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# KSE Institute Russia Chartbook

## Stepping-Up Economic Sanctions Is Urgently Needed to Constrain Russia

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# Executive Summary

1. **Energy sanctions are facing significant challenges.** In June 2024, almost 90% of Russian seaborne crude oil exports were transported with shadow fleet tankers, thereby fundamentally undermining the leverage of the G7/EU price cap regime. Not surprisingly, Russian export earnings from oil in H1 2024 are up significantly compared to the first half of 2023, when oil-related sanctions were most effective – by 22%. The campaign to sanction individual shadow tankers has been remarkably effective in terms of removing them from commercial operations but has been insufficiently broad to meaningfully weigh on Russian export prices.
2. **Macroeconomic stability due to external environment.** In H1 2024, Russia's trade balance reached $68 billion (+19% vs. H1 2023) and the overall current account surplus came in at $41 billion (+74%). Non-oil exports were somewhat weaker than last year, while lower goods imports and a smaller income and transfers deficit supported the current account. Due to more supportive external conditions, depreciation pressure on the ruble has declined noticeably and the currency has strengthened – also on the back of the CBR's substantial interest rate hikes since mid-2023. Less effective energy sanctions allow Russia to maintain macro stability.
3. **Russia is not facing meaningful fiscal constraints.** Over the first half of the year, Russia's federal budget deficit reached 929 billion rubles – 58% of the full-year target and 60% less than in H1 2023. Sharply higher revenues (+38%) – both O&G (+69%) and non-O&G (+27%) – more than offset higher spending (+22%) as Russia is executing higher war expenditures. The country remains on track to reach its 2024 target, and, at current oil export prices, it is unlikely that Russia will experience any meaningful external imbalances or budgetary constraints. Nevertheless, the government is considering significant tax increases to create policy space.
4. **Vulnerabilities exist due to reduced macro buffers.** Should the enforcement of sanctions on Russian energy exports be stepped up in the coming months – including by reining in the shadow fleet – Russia's underlying vulnerabilities could resurface quickly. After spending almost $54 billion of the NWF's liquid assets since the start of the full-scale invasion, only gold and yuan remain, which cannot easily be used at scale to finance the budget. This would force the government to rely on higher domestic debt issuance and further drive-up borrowing costs. At the same time, immobilization of ~$300 billion in CBR reserves seriously constrains options.

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# Energy: further action is critical to constrain Russia’s energy revenues.

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# Designations have largely removed shadow tankers from operations.

- A total 55 shadow fleet tankers have been sanctioned by the United States, European Union, and United Kingdom.
- Most have effectively been removed from commercial operations as entities in third countries fear any involvement.
- Designations remain a powerful tool to rein in the shadow fleet, which should be scaled up gradually going forward.

## Status of designated vessels

| Name | Designated by | Status | Name | Designated by | Status | Name | Designated by | Status |
|---|---|---|---|---|---|---|---|---|
| Anatoly Kolodkin | US | Ballast/drifting | Hs Legend | US | Ballast/drifting | Ns Lotus | EU | Underway* |
| Andromeda Star | EU | Underway* | Hs Star | US | Loaded/drifting | Ns Spirit | EU | Planned voyage |
| Antarktika | US | Ballast/drifting | Kaliningrad | US, EU | Ballast/drifting | Ns Sream | EU | Loaded/drifting |
| Apus | US | Part. loaded/drifting | Kareliya | US | Ballast/drifting | Ocean AMZ | EU, UK | Ballast/drifting |
| Aristo | US | Part. loaded/drifting | Kazan | US | Ballast/drifting | Pictor | US | Ballast/drifting |
| Avril | US | Ballast/drifting | Kemerovo | US, EU | Ballast/drifting | Robon | EU, UK | Ballast/drifting |
| Beks Aqua | EU | No operations | Kotlas | US | Ballast/drifting | Sakhalin Island | US | Ballast/drifting |
| Belgorod | US | Underway | Krasnoyarsk | US, EU | Ballast/drifting | Sanar 15 | US | Planned voyage |
| Bettle | US | Ballast/drifting | Kruger | US | Ballast/drifting | Sara Ii | US | Ballast/drifting |
| Bratsk | US | Underway | Krymsk | US, EU | Ballast/drifting | SCF Amur | EU | Ballast/drifting |
| Canis Power | EU, UK | Ballast/drifting | La Pride | US | Ballast/drifting | SCF Primorye | US | Completed voyage |
| Galian 2 | EU | Planned voyage | Ligovsky Prospect | US | Ballast/drifting | Sensus | US | Ballast/drifting |
| Georgy Maslov | US | Ballast/drifting | Liteyny Prospect | US | Ballast/drifting | Vasily Lanovoy | US | Underway |
| Hai Ii | US | Ballast/drifting | Mona | US | Ballast/drifting | Vela Rain | EU | Planned voyage |
| Hana | EU | Ballast/drifting | Nellis | US | Ballast/drifting | Viktor Bakaev | US | Planned voyage |
| Hebe | US, EU | Planned voyage | Nevskiy Prospect | US | Ballast/drifting | | | |
| Hs Buraq | US | Ballast/drifting | Ns Consul | US | Ballast/drifting | | | |
| Hs Esberg | US | Ballast/drifting | Ns Laguna | UK | Planned voyage | | | |
| Hs Everett | US | Ballast/drifting | Ns Leader | US | Ballast/drifting | | | |
| Hs Glory | US | Ballast/drifting | Ns Lion | US | Ballast/drifting | | | |

Green – out of commercial operations
Yellow – in operation, monitoring required
Red – completed voyage, investigation needed
*loaded before designation

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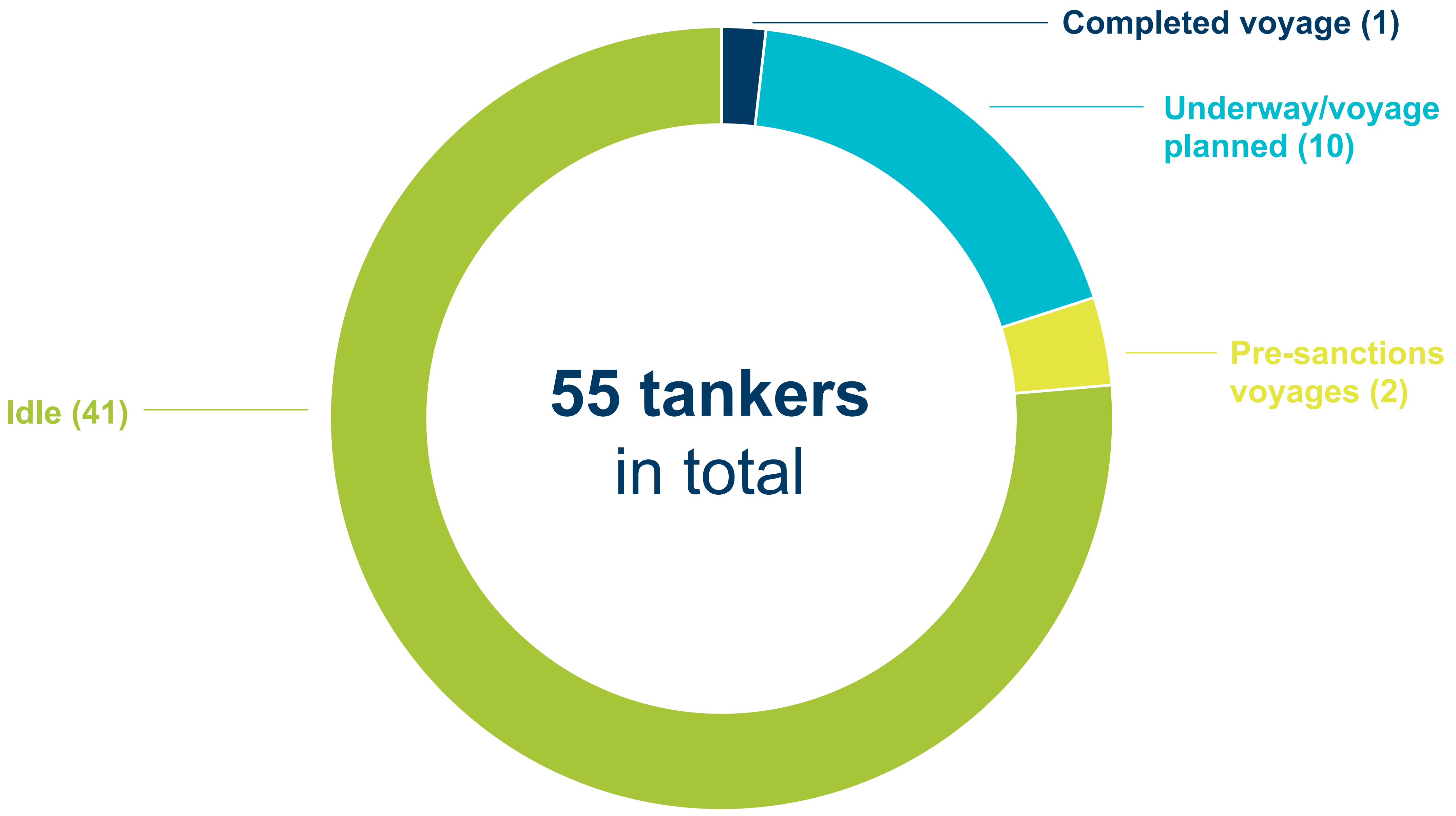
# Individual cases deserve attention and should result in enforcement action.

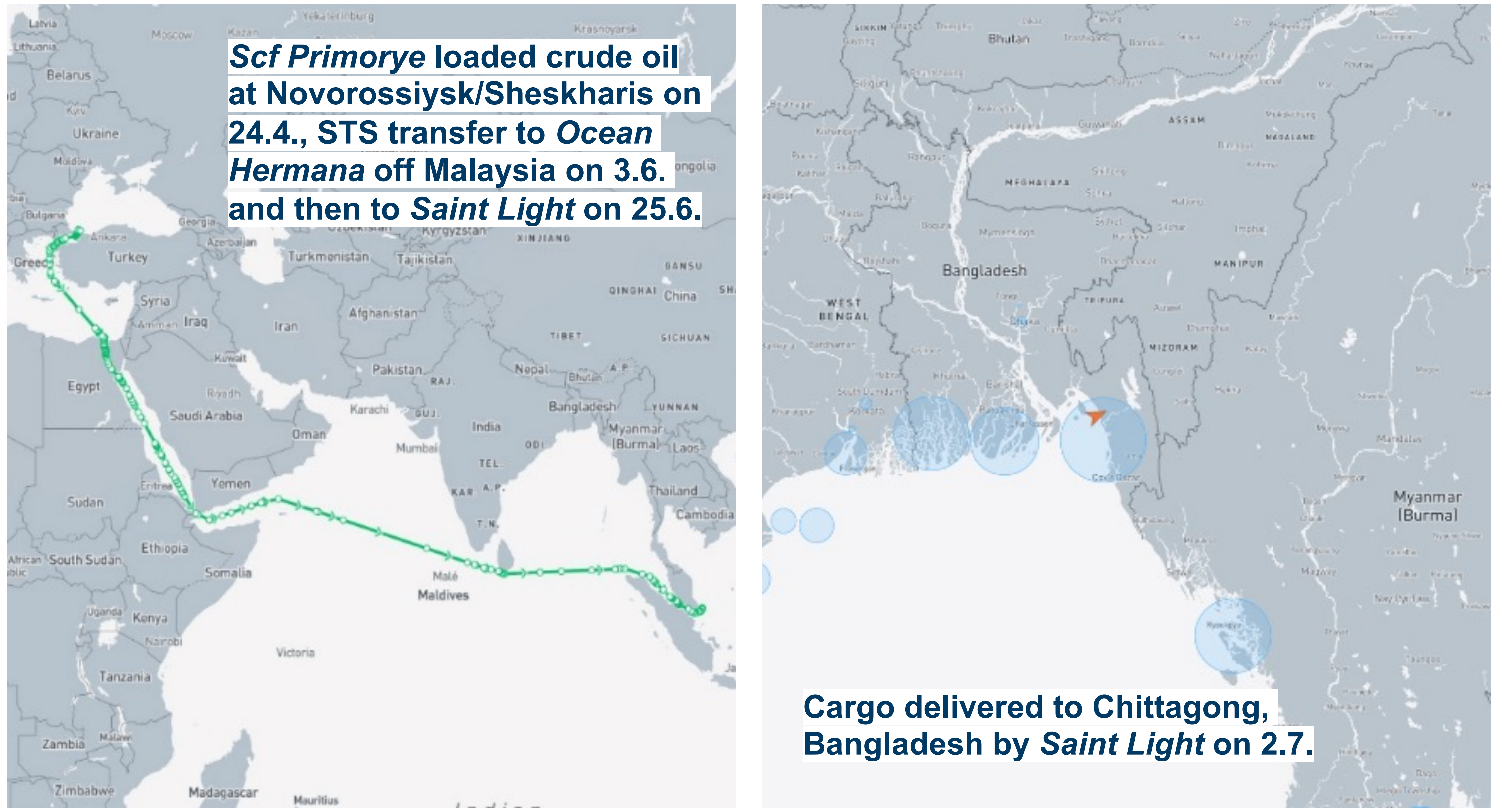
- Of the 55 sanctioned shadow fleet vessels, one has completed a voyage since the measure took effect.
- To preserve the credibility of vessel designations, enforcement action against involved entities in critical.
- Several additional tankers are underway or have voyages scheduled; this requires additional monitoring.

**Status of designated vessels**




Source: Kpler, KSE Institute

**Designated vessel with completed voyage: Scf Primorye**

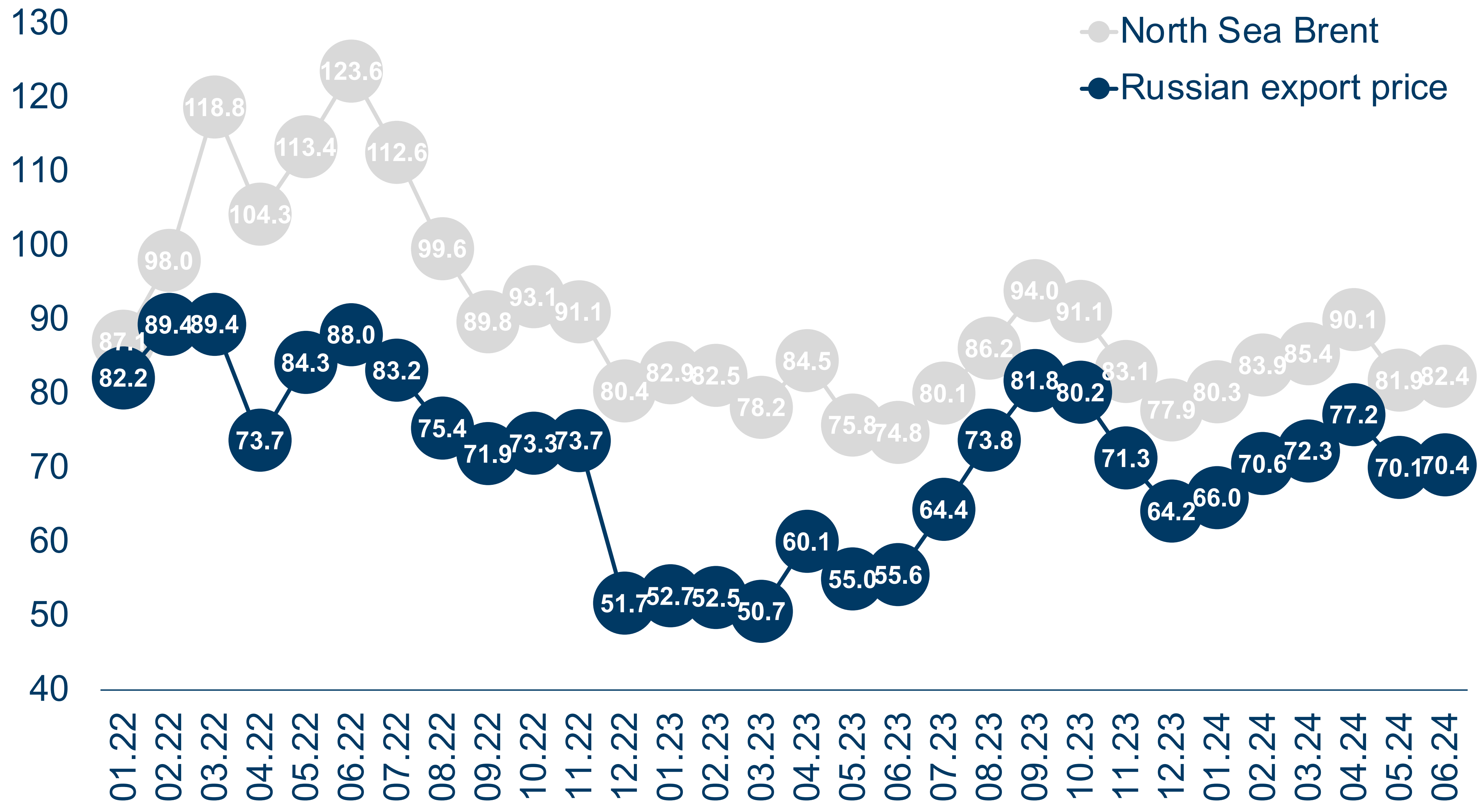



Source: Kpler, KSE Institute

# The discount of Russian Urals crude oil is shrinking again.

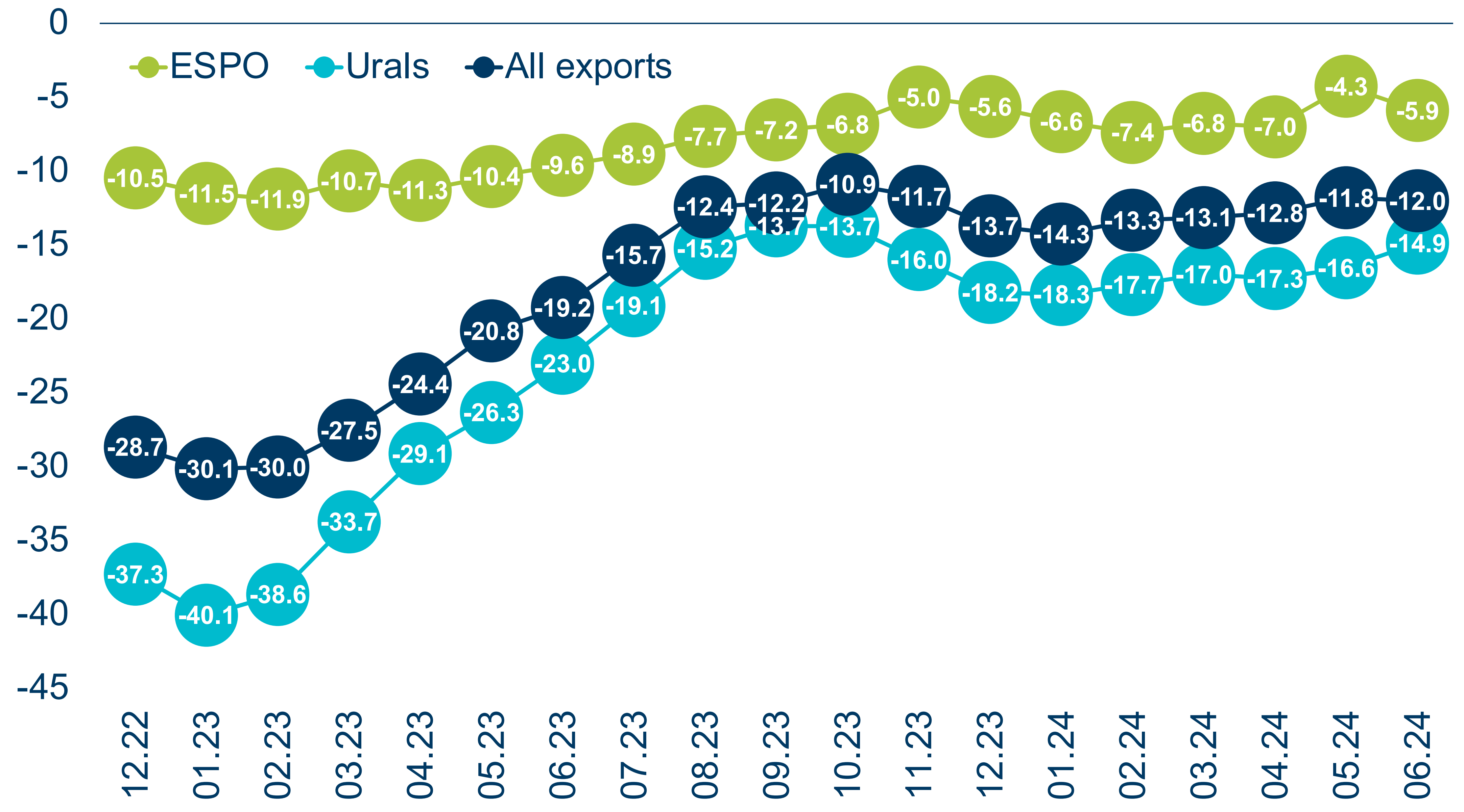
- The widening of the discount on Russian oil prices that occurred in the last quarter of 2023 is now dissipating.
- A key reason is that the U.S. Treasury Department has paused its campaign to designate shadow fleet tankers.
- Lower global prices have weighed on Russian exports in May-June 2024, but not created meaningful pressure.

**Crude oil prices, in U.S. dollar/barrel***




Source: Federal Customs Service, International Energy Agency, KSE Institute
*export price until November 2022 from Russian customs, all other numbers from IEA

**Discount of Russian export prices vs. Brent, in U.S. dollar/barrel**




Source: International Energy Agency, KSE Institute

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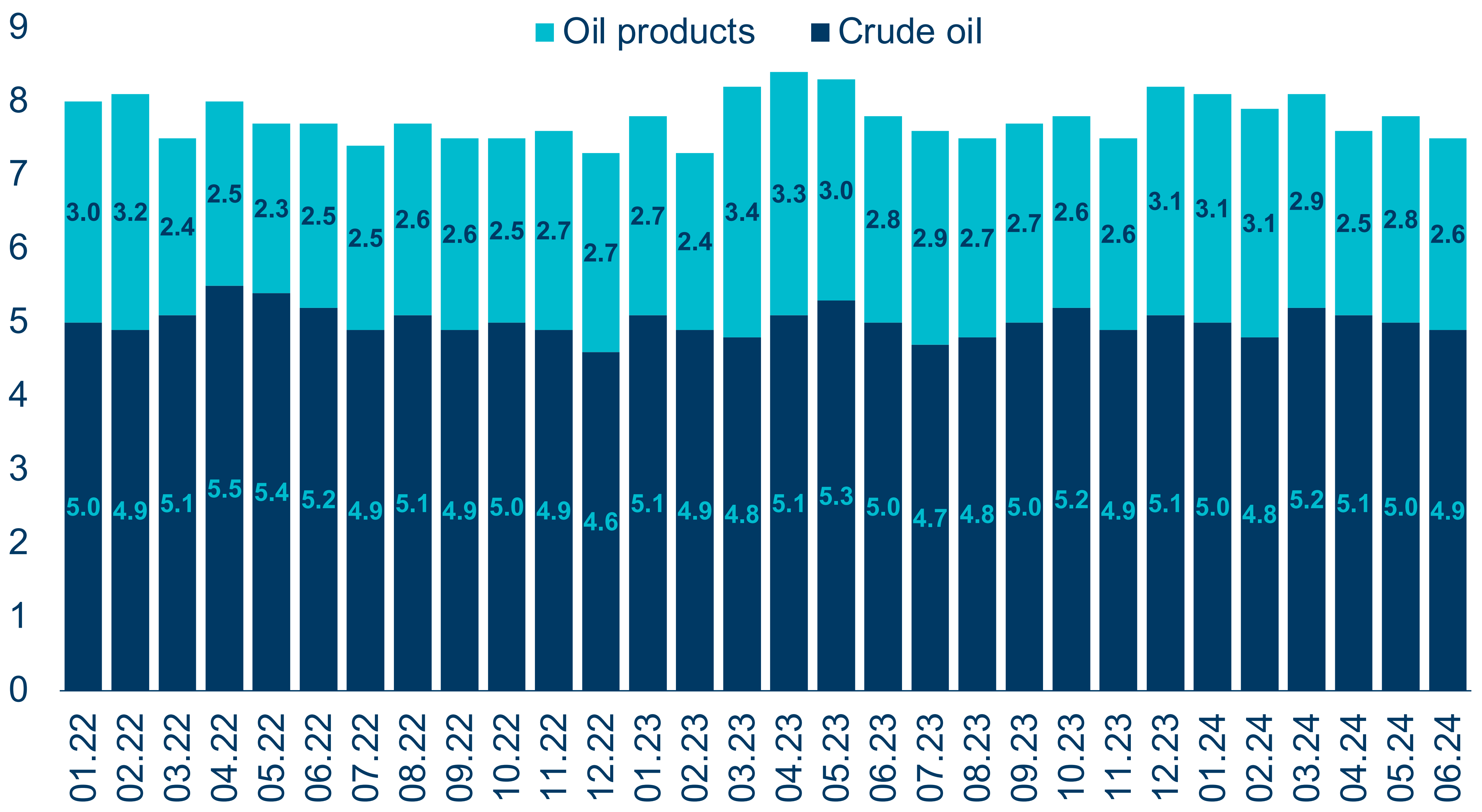
# The supply of Russian oil to the global market remains stable.

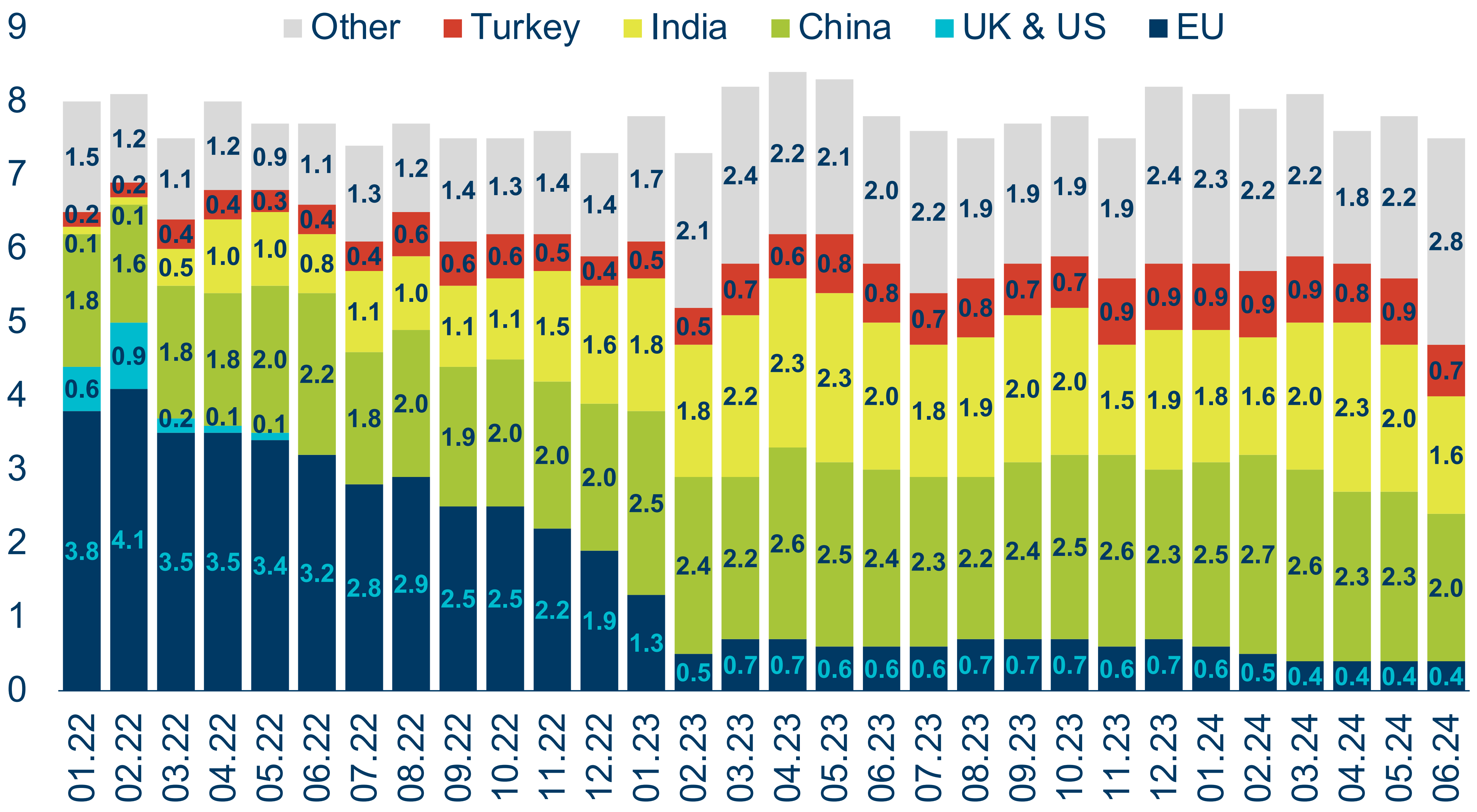
- Russian oil export volumes have been remarkably steady over the course of the last two years despite sanctions.
- This means that the price cap has succeeded at keeping Russian oil on the market and prevent supply issues.
- China and India remain the most important buyers, but Chinese imports of Russian oil have declined somewhat.

**Russian oil export volume by type, in million barrels/day***




Source: International Energy Agency, KSE Institute *March 2024 = KSE Institute estimate

**Russian oil export volume by destination, in million barrels/day***




Source: International Energy Agency, KSE Institute *no March data from IEA

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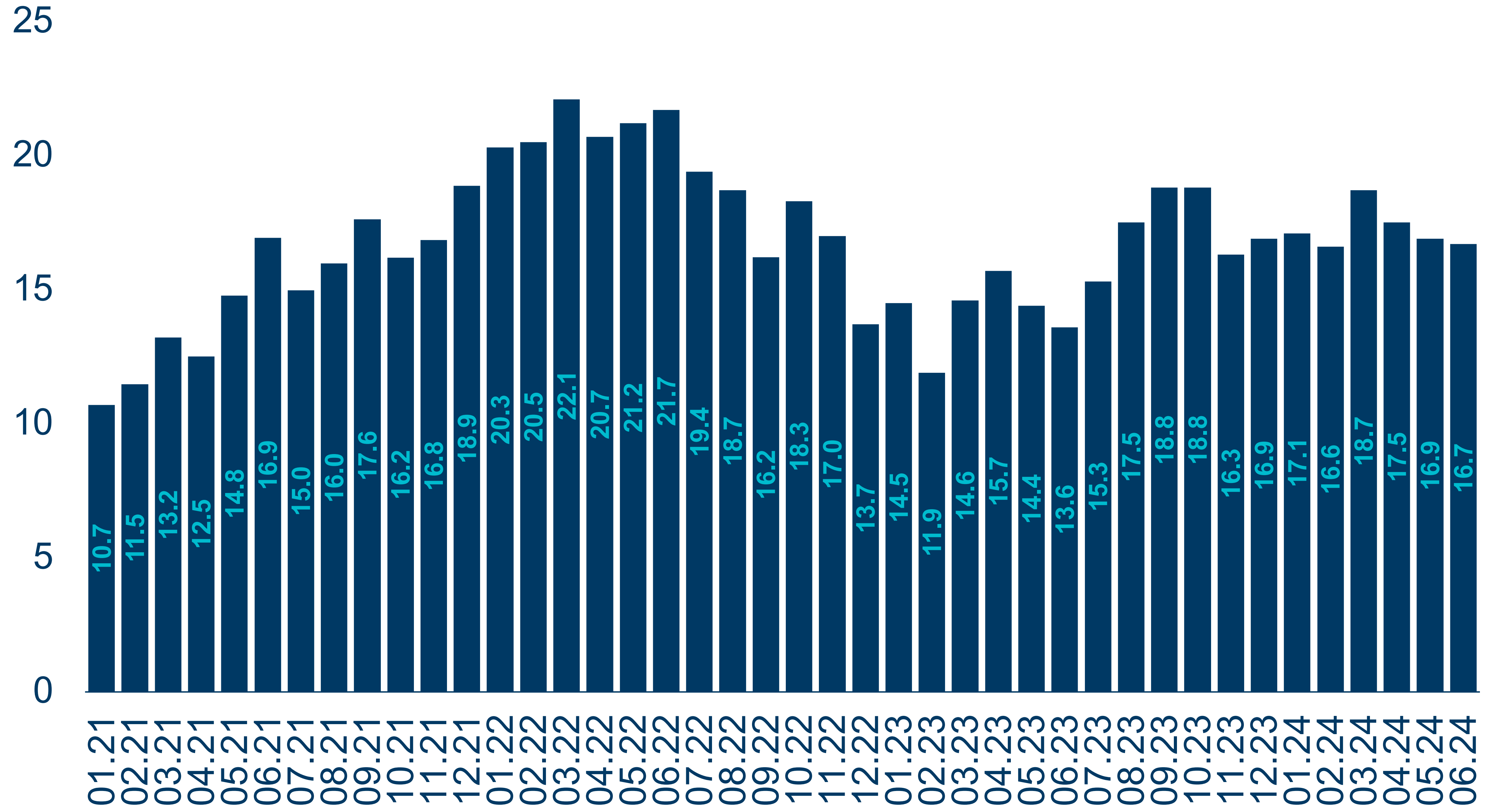
# Insufficient enforcement helps Russia with exports and budget revenues.

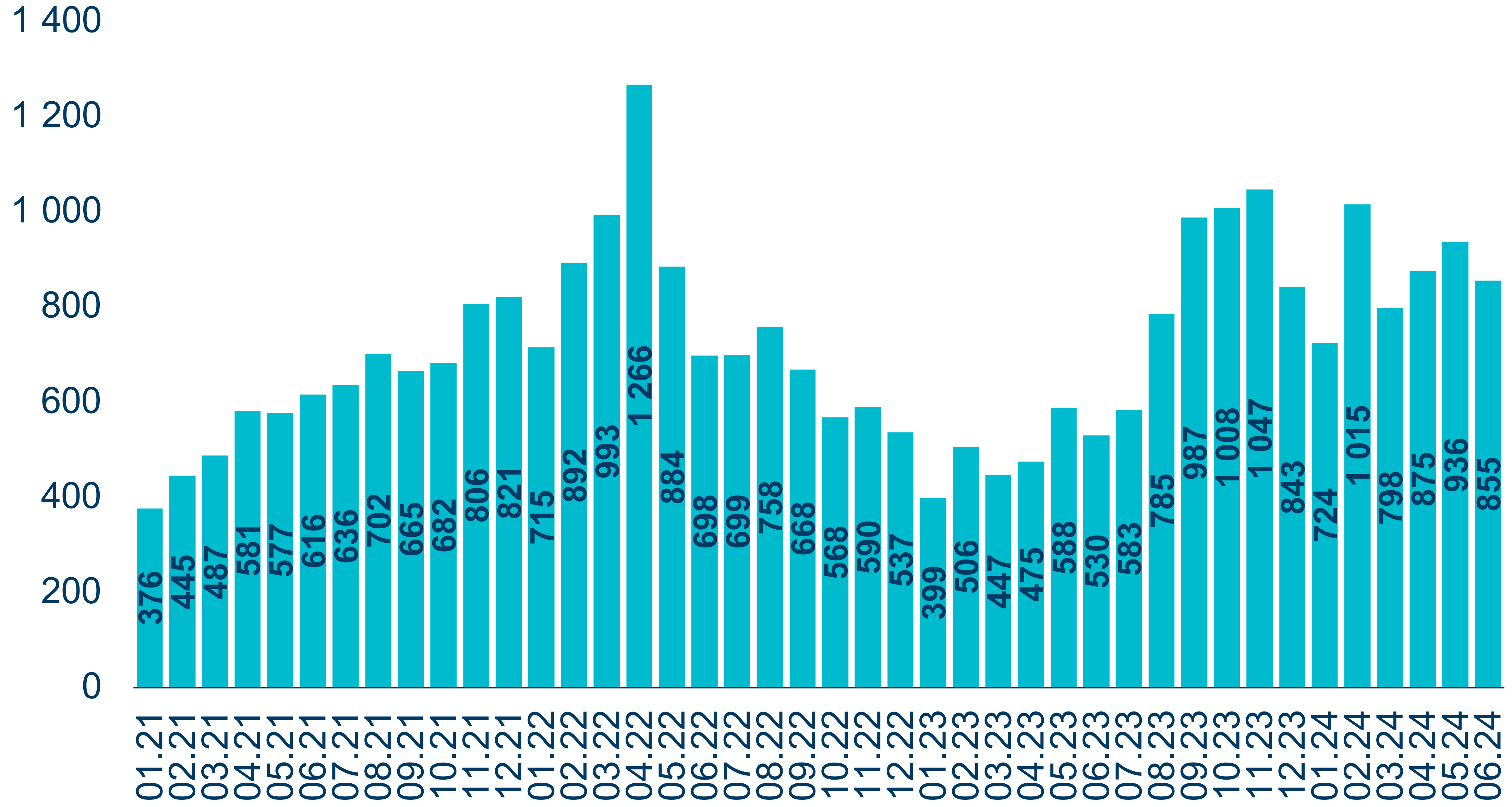
- In H1 2024, oil export earnings averaged $17.3 billion—unchanged from H2 2023 but 22% higher than in H1 2023.
- Budget revenues from oil in H1 2024 were also roughly unchanged from H2 2023 but 77% higher than in H1 2023.
- Russia's ability to fund its government and, thus, its war in Ukraine appears largely unconstrained by oil sanctions.

**Oil export earnings, in U.S. dollar billion**




Source: Federal Customs Service, International Energy Agency, KSE Institute
*2021 data from Russian customs service, 2022-23 data from IEA

**Federal budget oil revenues, in ruble billion***




Source: Ministry of Finance, KSE Institute *includes extraction tax and export duty

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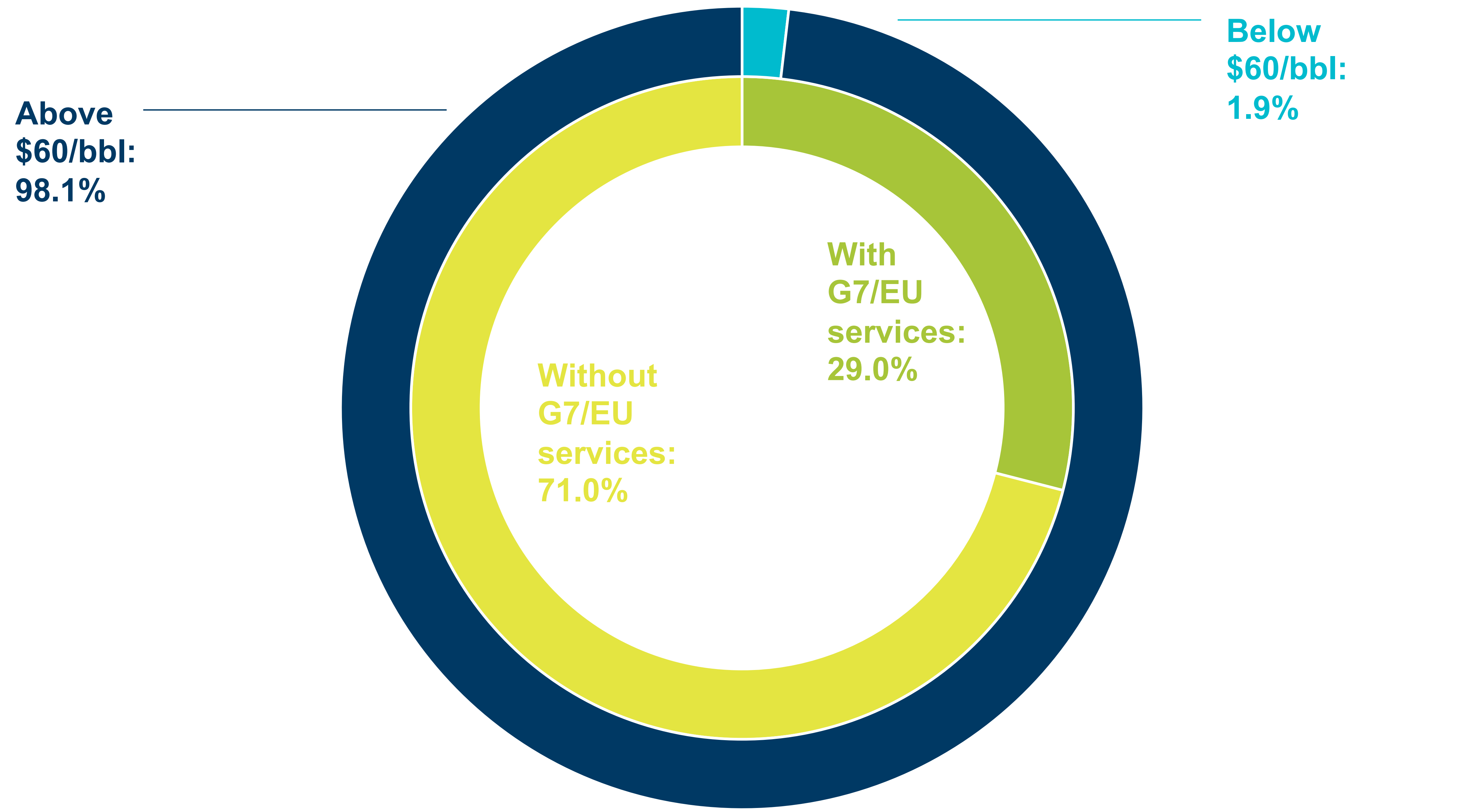
# Price cap challenges: sanctions violations and the shadow fleet.

- Price cap compliance was largely absent in Q4 2023, and overall price dynamics indicate this is likely still the case.
- Russia's shadow fleet of more than 430 tankers allow it to evade the price cap for a large share of its oil exports.
- In addition, oil traders/brokers falsify pricing information on the attestations which are required under the regime.

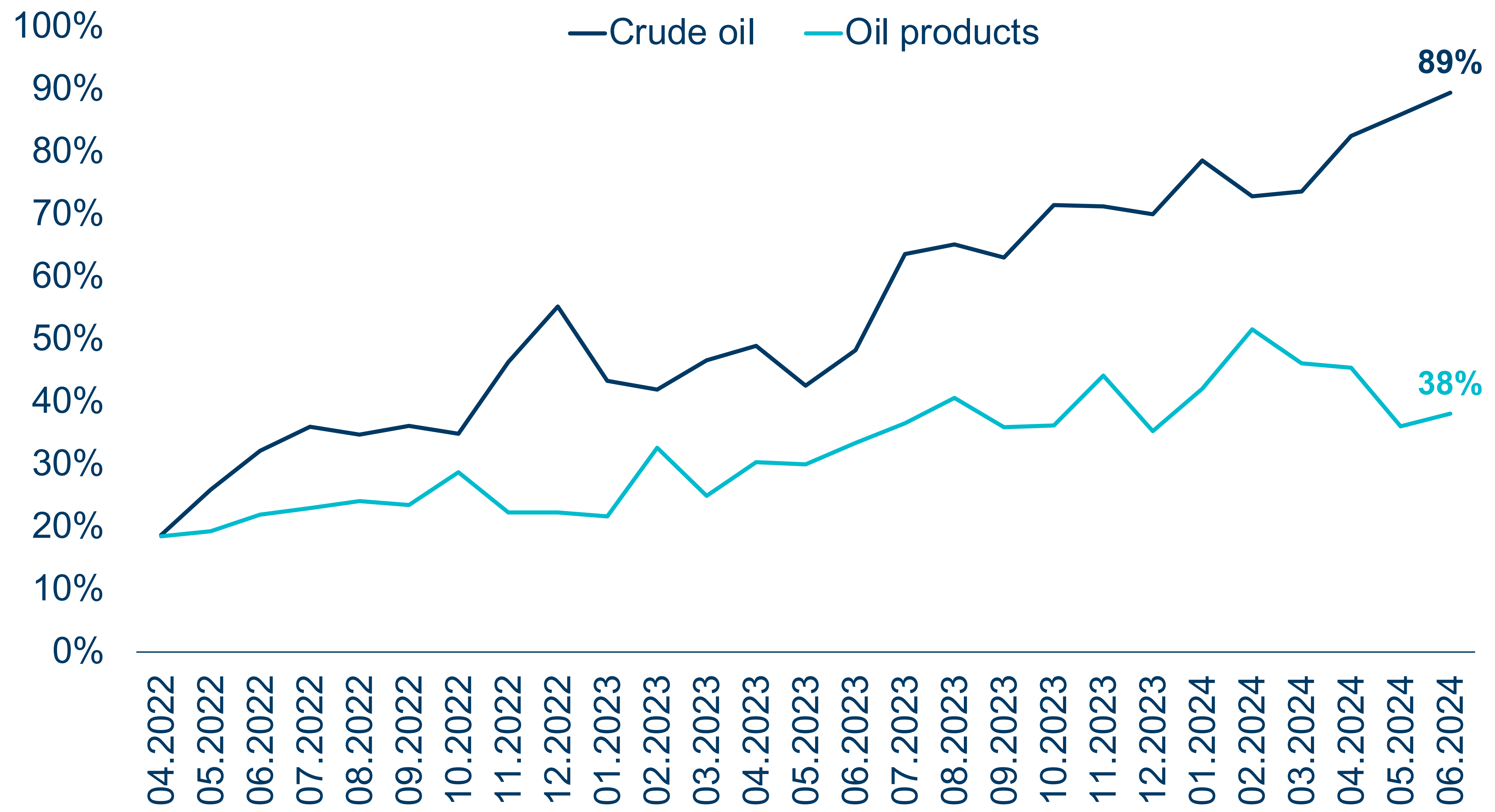
**Read KSE Institute's in-depth assessment of the shadow fleet here.**

**Composition of Russian seaborne crude oil exports in Q4 2023, in %**




Source: Kpler, P&I Clubs, KSE Institute

**Volume share of the Russian shadow fleet, in %**




Source: Kpler, P&I Clubs, KSE Institute
Read KSE Institute's June 2024 *Russian Oil Tracker*.

# Trade: weak sanctions improvement scenario is likely to materialize, which will create supportive external conditions.

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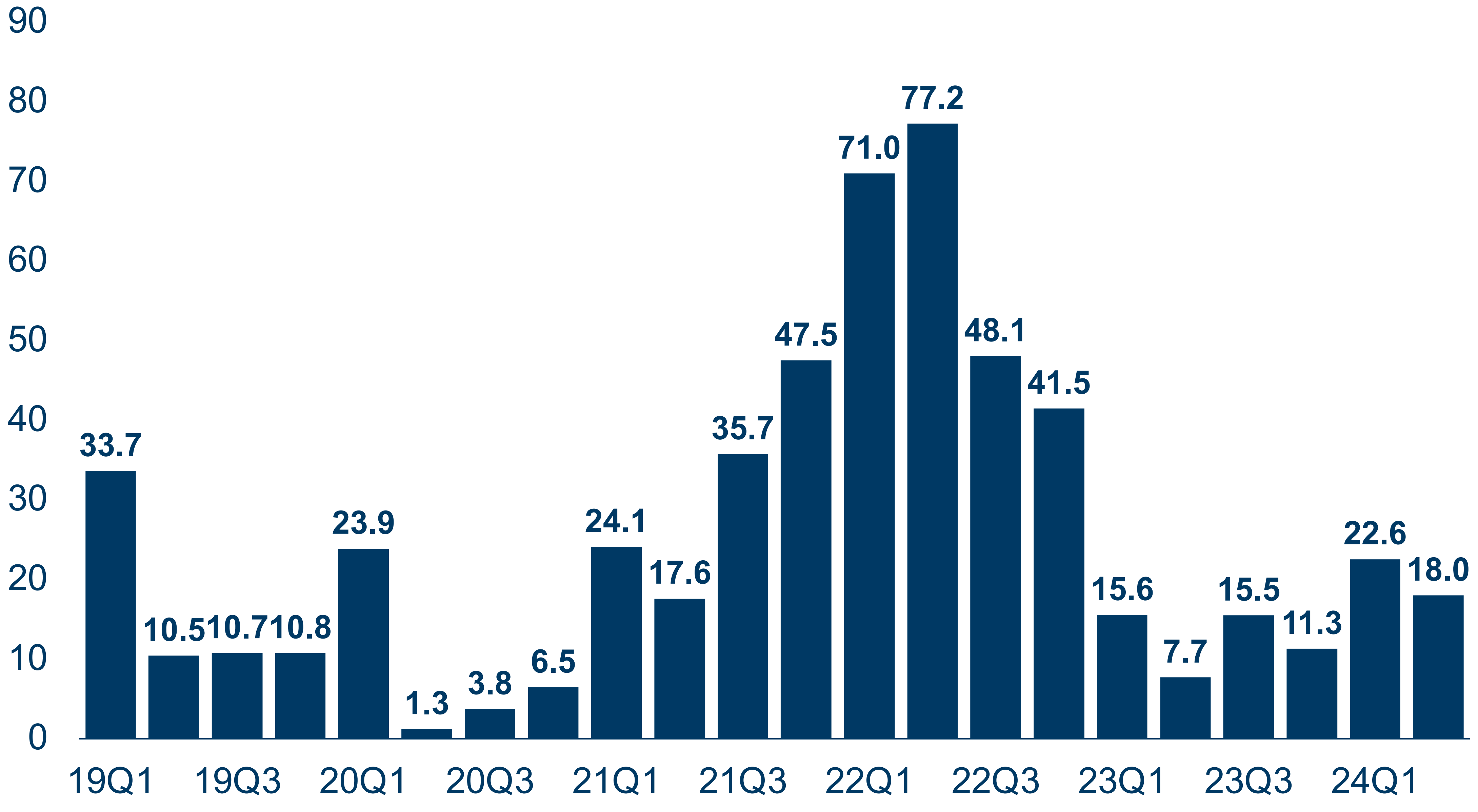
# External environment has become more supportive in 2024.

- In Q2 2024, the current account surplus reached $18 billion, following a surplus of $22.6 billion in Q1.
- Higher imports and somewhat larger services and income/transfers deficits offset stronger exports.
- At the rate of H1 2024, the full-year surplus would reach above 80 billion (vs. ~$51 billion in 2023).

**Quarterly current account balance, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

**Composition of the current account, in U.S. dollar billion**

| | C/A | Goods | | | Services | | | Income & transfers | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Time period | Bal. | Bal. | Exp. | Imp | Bal. | Cred. | Deb. | Bal. | Cred. | Deb. |
| Q1 2024 | 22.6 | 33.8 | 100.9 | 67.1 | -7.3 | 10.2 | 17.4 | -3.9 | 8.6 | 10.1 |
| Q2 2024 | 18.0 | 34.0 | 104.8 | 70.8 | -9.5 | 9.9 | 19.4 | -6.5 | 12.5 | 16.6 |
| Apr. 2024 | 7.0 | 10.9 | 33.6 | 22.7 | -2.6 | 3.1 | 5.7 | -1.3 | 3.5 | 4.7 |
| May 2024 | 6.3 | 12.6 | 37.1 | 24.5 | -3.3 | 3.2 | 6.5 | -3.0 | 3.5 | 6.5 |
| June 2024 | 4.7 | 10.6 | 34.1 | 23.6 | -3.7 | 3.5 | 7.2 | -2.2 | 3.1 | 5.3 |
| H1 2024 | 40.6 | 67.8 | 205.7 | 137.9 | -16.8 | 20.0 | 36.8 | -10.4 | 18.7 | 29.1 |
| Memorandum | | | | | | | | | | |
| 2021 | 125.0 | 193.1 | 494.2 | 301.0 | -20.3 | 55.6 | 75.9 | -47.8 | 96.3 | 144.1 |
| 2022 | 237.7 | 315.6 | 592.1 | 276.5 | -22.2 | 48.6 | 70.9 | -55.6 | 51.1 | 106.8 |
| 2023 | 50.2 | 120.9 | 424.2 | 303.3 | -34.1 | 41.2 | 75.3 | -36.6 | 44.7 | 81.3 |
| Q1 2023 | 15.6 | 30.5 | 105.1 | 74.6 | -7.6 | 9.9 | 17.5 | -7.3 | 11.4 | 18.7 |
| Q2 2023 | 7.7 | 26.3 | 103.4 | 77.1 | -8.9 | 10.4 | 19.3 | -9.6 | 12.7 | 22.3 |
| Apr 2023 | 0.3 | 6.8 | 31.6 | 24.8 | -2.4 | 3.3 | 5.8 | -4.0 | 4.1 | 8.1 |
| May 2023 | 5.5 | 10.4 | 37.4 | 26.9 | -3.1 | 3.4 | 6.4 | -1.9 | 3.7 | 5.6 |
| June 2023 | 2.0 | 9.0 | 34.5 | 25.4 | -3.4 | 3.6 | 7.0 | -3.7 | 4.9 | 8.5 |
| H1 2023 | 23.3 | 56.8 | 208.5 | 151.7 | -16.5 | 20.2 | 36.7 | -17.0 | 24.1 | 41.1 |

Source: Bank of Russia, KSE Institute

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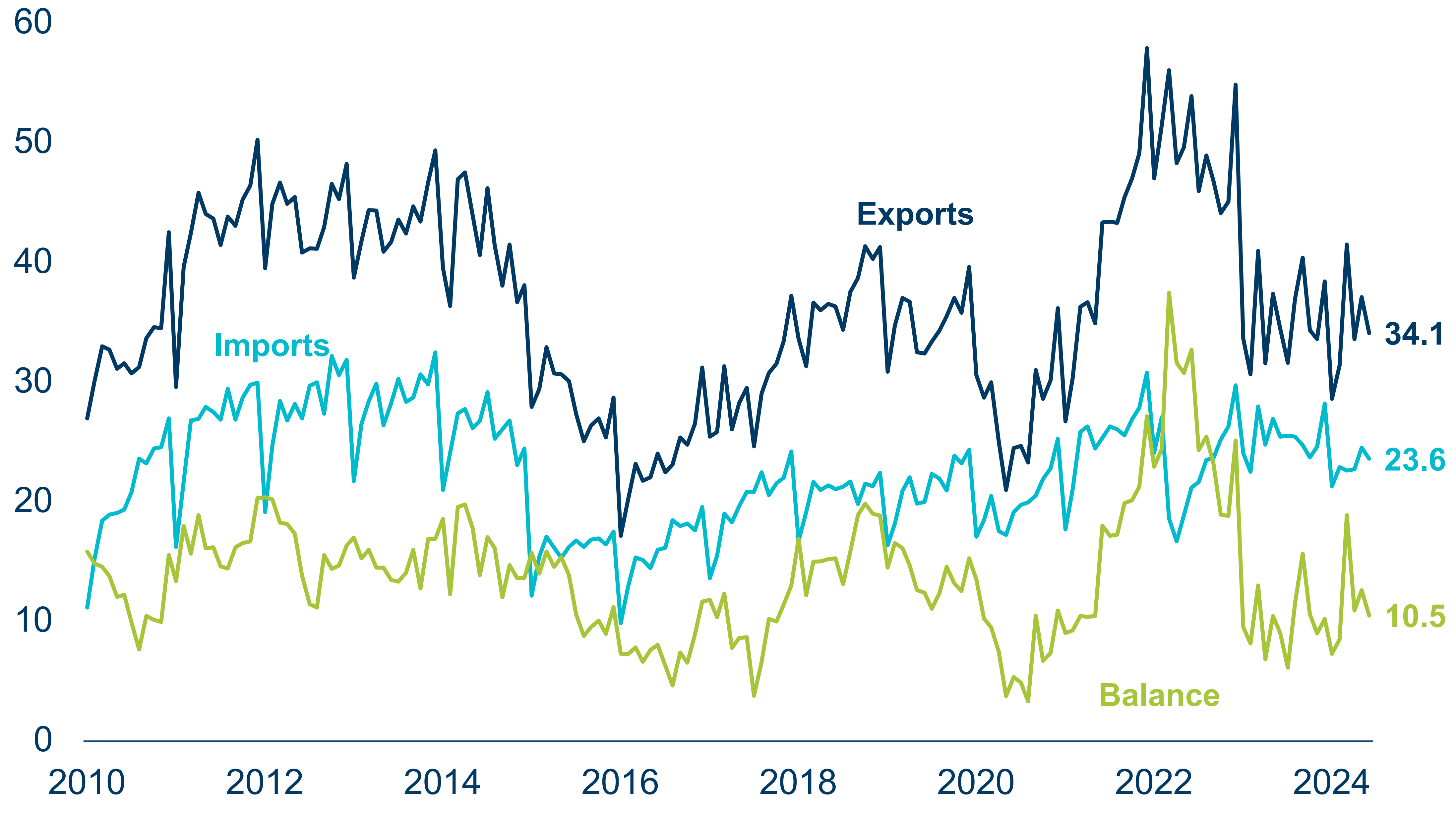
# Foreign trade has settled in at a new post-full scale invasion baseline.

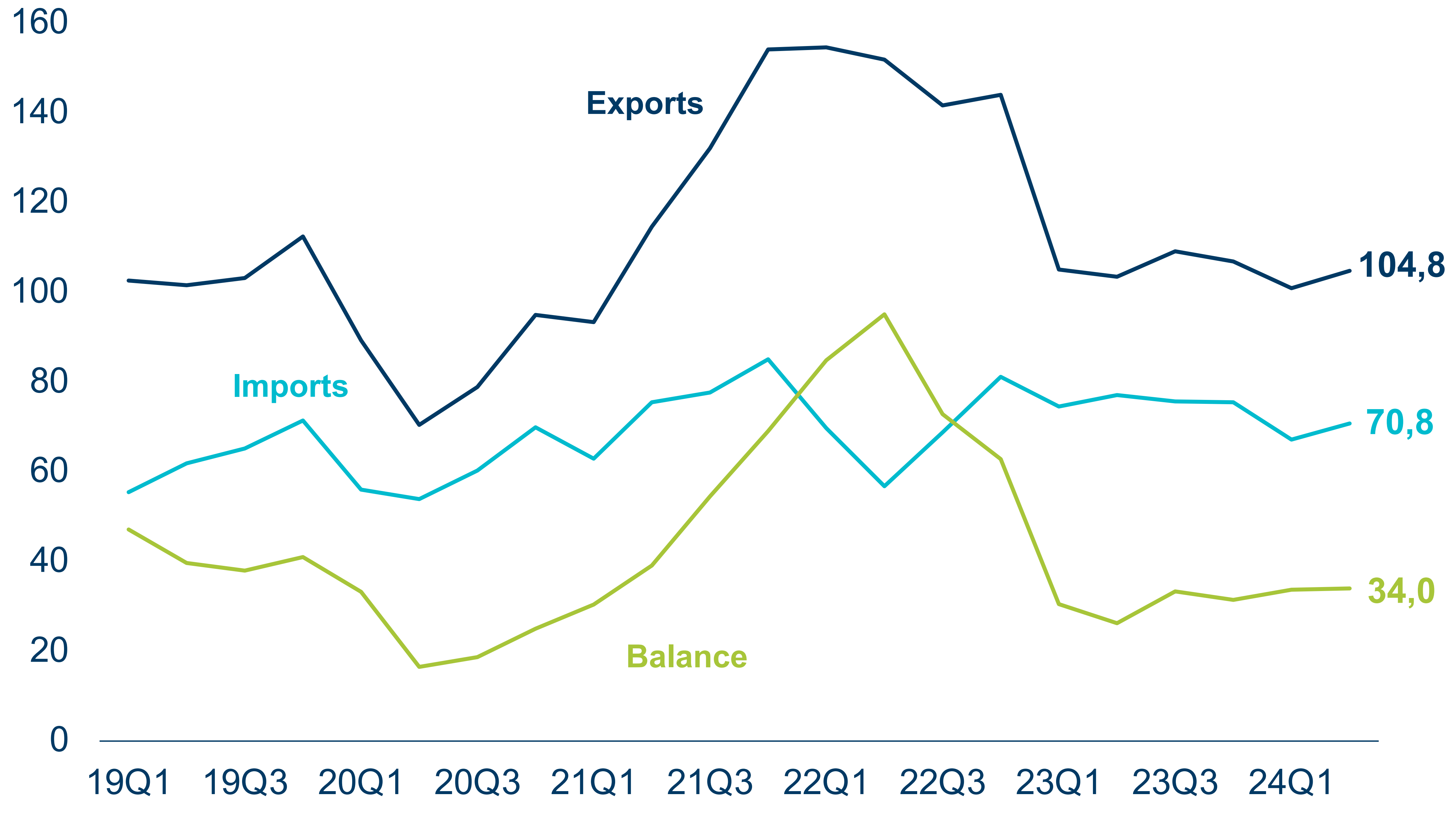
- Russia's foreign trade has stabilized at a new baseline of ~$100 billion in exports and ~$75 billion in imports per quarter.
- This represents a significant change to 2022 when soaring commodity prices drove up exports while imports weakened.
- However, any further erosion of Russia's external accounts will require more decisive measures on the sanctions front.

**Monthly trade statistics, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

**Quarterly balance of payments statistics, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

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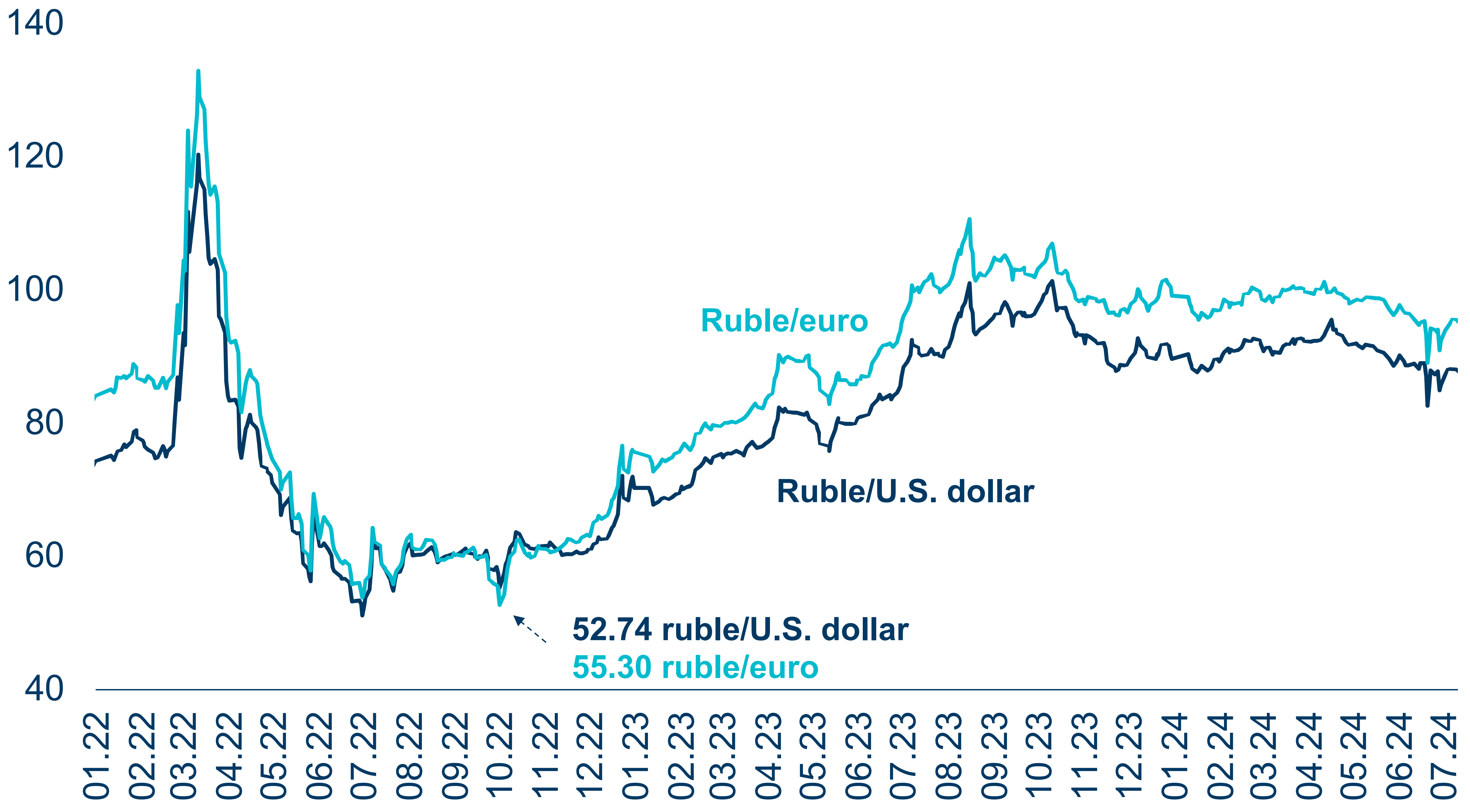
# Ruble has stabilized and further CBR rate hikes are likely.

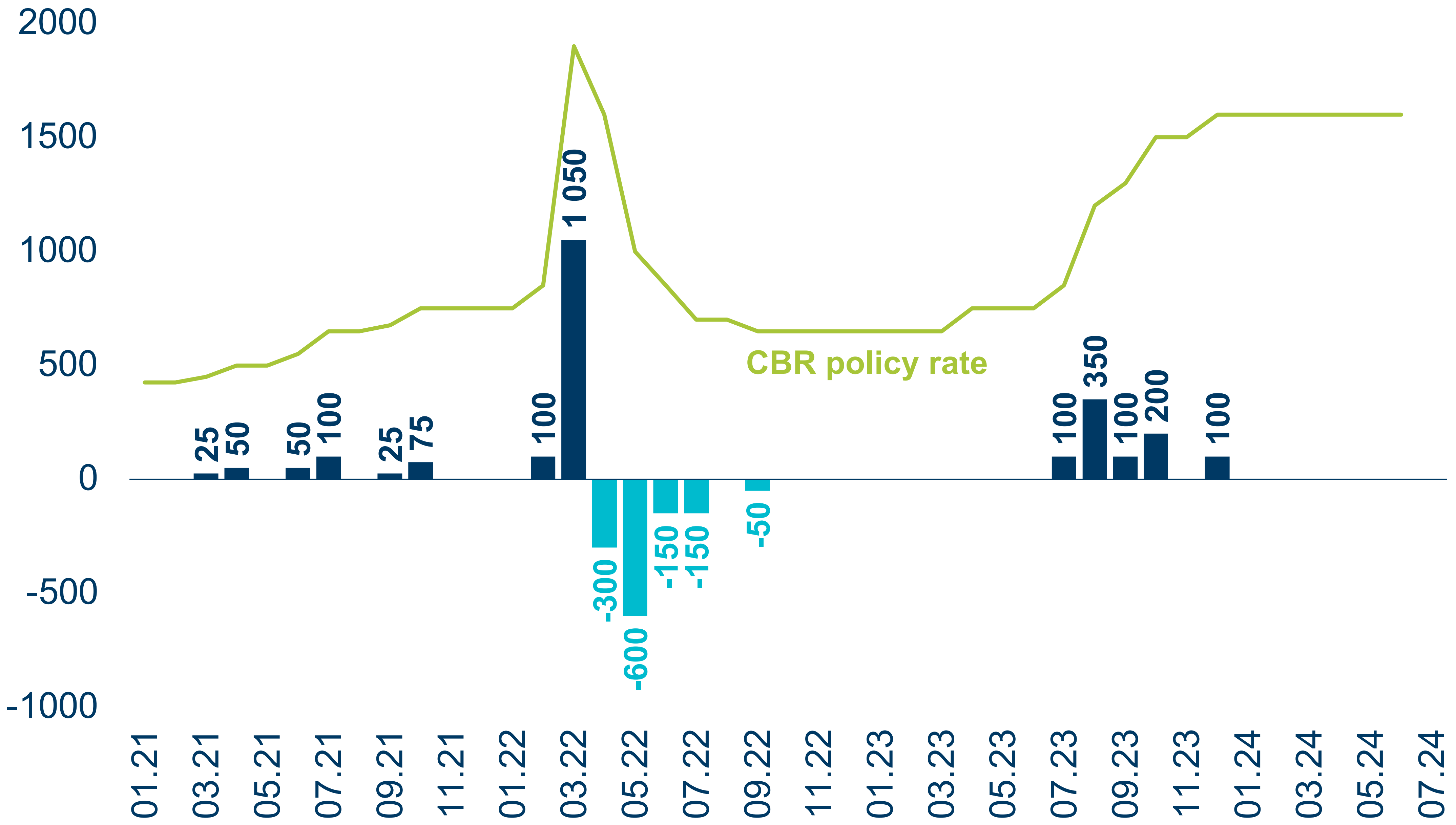
- Since October 2022, the ruble has lost 37% of its value against the U.S. dollar and 45% against the euro.
- Interest rate hikes by the CBR and the re-introduction of capital controls have led to some stabilization.
- The central bank has signaled that another interest rate hike could take place at coming MPC meetings.

**Ruble exchange rate vs. U.S. dollar and euro**




Source: Bank of Russia, KSE Institute

**CBR policy rate and MPC decisions, in bps**




Source: Bank of Russia, KSE Institute

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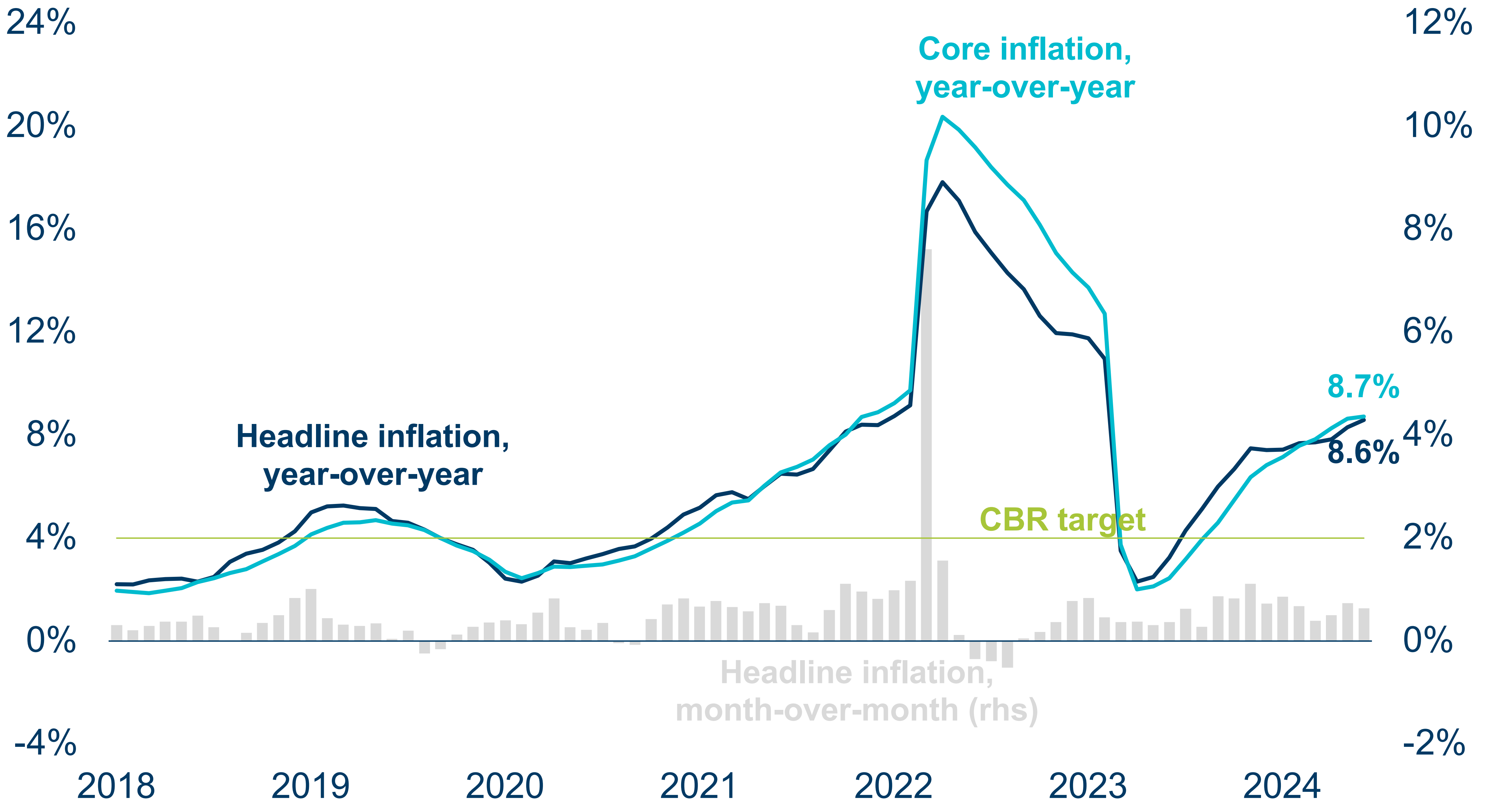
# Headline and core inflation are rising and approach double digits.

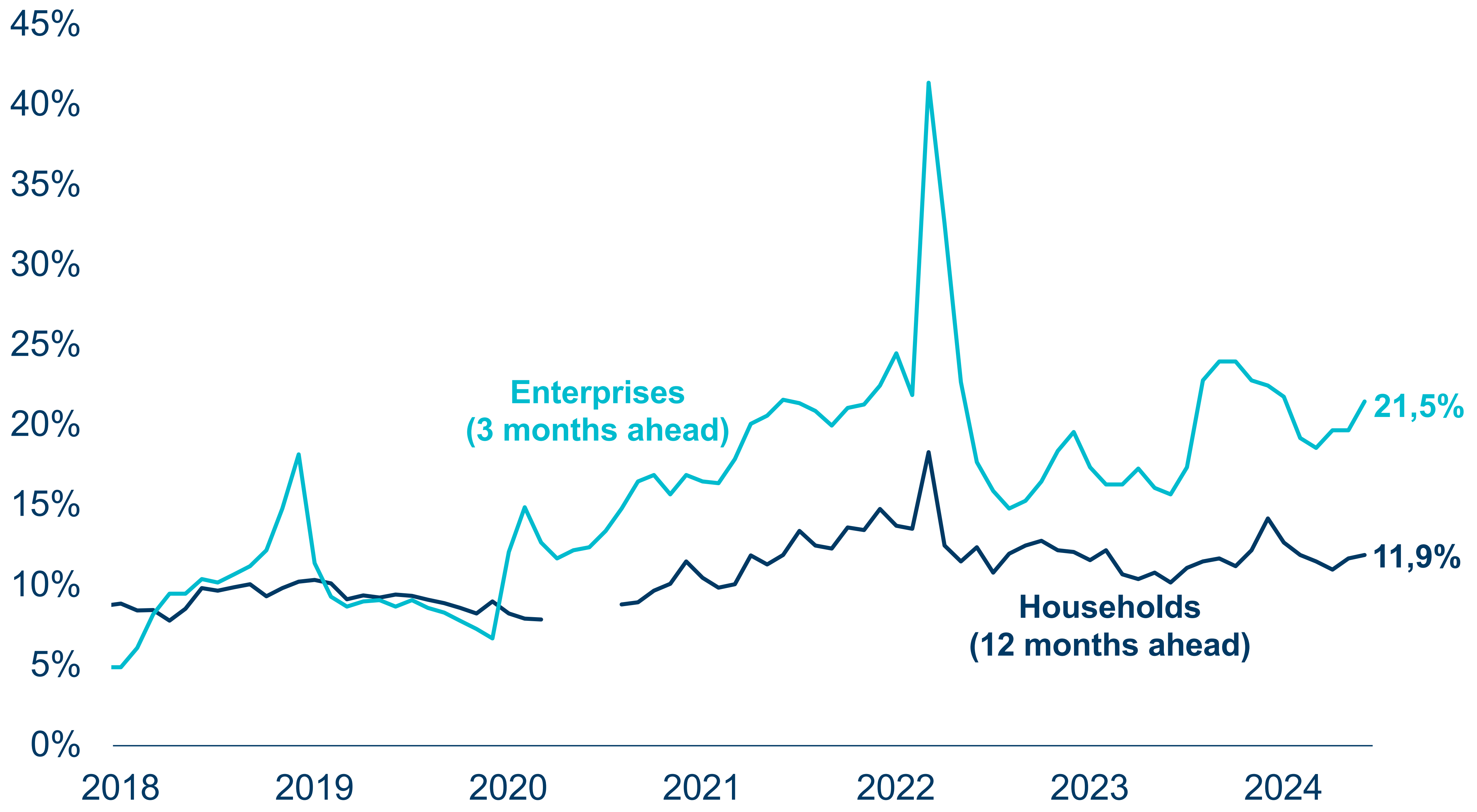
- Following a base effects-driven drop in spring/summer 2023, both headline and core inflation are rising again.
- Based on current month-to-month dynamics, headline inflation could approach double-digits again in the fall.
- Inflation expectations of enterprises are also rising again after a period of moderation in February-May 2024.

**Inflation, in %**




Source: Bank of Russia, KSE Institute

**Inflation expectations, in %**

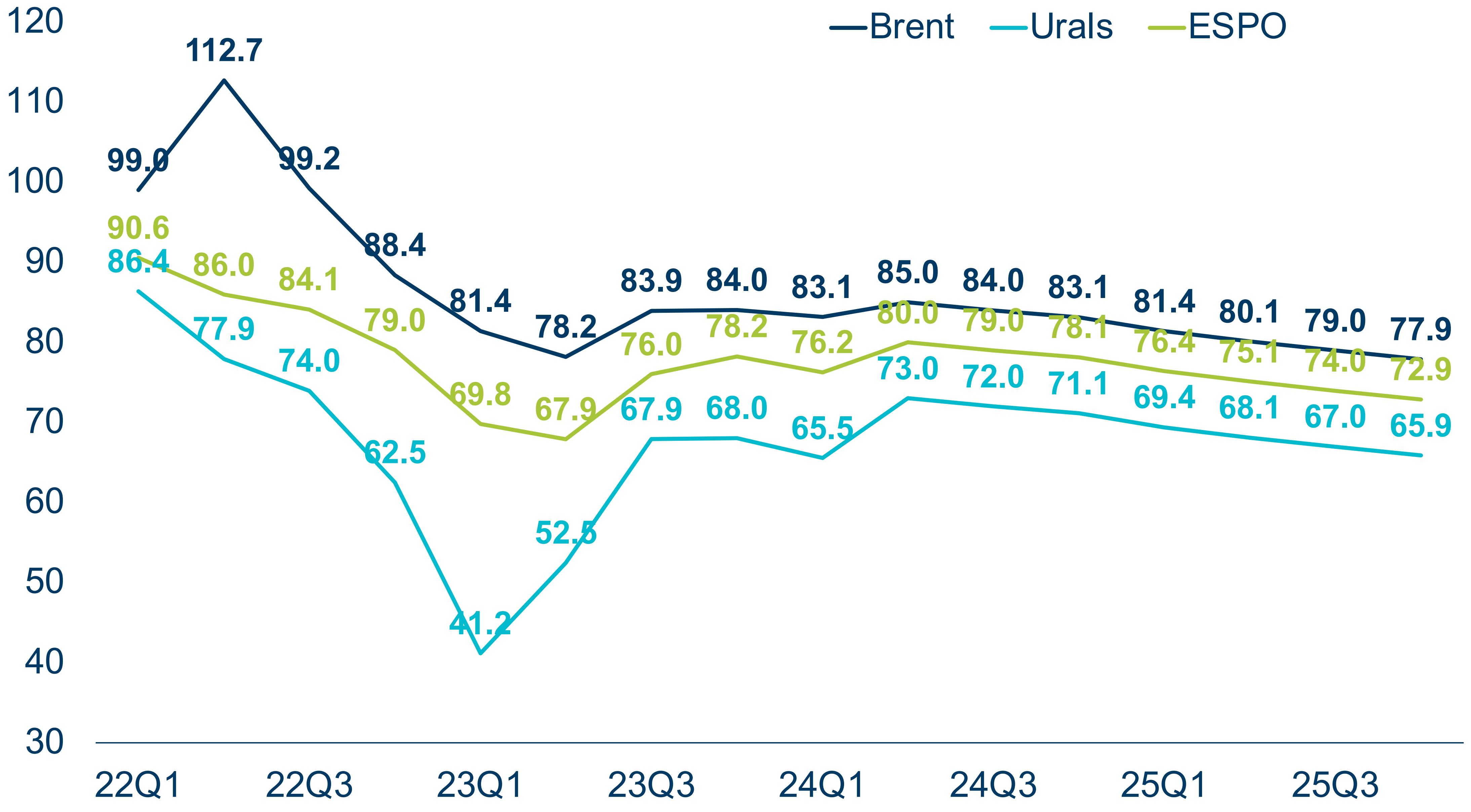



Source: Bank of Russia, KSE Institute

# Weak enforcement scenario is increasingly likely.

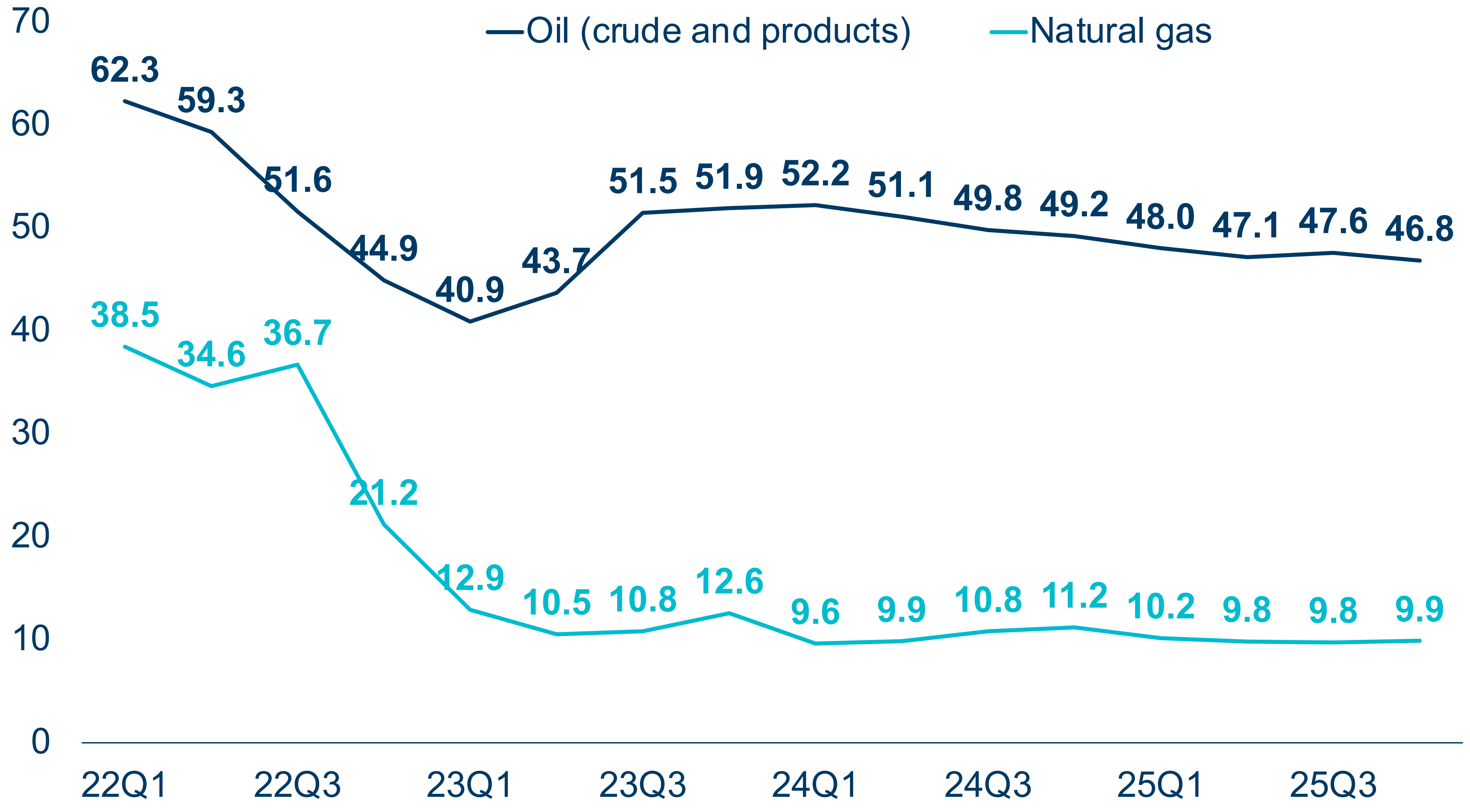
- It looks increasingly likely that our bearish scenario of weak energy sanctions enforcement is materializing.
- This scenario assumes an Urals discount of $12/barrel and an ESPO discount of $5/barrel going forward.
- In this situation, Russia would be able to generate significantly higher oil export earnings vs. the base case.

**Oil prices, in U.S. dollar/barrel**




Source: KSE Institute

**Oil and gas export earnings, in U.S. dollar billion**




Source: KSE Institute

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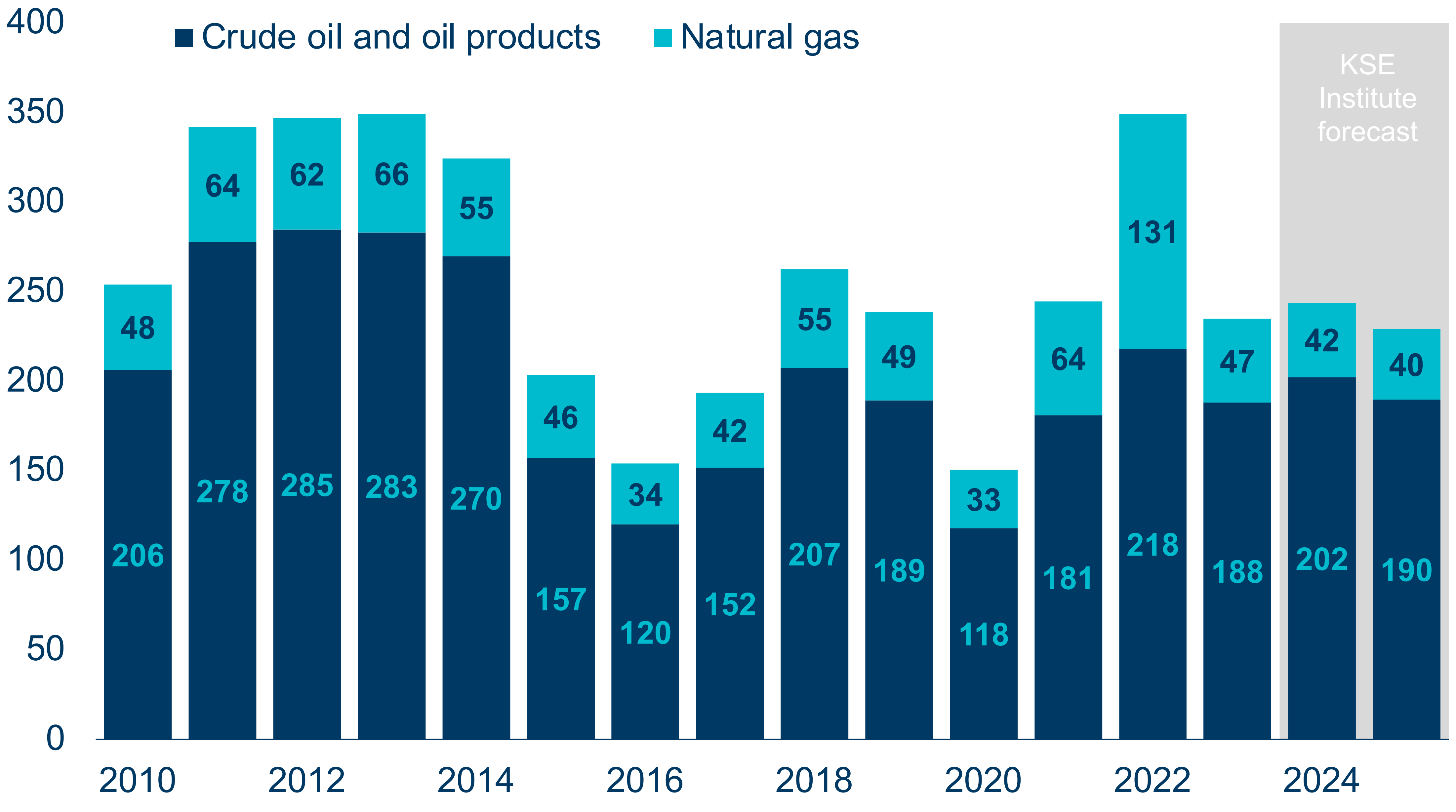
# Current account surplus to improve markedly this year and next.

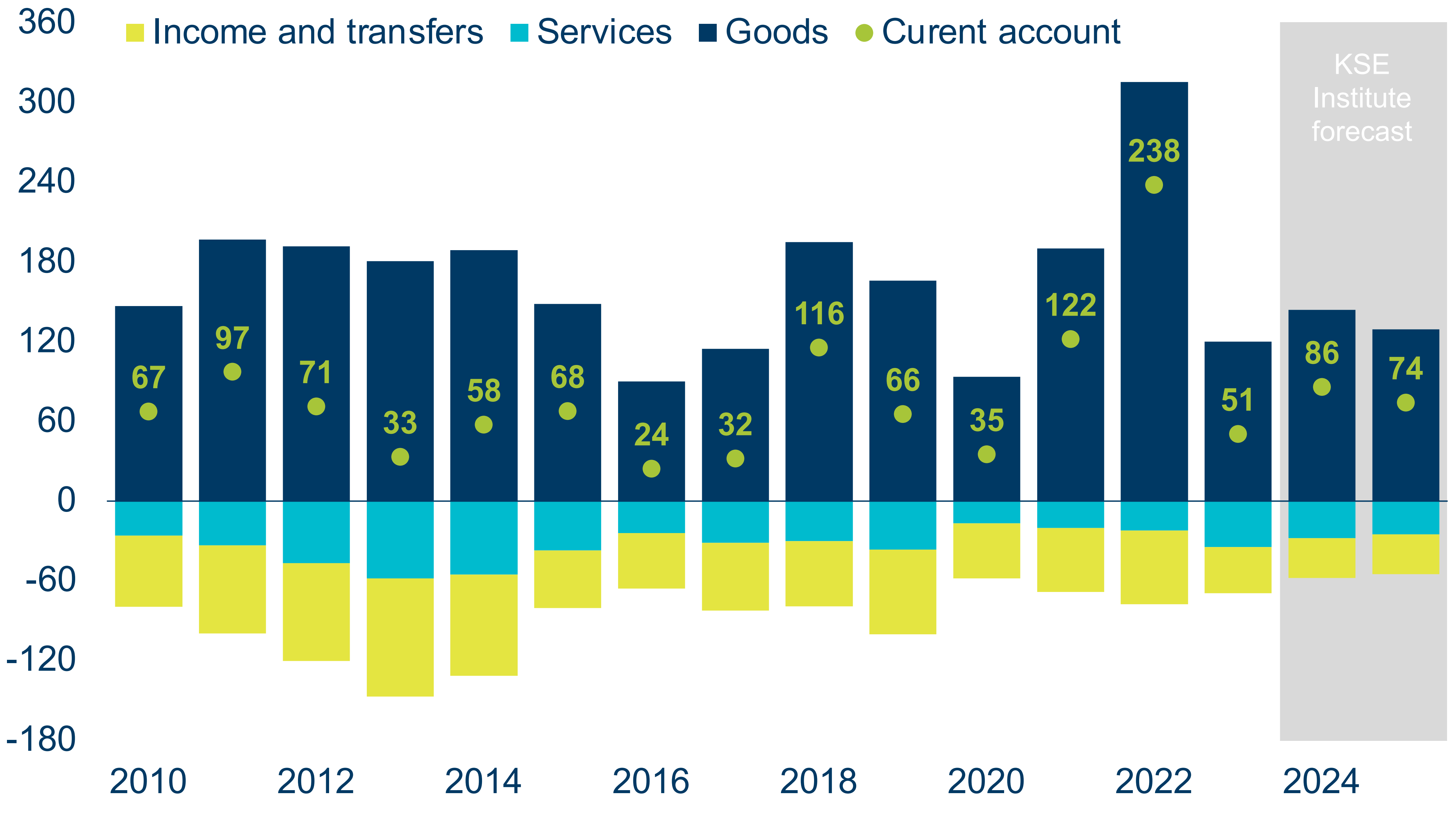
- O&G exports are projected to rise to $244 billion in 2024 (vs. $235 billion in 2023) before declining to $229 billion in 2025.
- As a result, the current account surplus is set to rise to $86 billion this year and $74 billion next (vs. $51 billion in 2023).
- In terms of its external accounts, this leaves Russia in a quite comfortable position and will limit any depreciation pressure.

**Oil and gas earnings, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

**Current account and components, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

# Budget: Russia is unlikely to face serious fiscal constraints.

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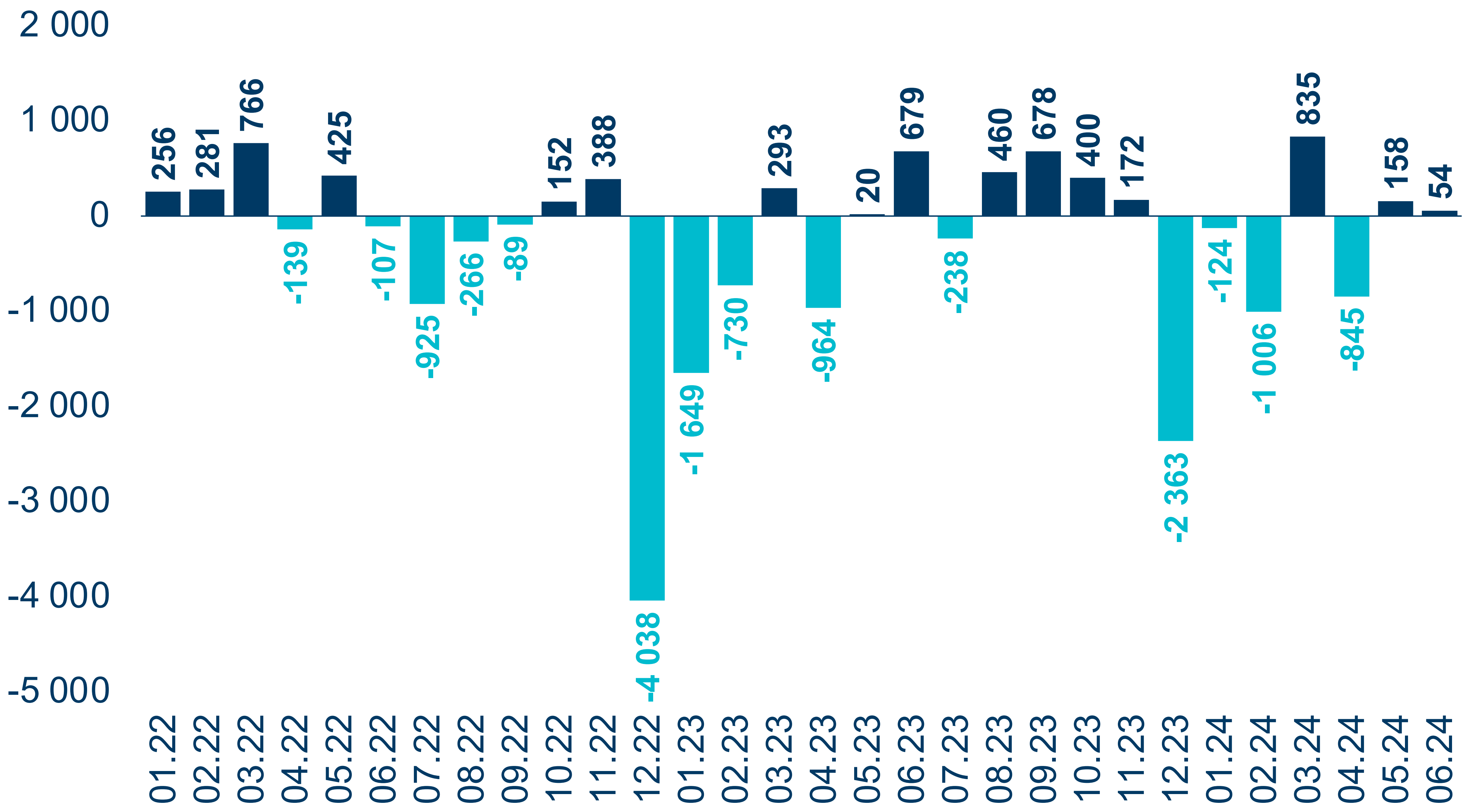
# Sharp rise in revenues significantly improved fiscal situation.

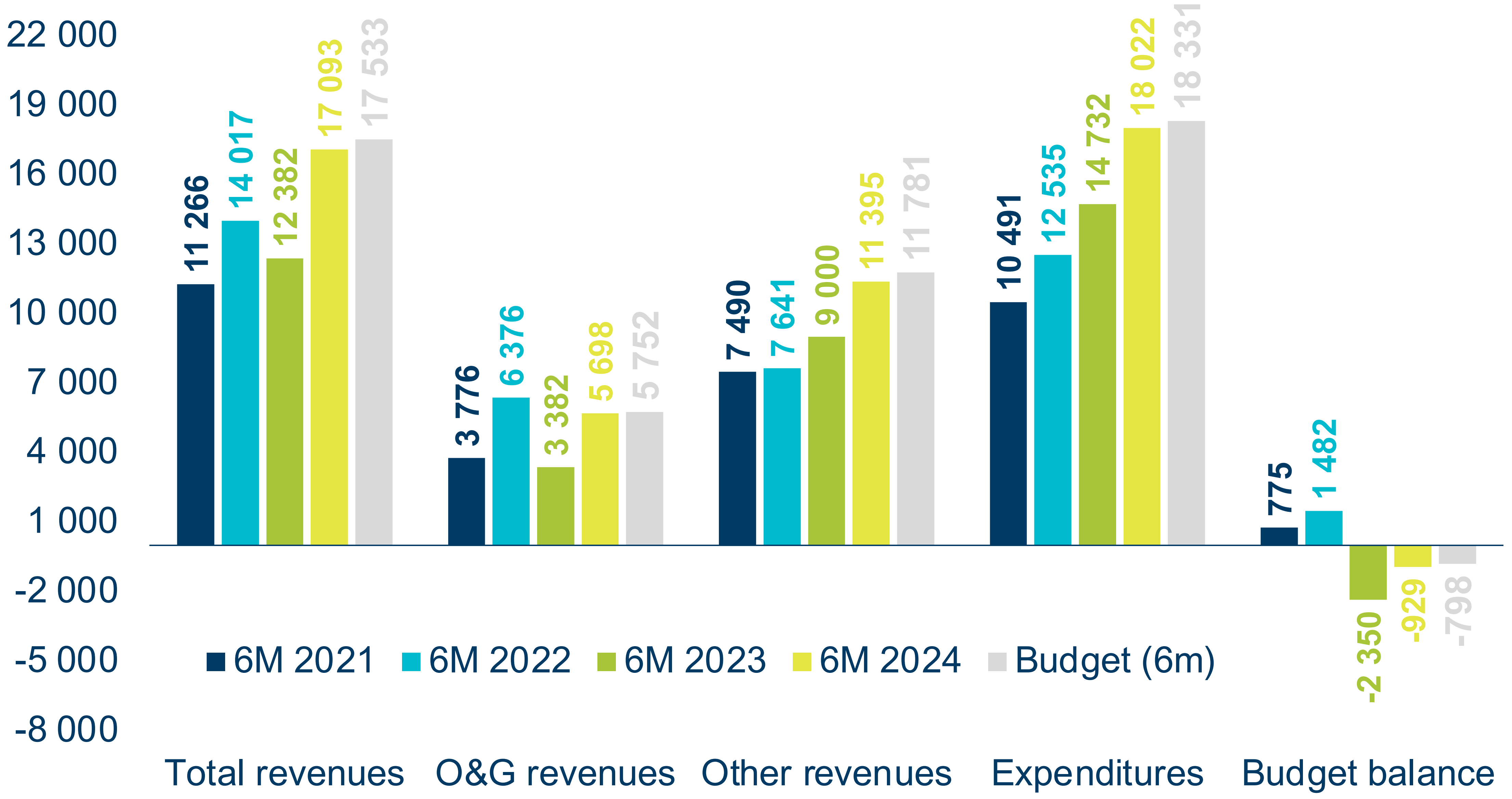
- In January-June 2024, Russia's federal budget deficit reached 929 billion rubles, 58% of the full-year plan.
- O&G revenues were 69%, non-O&G revenues 27%, and expenditures 22% higher vs. January-June 2023.
- It is unlikely that Russia will face any serious fiscal constraints that would affect planned military spending.

**Federal government balance, in ruble billion**




Source: Ministry of Finance, KSE Institute

**Revenues and expenditures, in ruble billion**




Source: Ministry of Finance, KSE Institute

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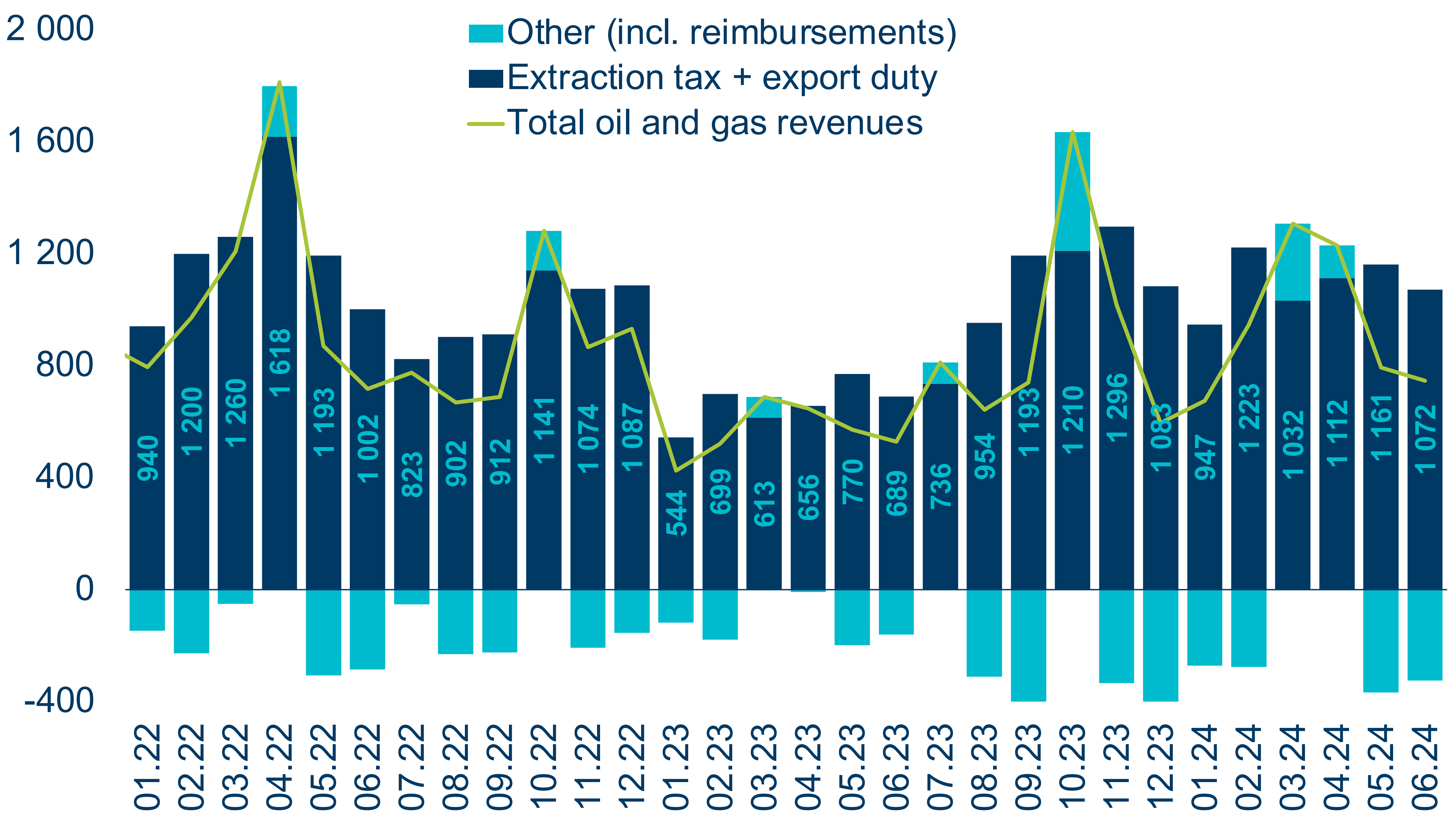
## Strong oil and gas revenues provide support to the budget.

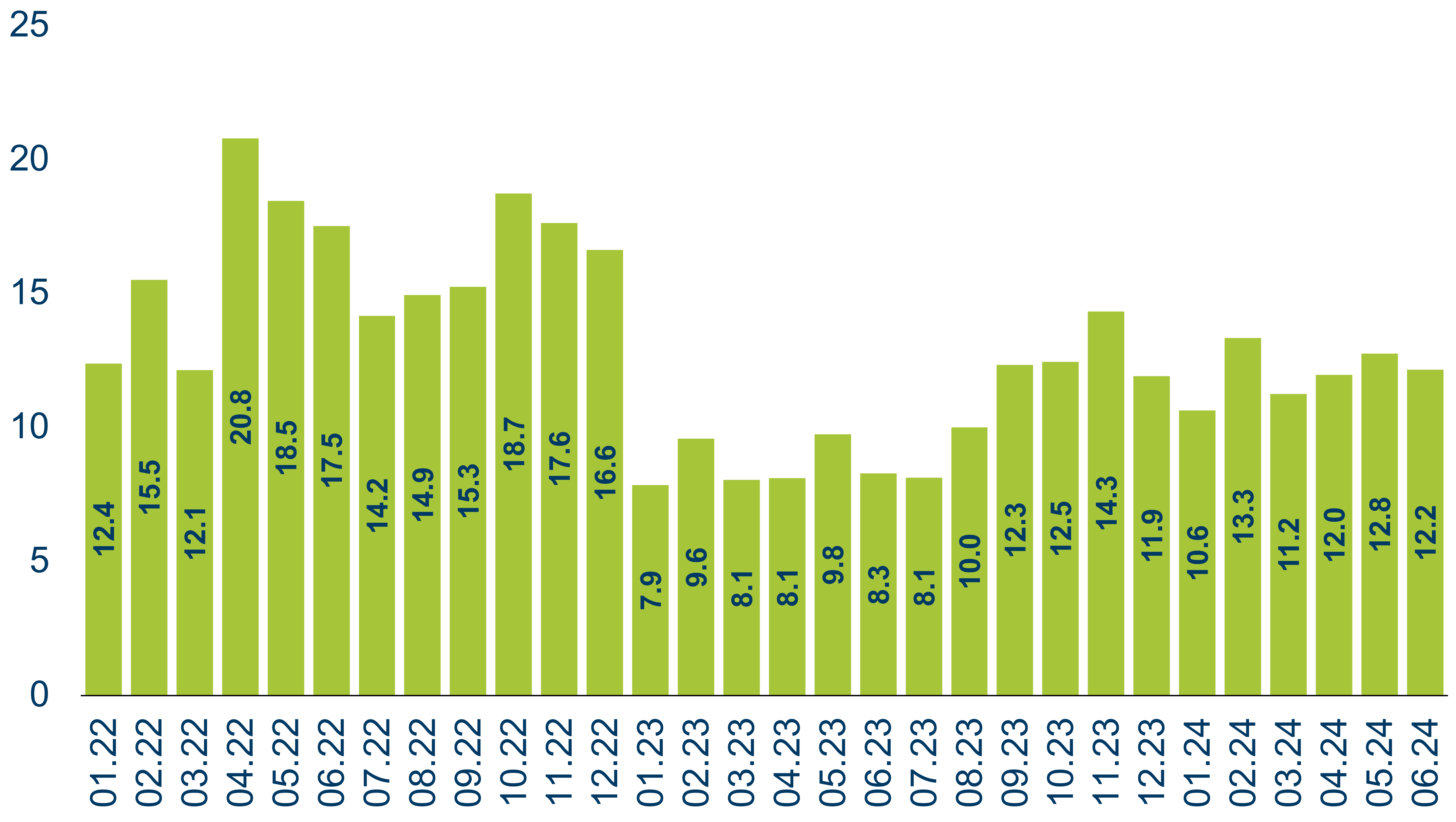
- O&G revenues from extraction taxes and export duties remained strong in June at above 1 trillion rubles.
- This is primarily the result of strong revenues in U.S.-dollar terms and not due to exchange rate effects.
- With export prices at current levels, it is very unlikely that the Russian budget will come under pressure.

**Federal oil and gas revenues, in ruble billion**




Source: Ministry of Finance, KSE Institute

**Federal oil and gas revenues, in U.S. dollar billion***




Source: International Monetary Fund, Ministry of Finance, KSE Institute
*includes extraction tax and export duty; calculated with monthly average exchange rate

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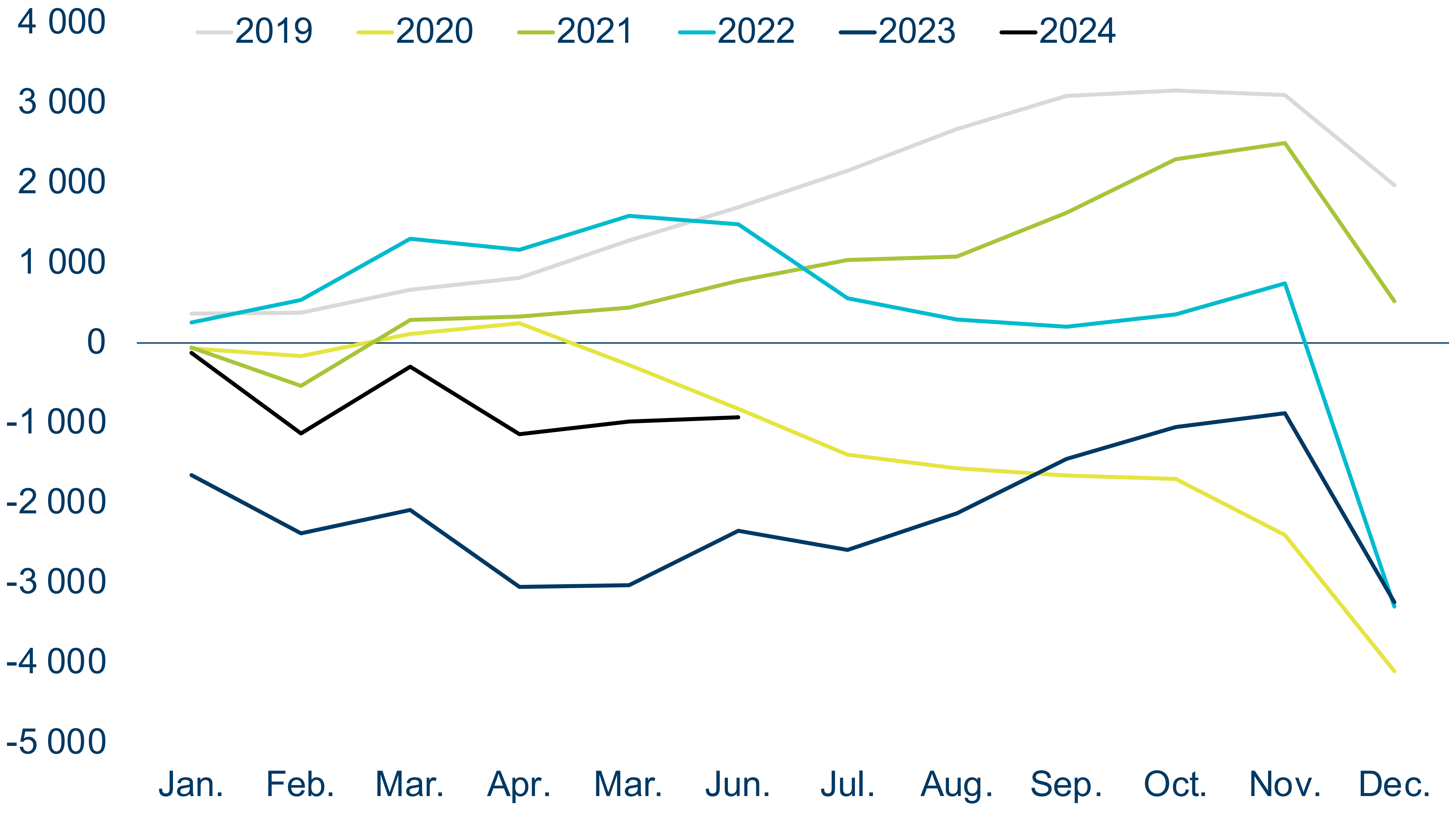
# Contained budget deficit means financing is not a challenge.

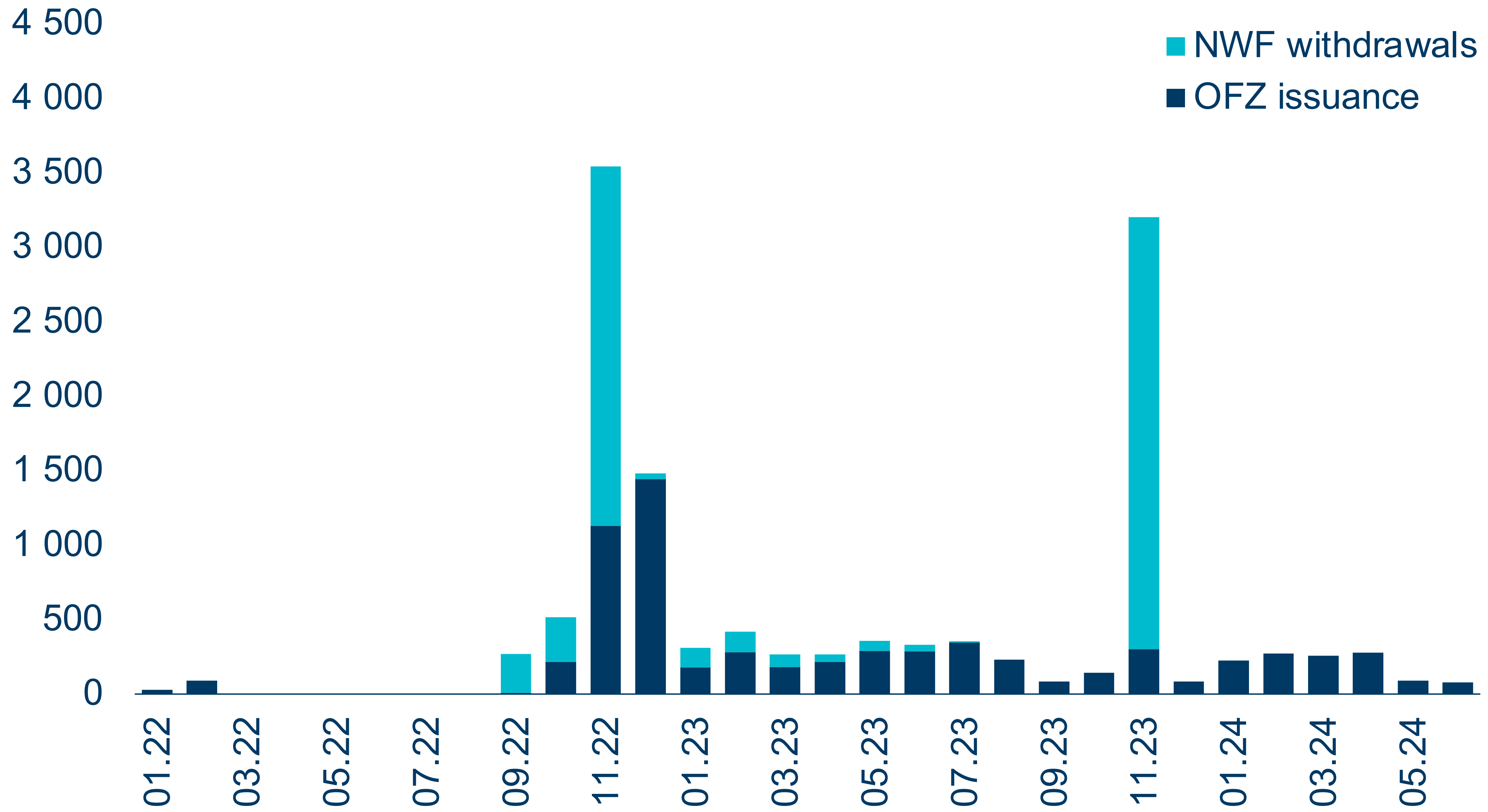
- The January-June 2024 deficit is 60% smaller compared to 2023, albeit expenditures are up sharply due to the war.
- Due to the improved fiscal situation, Russia has been able to finance the budget via moderate domestic debt issuance.
- Unless energy sanctions enforcement is stepped up, Russia will likely be able to stay within its budget target this year.

**Cumulative federal budget balance, in ruble billion**




Source: Ministry of Finance, KSE Institute

**Key fiscal financing channels, in ruble billion**

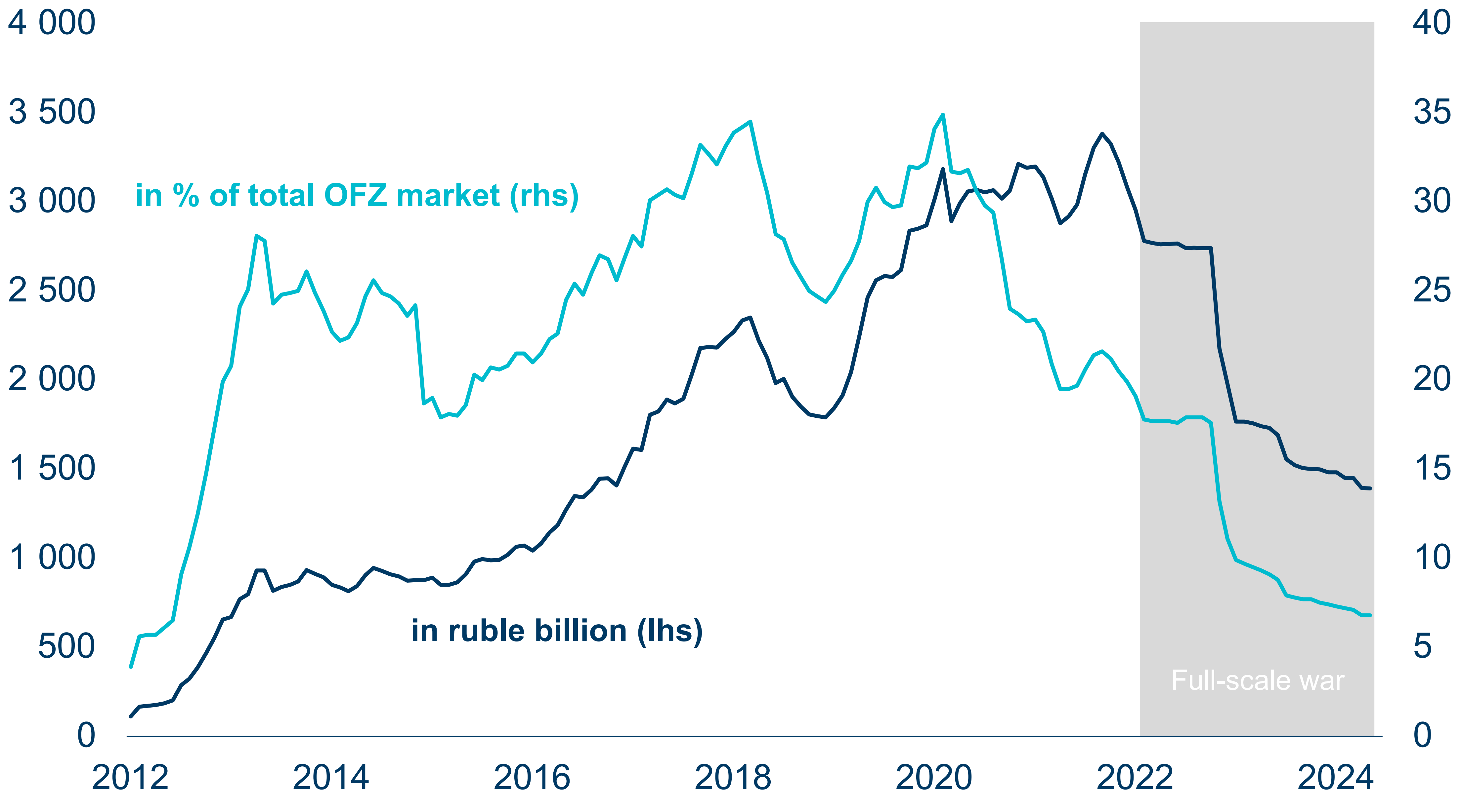



Source: Ministry of Finance, KSE Institute

# Domestic banks are the only remaining buyers for OFZs.

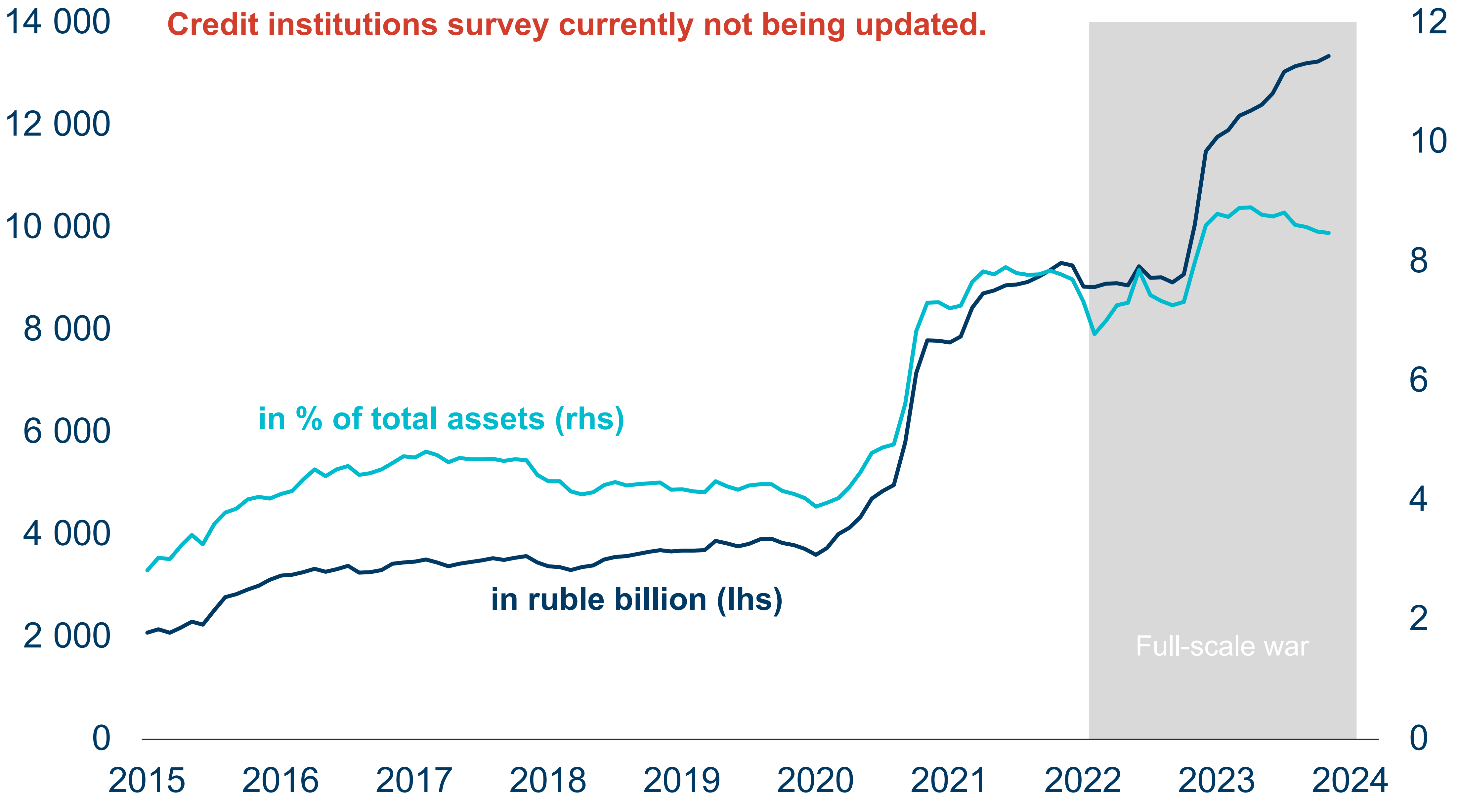
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 1.35 trillion rubles (or 49%) since October 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

## Non-resident OFZ holdings




Source: Bank of Russia, KSE Institute

## Credit institutions OFZ holdings




Source: Bank of Russia, KSE Institute

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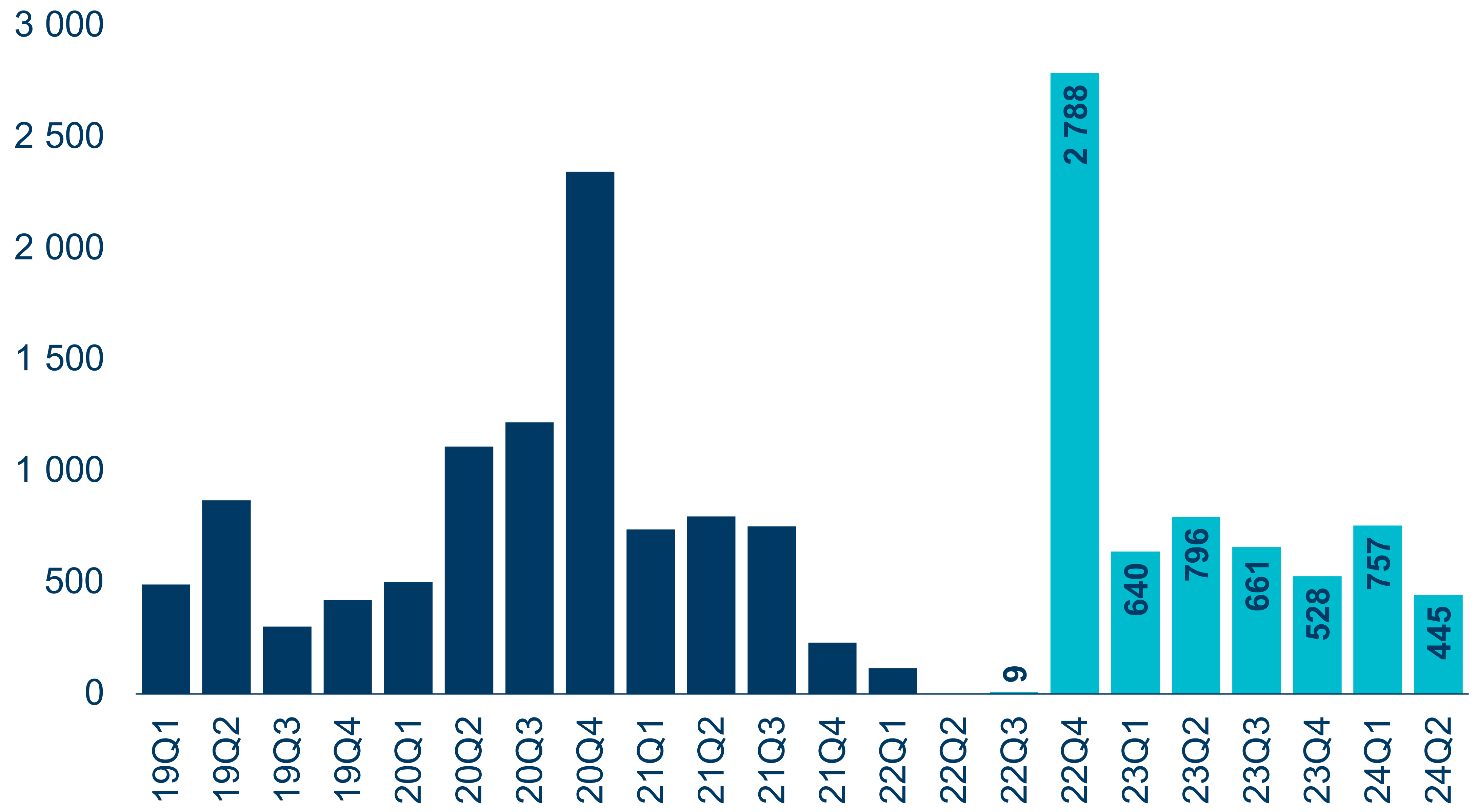
# Domestic borrowing remains stable due to limited fiscal pressure.

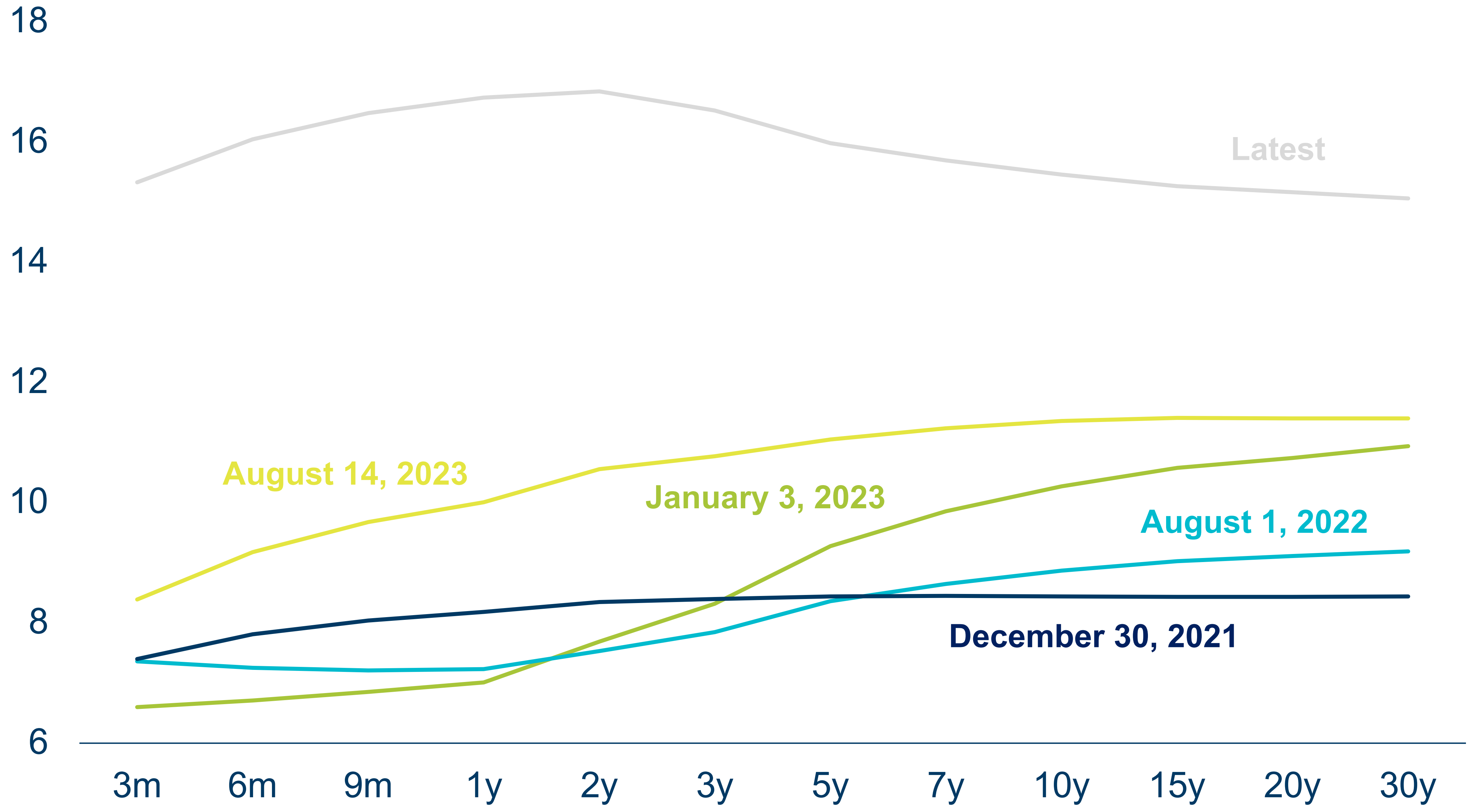
- Borrowing in the domestic market has been broadly stable in the last 1.5 years.
- The OFZ yield curve reflects the recent CBR rate hikes (of cumulative 850bps).
- Funding costs are, thus, higher but limited in their impact due to the small budget deficit.

**New domestic debt (OFZ) issuance, in ruble billion**




Source: Ministry of Finance, KSE Institute

**OFZ yield curves, in %**




Source: Bank of Russia, KSE Institute

# Macro buffers: Russia has used up more than half of the NWF’s liquid assets; access to reserves seriously constrained.

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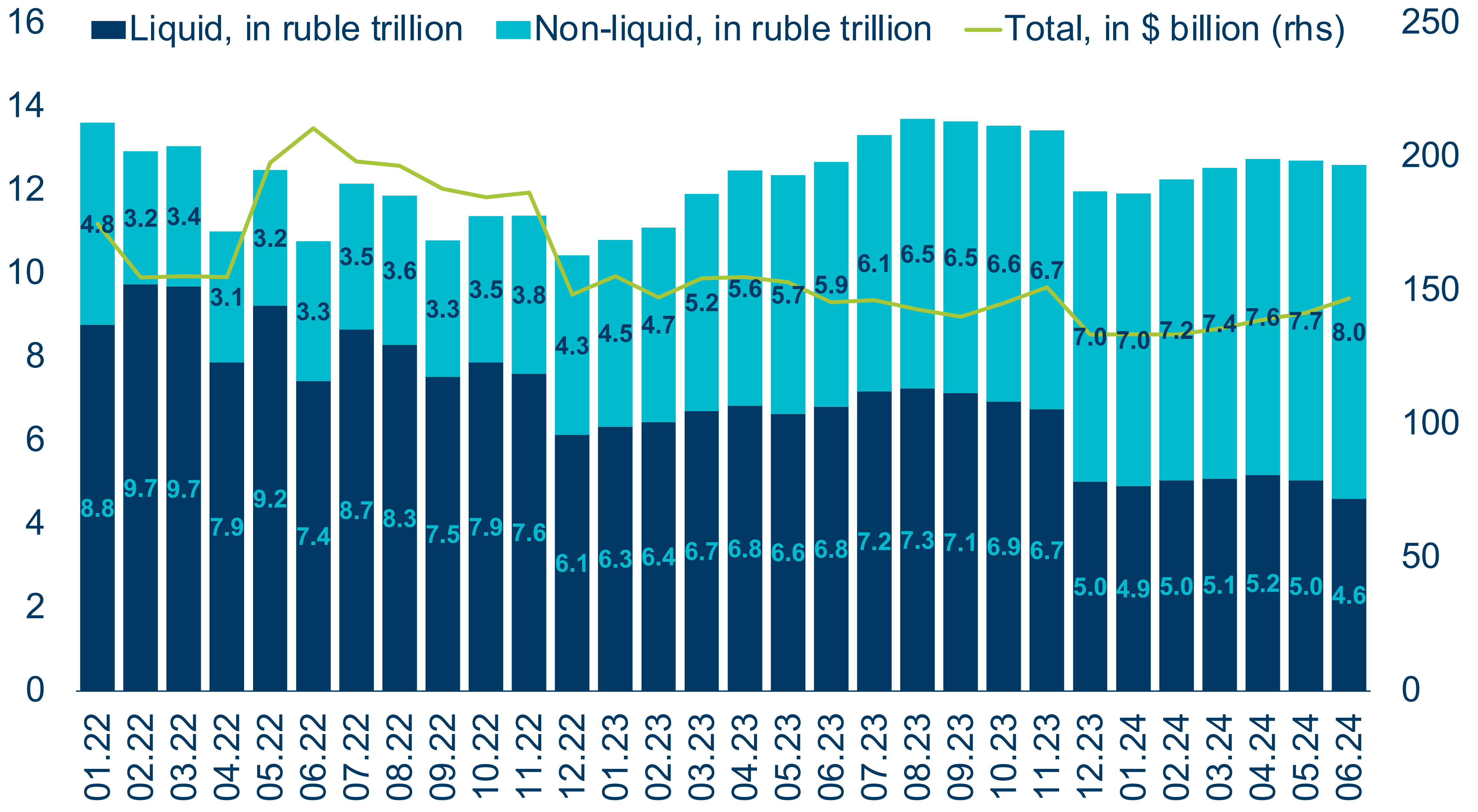
# Half of the NWF's liquid assets have been used up since February 2022.

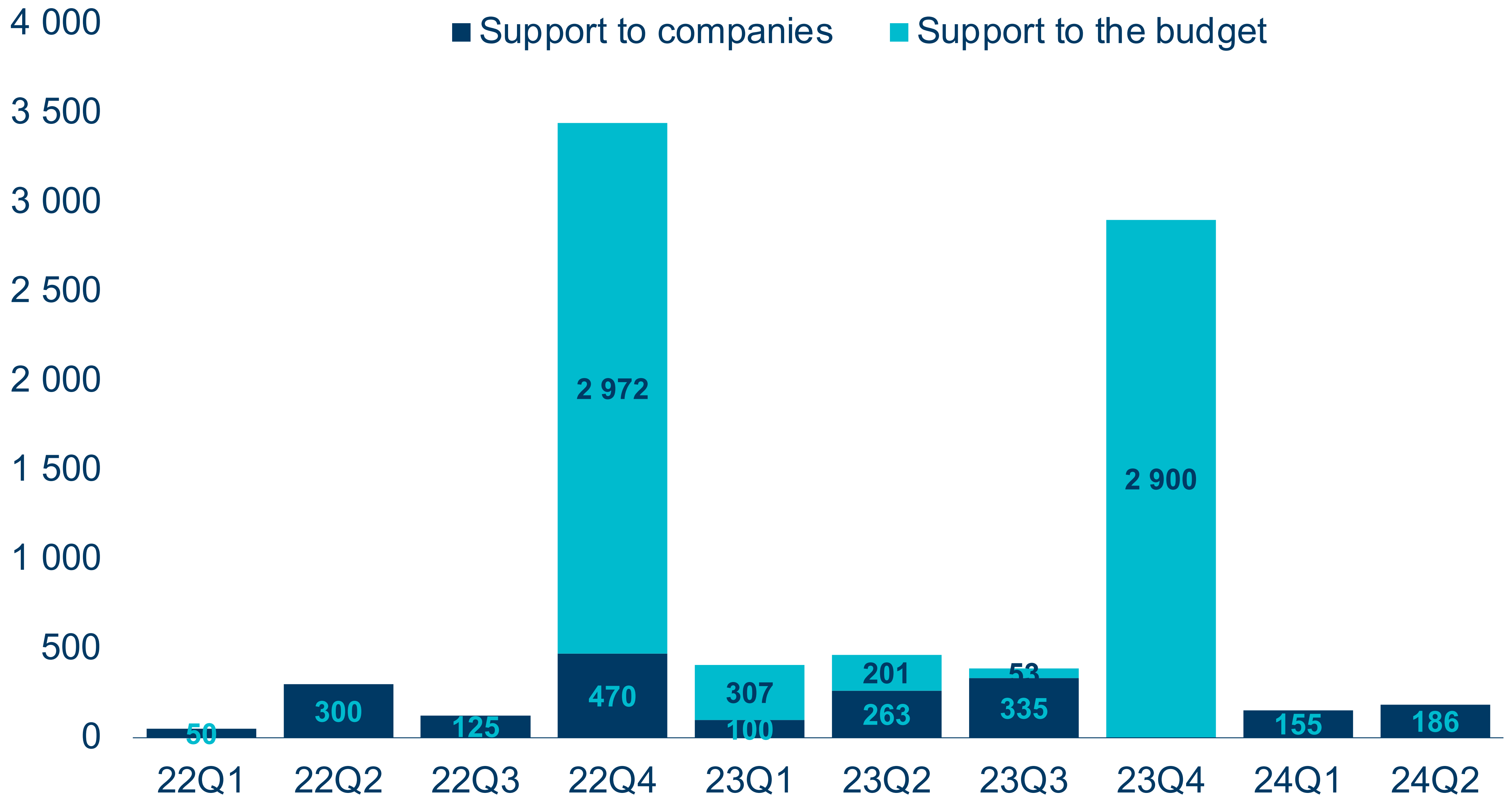
- Total assets of the National Welfare Fund stood at 12.6 trillion rubles ($147 billion, 7.0% of GDP) in June 2024.
- The liquid portion now only accounts for 37% of the total as a stronger ruble weighs on the local currency value.
- Since the start of the full-scale invasion, Russia has used more than half (~5.1 trillion) of the NWF's liquid assets.

**Assets of the NWF, in ruble billion and U.S. dollar billion**




Source: Ministry of Finance, KSE Institute

**Utilization of the NWF, in ruble billion**




Source: Ministry of Finance, KSE Institute

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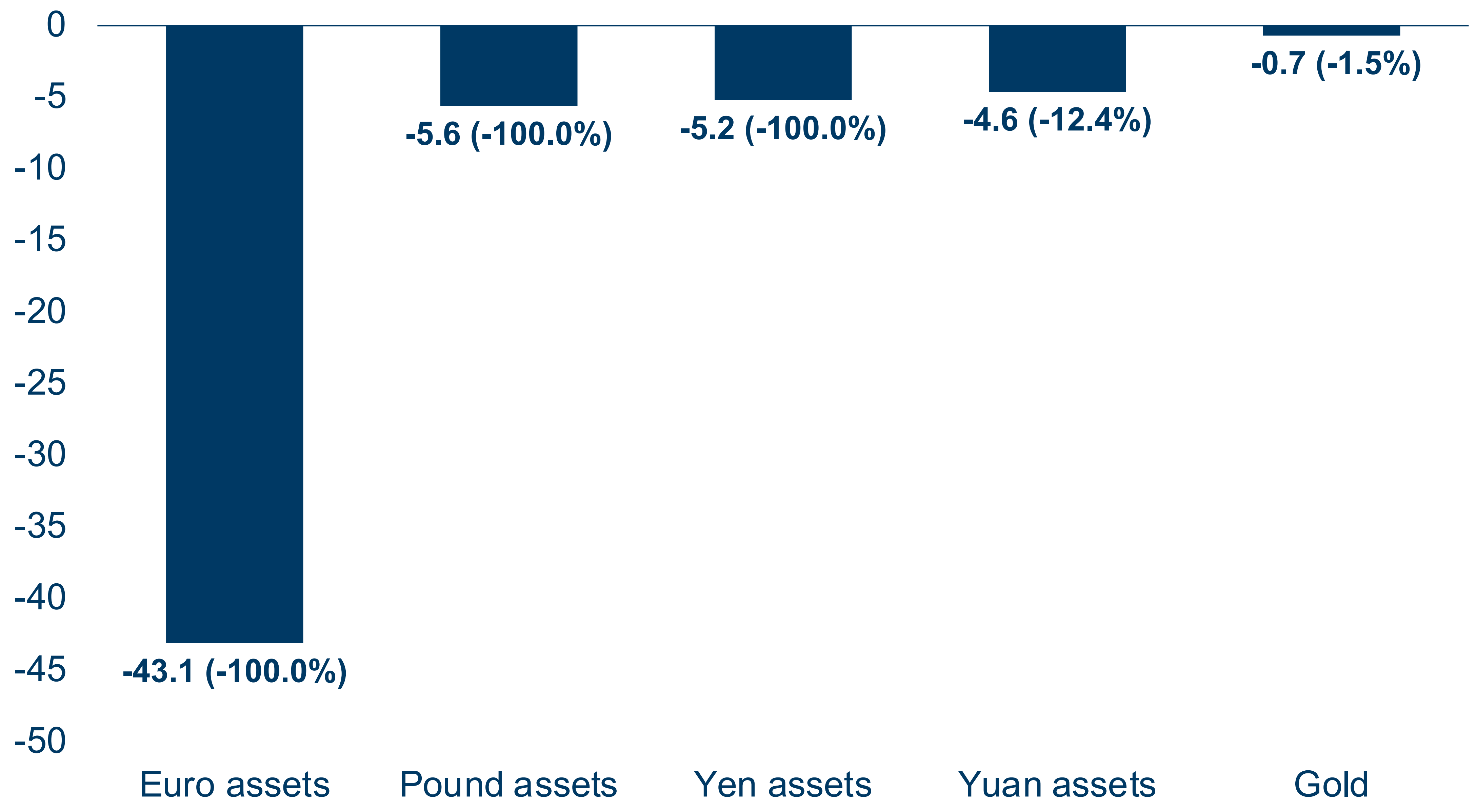
# Headline NWF numbers conceal that hard currency assets are gone.

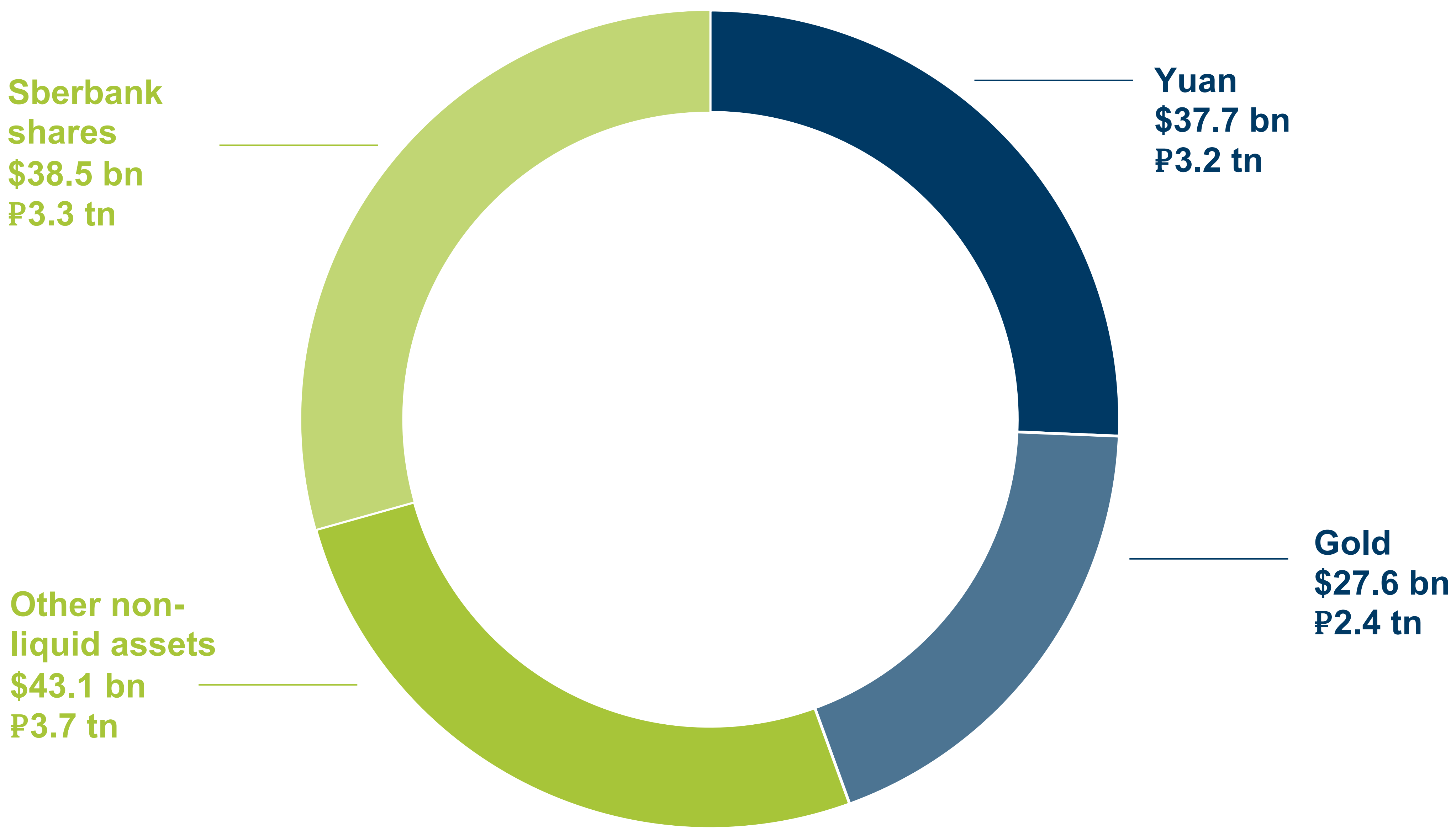
- Russia has depleted all hard-currency holdings of the NWF, with euro assets falling to zero in December 2023.
- Only yuan-denominated assets and gold remain in the liquid portion, totaling 4.6 trillion rubles (or $54 billion).
- As these are more difficult to use, at least at scale, budgetary funding via the NWF will become more challenging.

**Change in liquid assets (Apr. 2024 vs. Jan. 2022), in U.S. dollar billion**




Source: Ministry of Finance, KSE Institute

**Composition of NWF assets as of May 1, 2024***

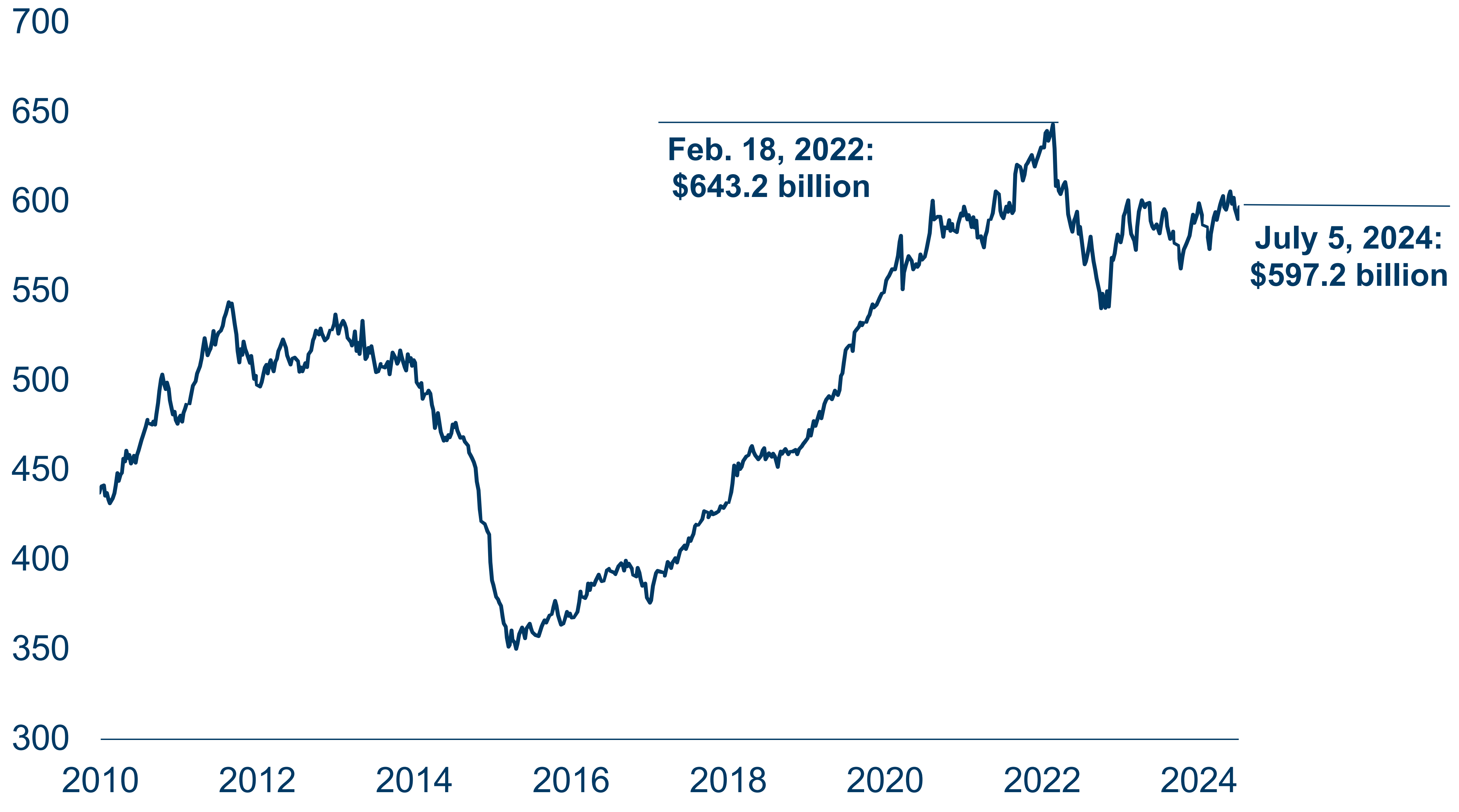



Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

# A substantial share of international reserves remain immobilized.

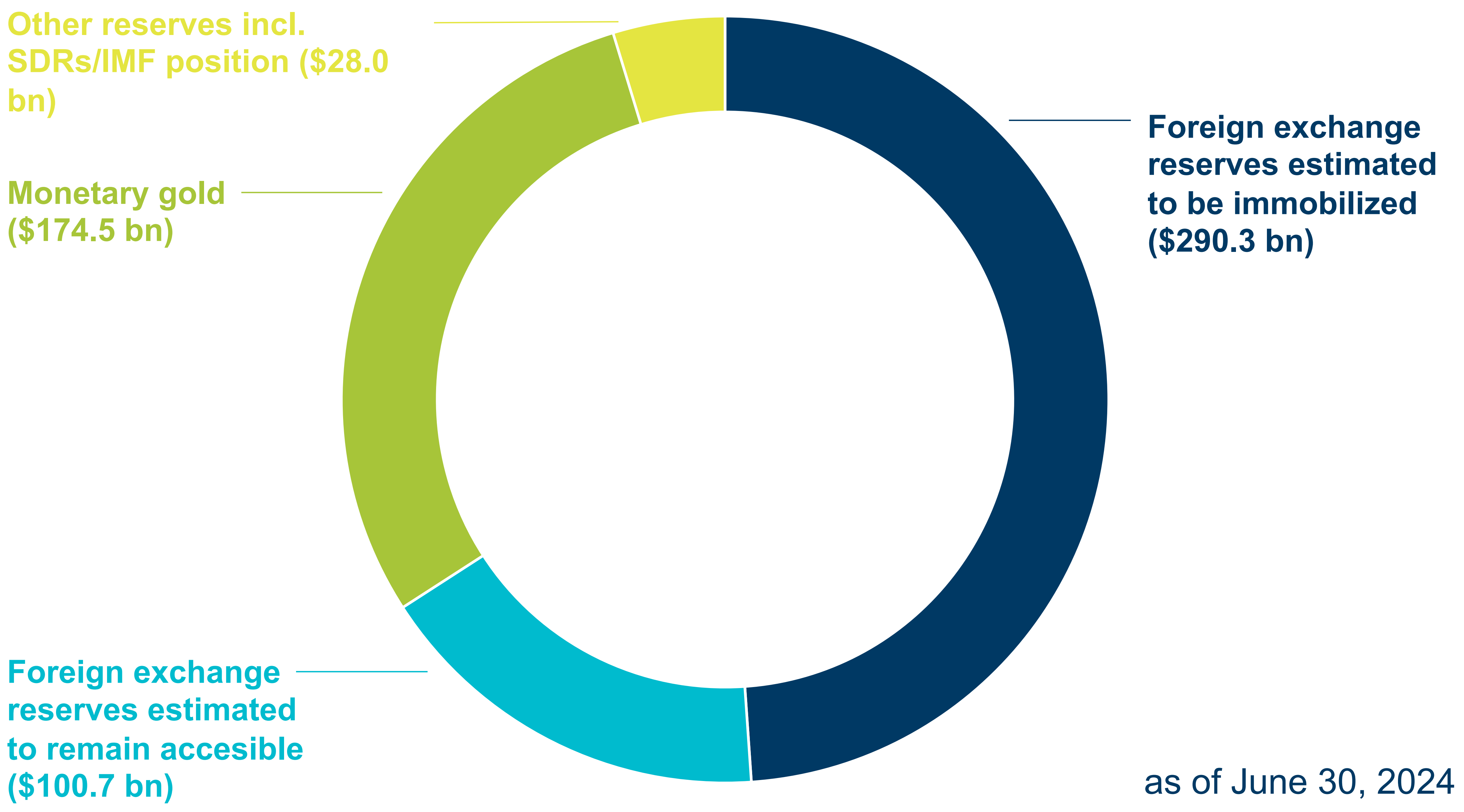
- Before the invasion, Russia held $643 billion in international reserves, part of what is described as *"Fortress Russia".*
- We estimate that around $290 billion are currently immobilized due to international sanctions on CBR and NWF.
- This leaves Russia with access to $175 billion in monetary gold and roughly $101 billion in FX assets (largely yuan).

**Total reserves, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

**Estimated composition of reserves, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

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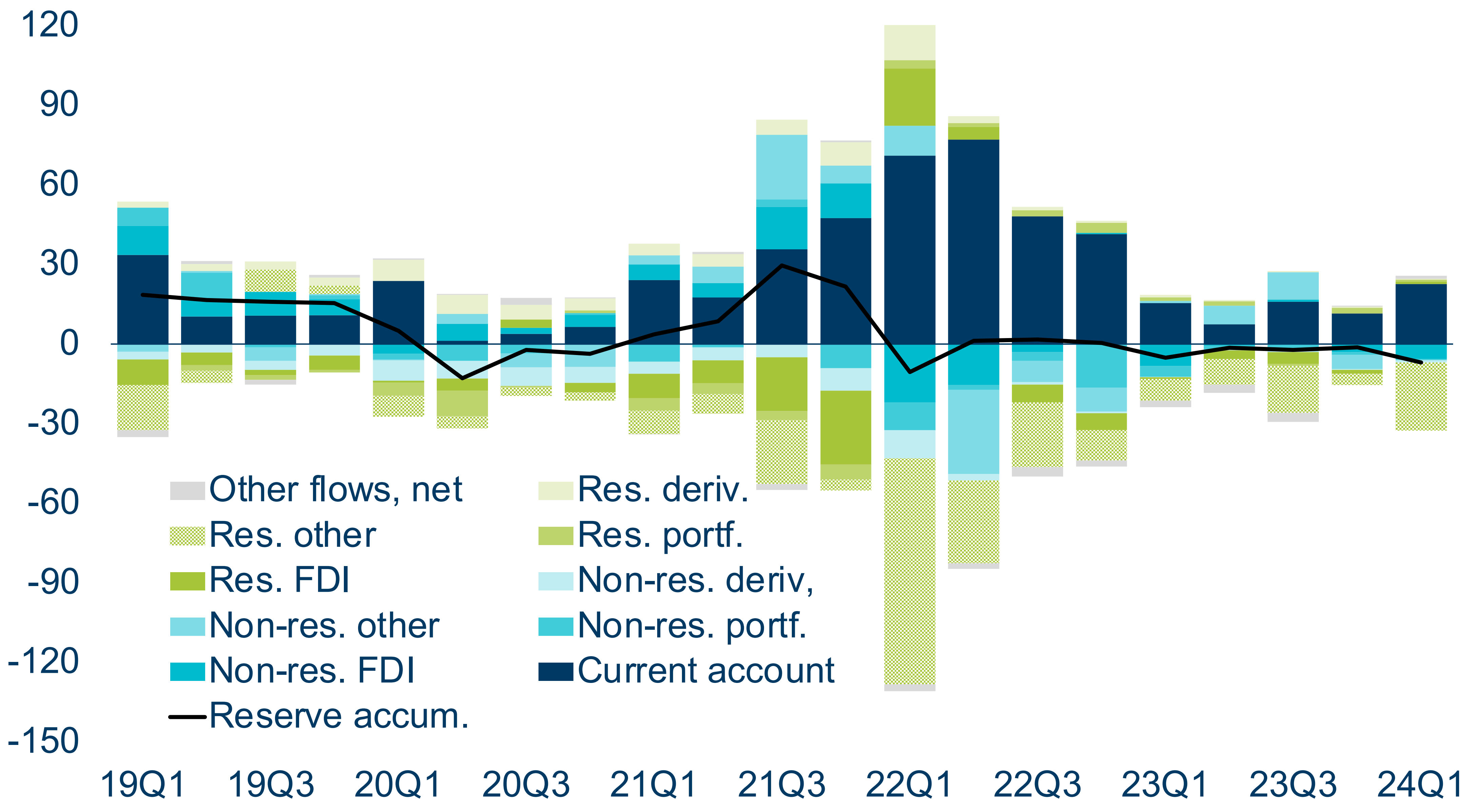
# Significant accumulation of new foreign assets since 2022.

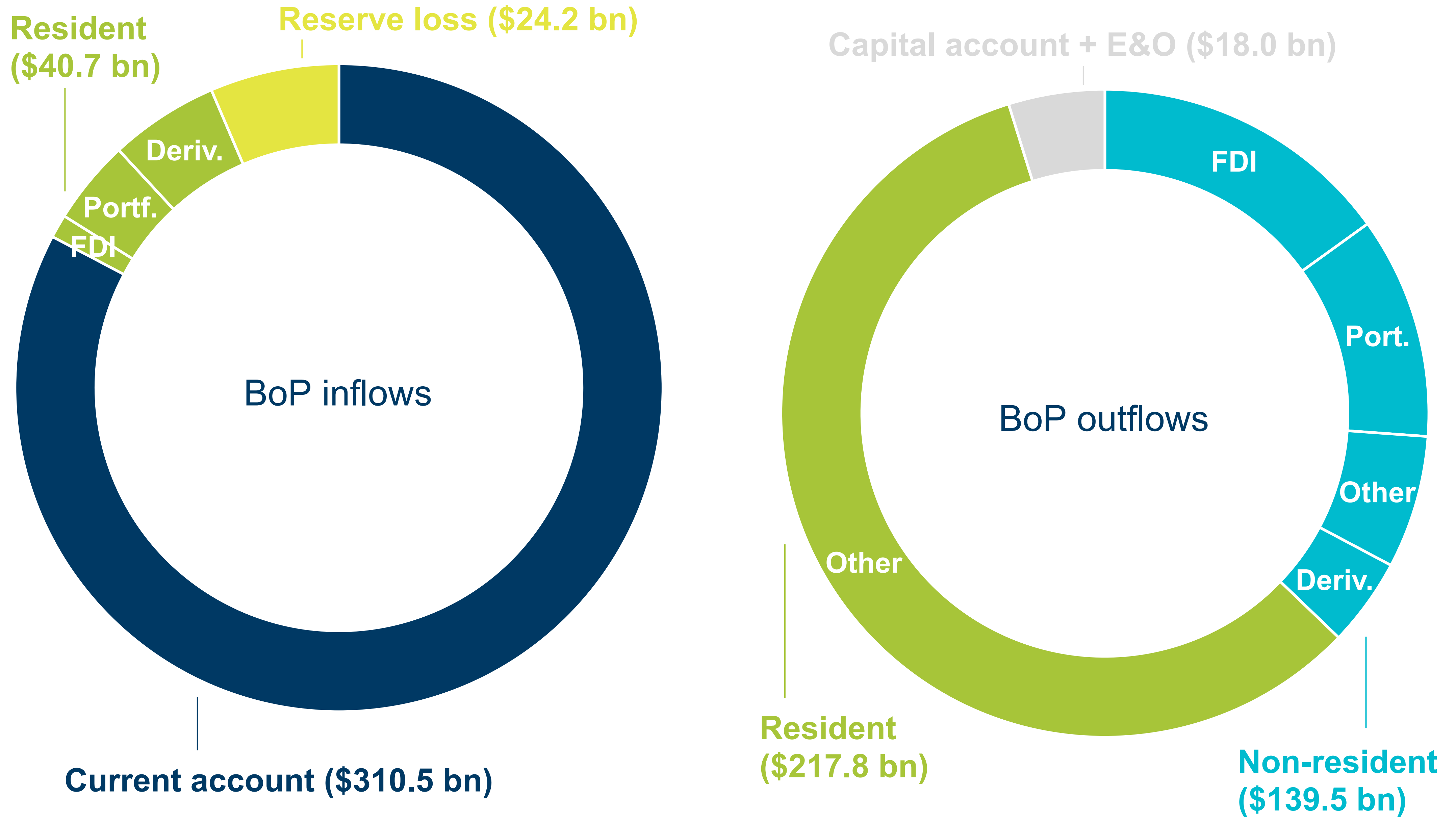
- It is time to focus attention on foreign assets that Russia has been able to accumulate due to favorable BoP dynamics.
- Non-resident capital outflows partially ate up the large current account surplus and resident inflows in Q1 2022-Q1 2024.
- But Russian banks and corporates were able to acquire $218 billion in assets abroad, which need to be kept out of reach.

**Balance of payments, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

**2022Q1-2024Q1 balance of payments flows, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

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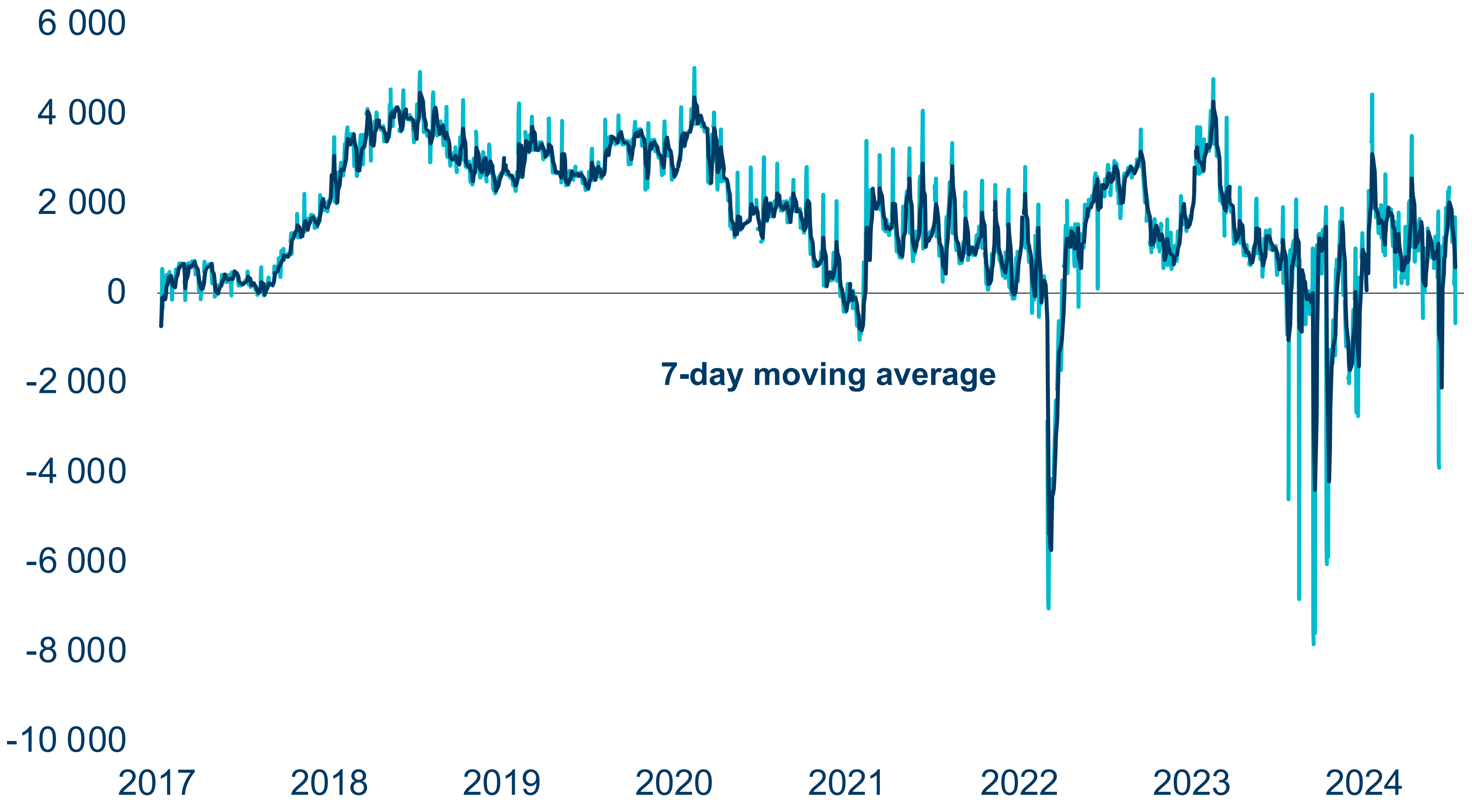
# CBR rate hikes have impacted banking system liquidity in recent months.

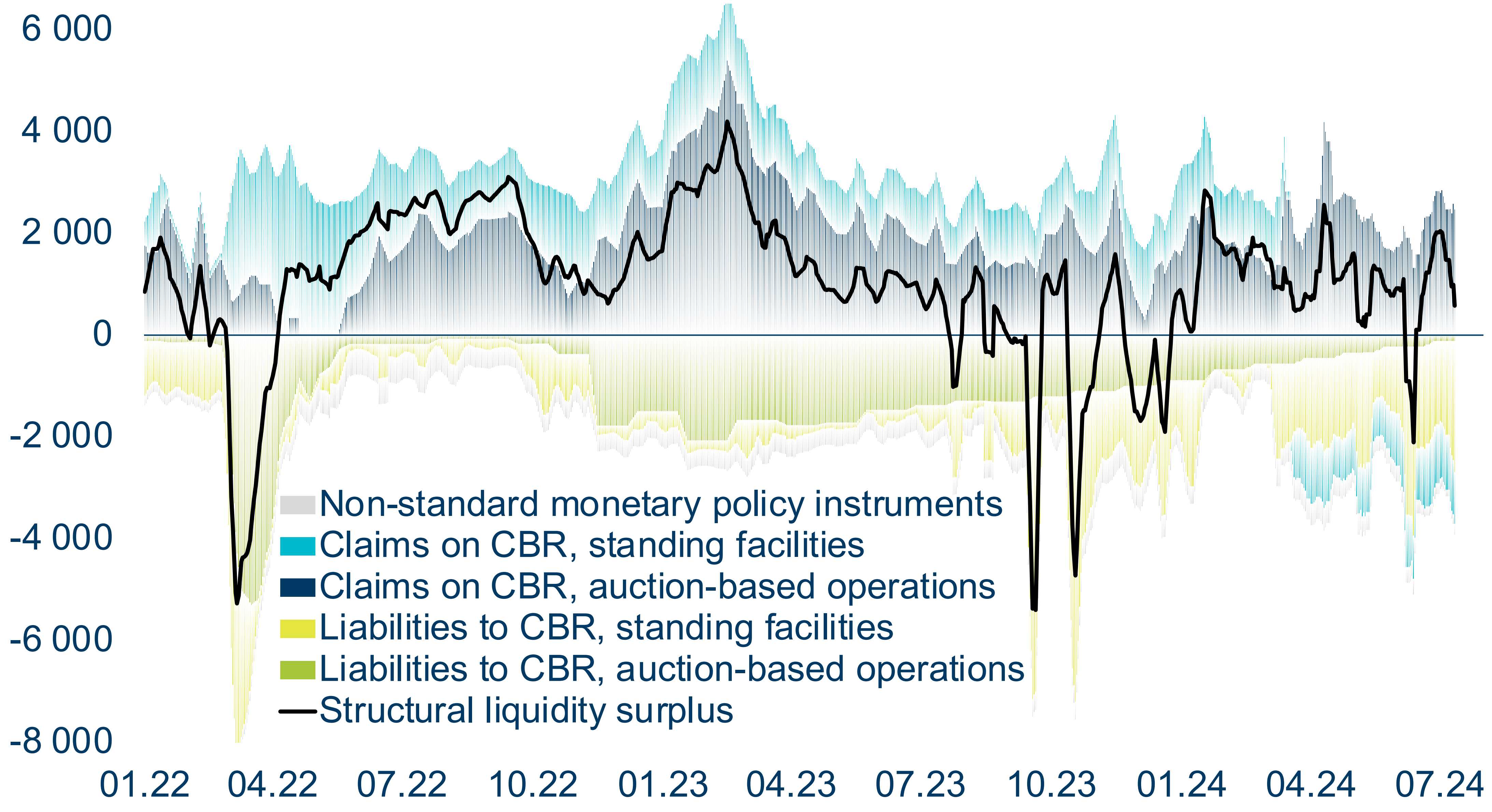
- Liquidity conditions recovered quickly after the initial shock from the full-scale war and imposition of sanctions.
- A closer look at the composition of the structural liquidity surplus points to some stress in the interbank market.
- The data clearly shows the effects of the CBR's monetary tightening in July-December 2023 (cumulative +850 bps).

**Banking system structural liquidity surplus, in ruble billion**




Source: Bank of Russia, KSE Institute

**Composition of structural liquidity surplus, in ruble billion***



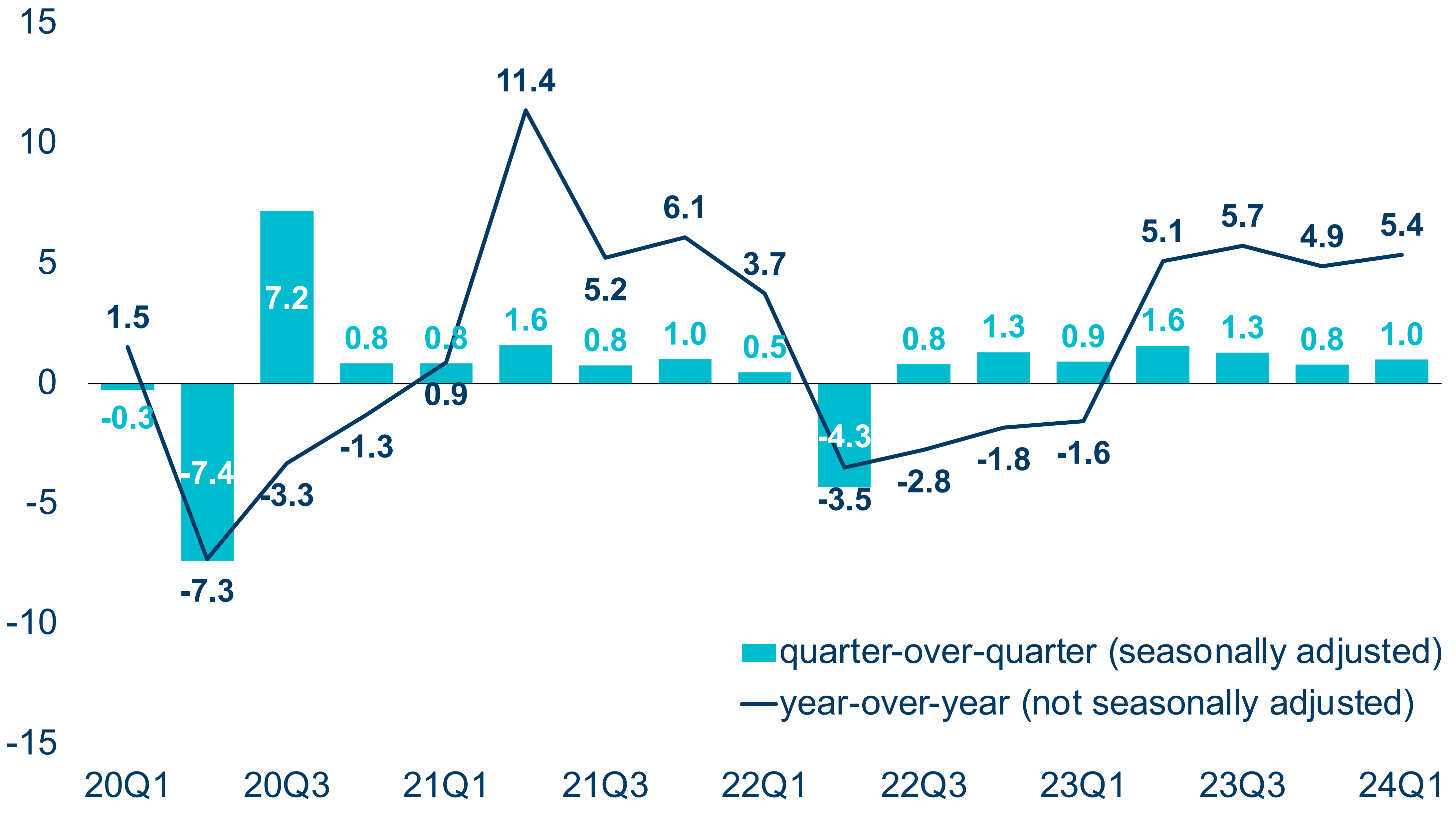

Source: Bank of Russia, KSE Institute *7-day moving average

# Economic activity: robust growth in 2023-24 due to large fiscal stimulus from military spending.

# Russian outlook revised up as war spending keeps boosting the economy.

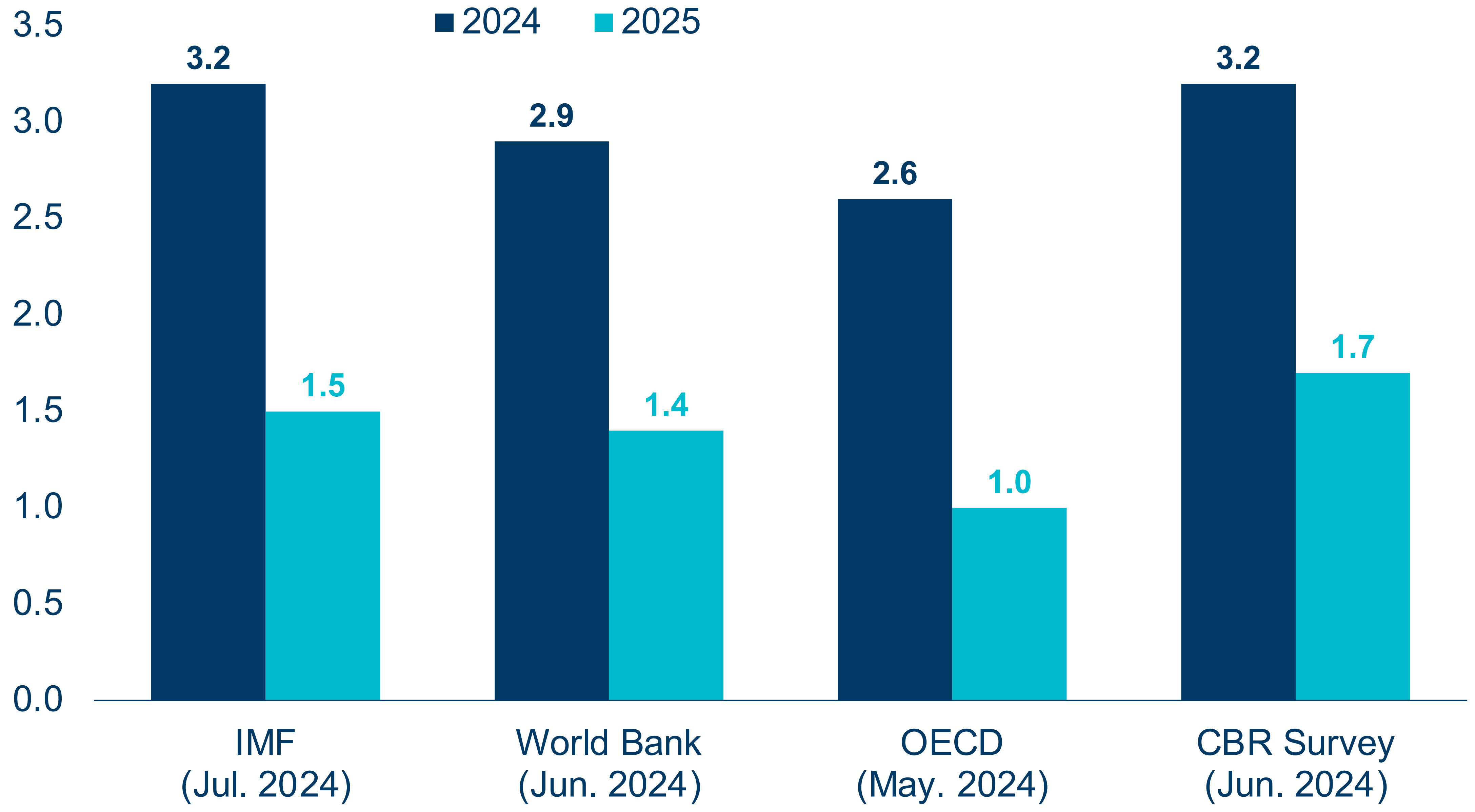
- Rosstat revised 2022 real GDP growth up to -1.2% (from -2.1%) and reported 2023 growth at 3.6%.
- For Q1 2024, the statistics agency estimates year-over-year growth of 5.4% (vs. 4.9% in Q4 2023)
- Key factors: strong fiscal stimulus from high defense spending and robust private sector credit growth.

**Quarterly real GDP dynamics, in %**




Source: Rosstat, KSE Institute

**2024-25 forecasts for Russian real GDP, in % year-over-year**




Source: Bank of Russia, Bloomberg, IMF, OECD, World Bank

# Previous editions of KSE Institute’s Russia Chartbook

- June 2024
- May 2024
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- February 2024
- January 2024
- December 2023
- November 2023
- October 2023
- September 2023
- July 2023
- May 2023
- April 2023
- March 2023
- February 2023
- December 2022