situation could force some of the Russian companies to save money by scaling back on tech solutions.

Some industries have found themselves in a difficult situation, which means that they will cut costs, and for IT in the first place, Oleg Logvinov, CEO of Logvinov Consulting Systems, who previously ran IT departments at Bashneft, Kalashnikov and MTS, told Vedomosti.

"Companies will habitually postpone the purchase of software and optimize support at the expense of their own resources, refusing the services of integrators in the hope of postponing projects until better times, he said.

Searching for growth opportunities

For the Russian IT sector to grow in the coming years, new possible directions are needed. Some are setting their hopes on AI, which has been all the rage worldwide.

Earlier this year, the Russian government predicted that the adoption of AI-based tech could add as much as 11.3 trillion rubles ($124 billion) to the country's GDP by 2030, while the volume of the country's computing power will grow ten-fold.

So far, however, despite some successful AI products developed by individual Russian firms, it is too early to speak about a major breakthrough for the country's AI sector in the global arena.

Another potential point of growth for Russian IT solution developers could be exports to countries Russia considers "friendly." However, the volume of Russian IT exports has been low so far, and they are likely to face competition from local firms as well as from major global vendors in any foreign market, even in "friendly" countries.

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