

KSE INSTITUTE RUSSIA CHARTBOOK

**LARGE BUDGET DEFICIT IN JANUARY
COULD SPELL TROUBLE; UNDERLYING
VULNERABILITIES MAY SURFACE**

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Executive Summary

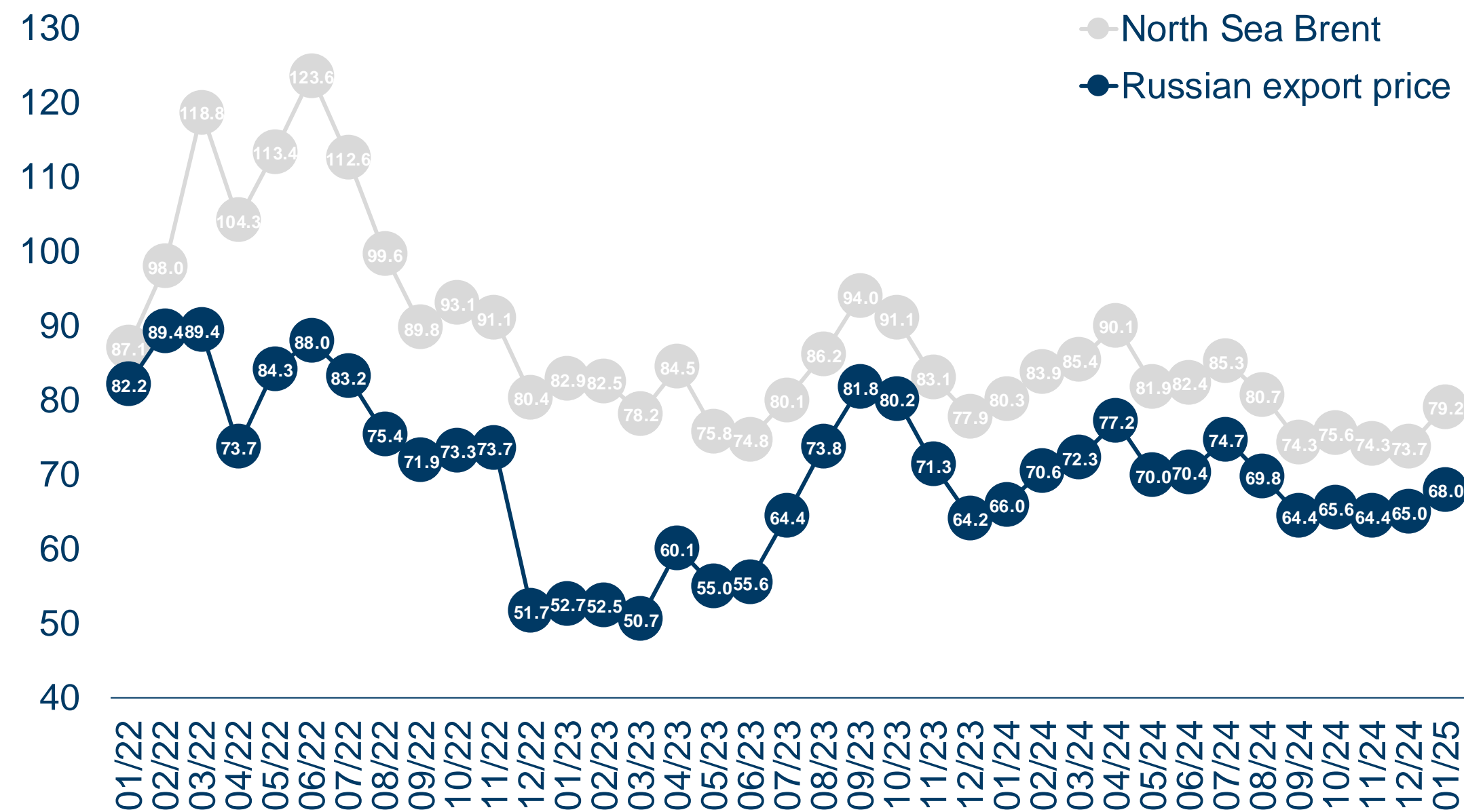
- 1. Shadow fleet sanctions bite.** Following the designation of more than 150 shadow fleet tankers by the US in mid-Jan., the discount on Russian oil export prices widened significantly, demonstrating that such measures can have a meaningful impact. The discount on Russian crude was \$11.2/barrel (avg.) last month (vs. \$8.7/barrel in Dec.) and on ESPO \$7.3/barrel (vs. \$3.2/barrel). As the ships in question were sanctioned on Jan. 10, average prices in Feb. will likely show a further widening. Russian export earnings performed well in January, however, reaching \$15.8 billion (vs. \$14.8 billion in Dec.) supported by (temporarily) higher global oil prices.
- 2. Current account remains in deficit.** For the second month in a row, Russia saw a current account deficit (of \$0.7 billion in Jan.) as goods exports, especially outside of oil and gas, underperformed. This reading is much weaker than the monthly average surplus of 1.6 billion in Q4 2024, \$2.6 billion in Q3 2024, \$5.8 billion in Q2 2024, and \$8.0 billion in Q1 2024. Somewhat weaker goods imports helped to offset this decline partially, while services and income balances fluctuate around broadly stable levels. The trajectory for the remainder of the year is dependent on possible changes to the sanctions regime. In addition, current dynamics is contradicting the ruble's recent appreciation, which is purely driven by aspirations from U.S.-Russia negotiations.
- 3. Large budget deficit in January.** Russia's federal budget reached a deficit of 1.7 trillion rubles (or ~\$17 billion) last month on the back of elevated spending (4.4 trillion rubles)—both record highs (excl. Dec.). Revenues only covered 61% of expenditures in Jan. 2025. One year ago, the deficit was 125 billion rubles and spending much lower at 2.5 trillion. Likely, last month's data reflect some up front expenditures on the war and may also be driven up due to spending delayed in Dec. It is unclear whether Jan. indicates a deterioration of Russia's fiscal accounts, or the country will be able to make adjustments the same way it did in 2023. Deficit financing is also a question since neither withdrawals from the NWF were used for the budget nor was domestic debt issuance significant.
- 4. Macro buffers under pressure.** Liquid assets of the NWF stood at 3.8 trillion rubles in January 2025—a 61% drop vs. February 2022. The liquid portion of the fund now consists of only \$21.7 billion in yuan-denominated assets and \$15.8 billion in gold and makes up one-third of the total NWF. Should the budget accumulate further deficits in the coming months, most of these funds could be used up by end-2025. Further reliance on the domestic bond market would then be the only option for the regime. With policy space constrained due to sanctions, Russian authorities are increasingly facing competing objectives, while inflation continues to rise.

Higher global prices offset bigger wider discount on Russian oil, resulting in stable export earnings; shadow fleet sanctions demonstrate their impact.

Clear impact on Russian oil prices from recent sanctions.

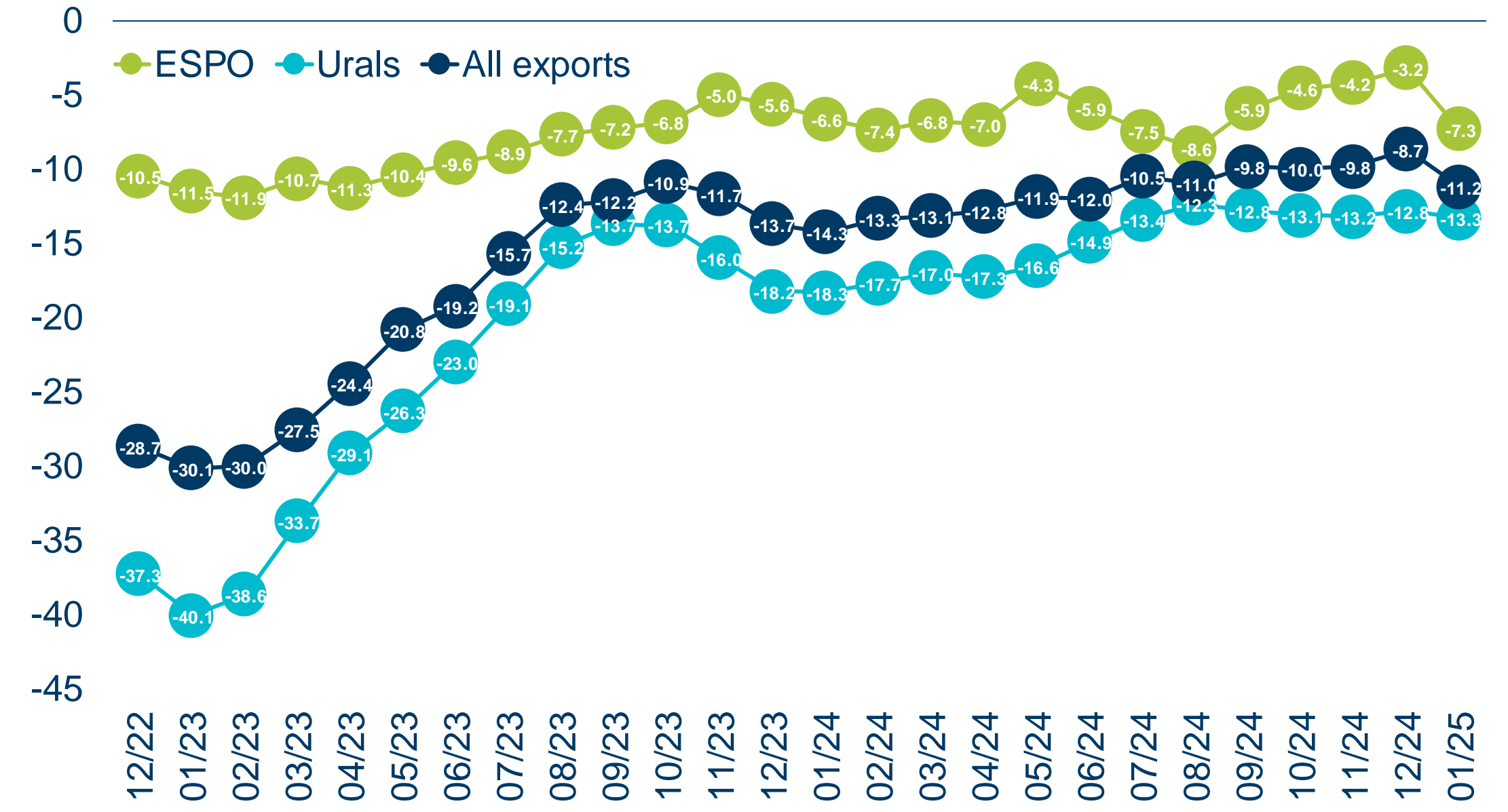
- Prices for Russian oil exports rose in January 2025 on the back of higher global prices and despite a wider discount.
- Sanctions on a large number of shadow tankers by the US in Jan. led to a much bigger spread, especially for ESPO.
- These developments demonstrate the potential of sanctions to make Russian oil cheaper compared to global prices.

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

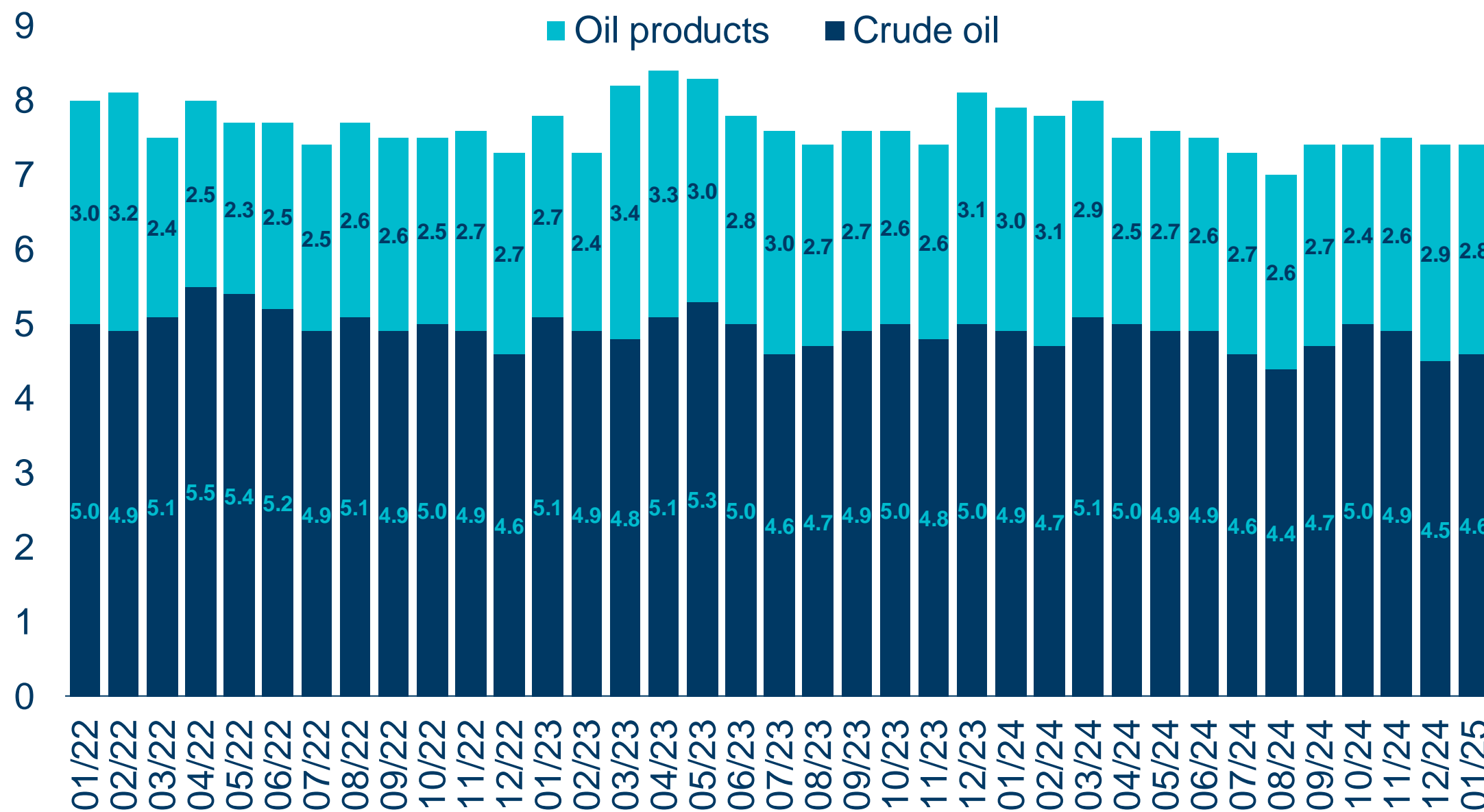


Source: International Energy Agency, KSE Institute

Supply of Russian oil to the global market remains stable.

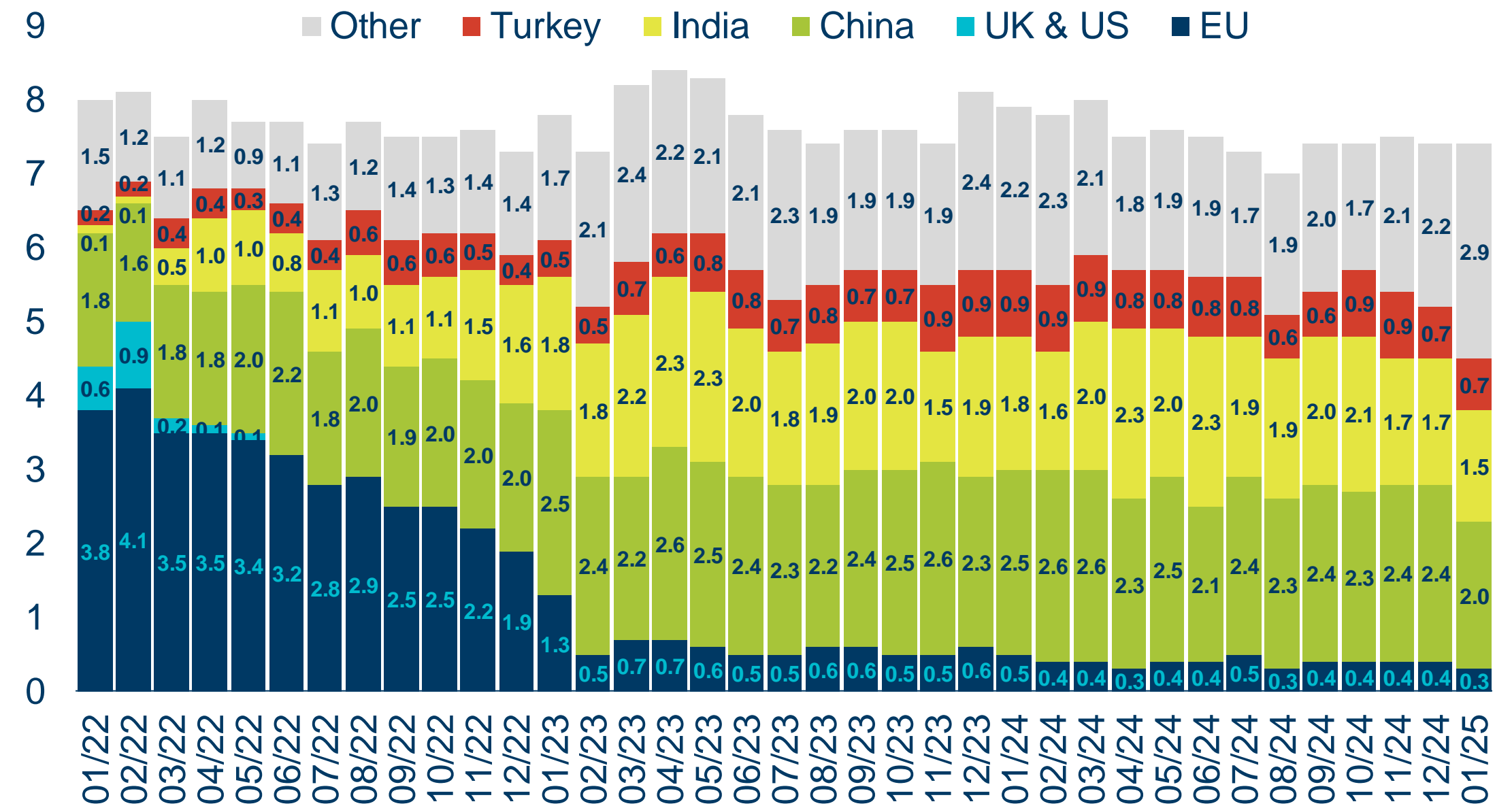
- Despite tanker designations, Russian oil export volumes have been remarkably steady over the last 2.5 years.
- Overall, the price cap has succeeded at keeping Russian oil on the market and prevent supply issues.
- China, India, and Turkey are the most important buyers, together accounting for 60-70% of oil exports.

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



Source: International Energy Agency, KSE Institute

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

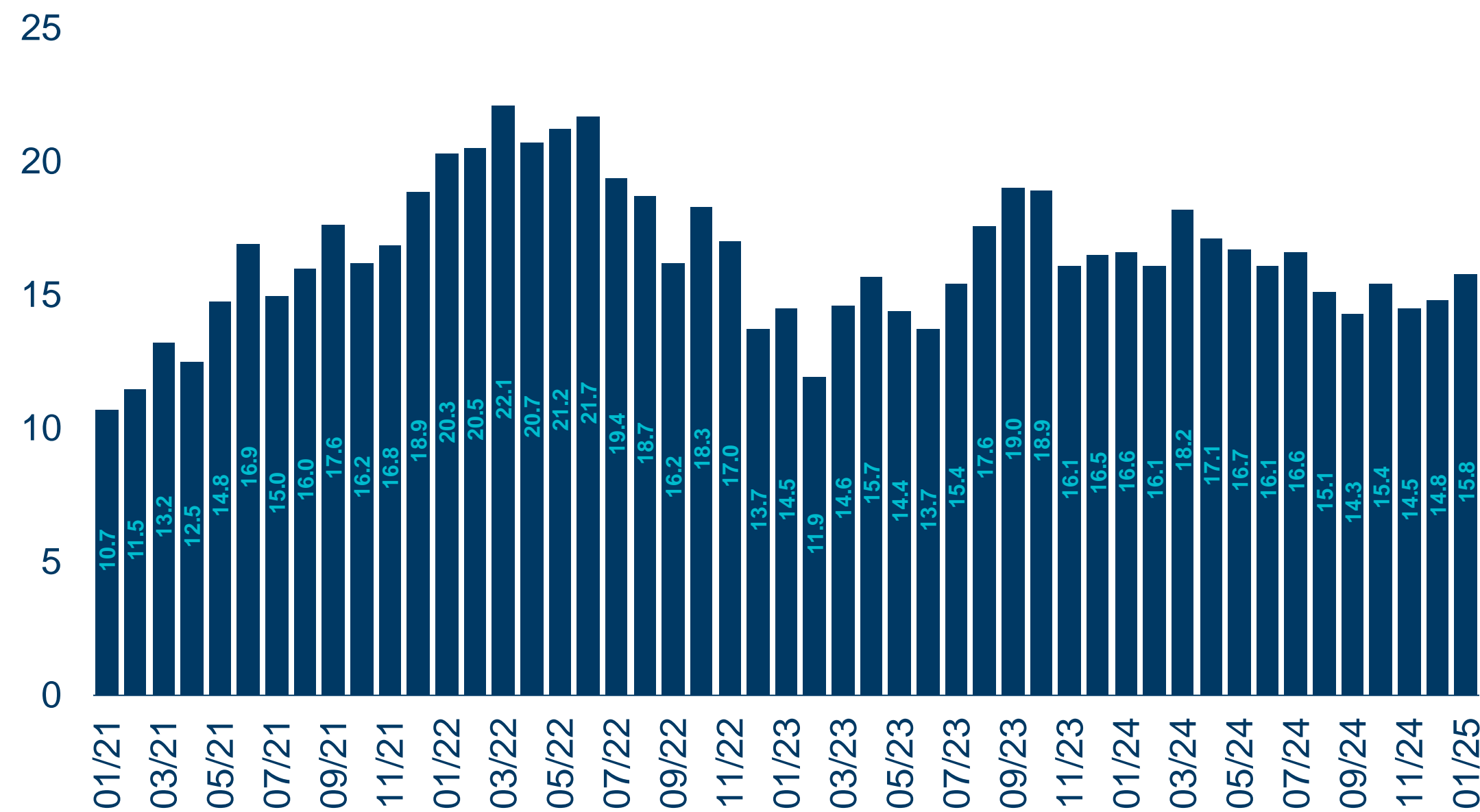


Source: International Energy Agency, KSE Institute

Oil export earnings and budget revenues remain broadly stable.

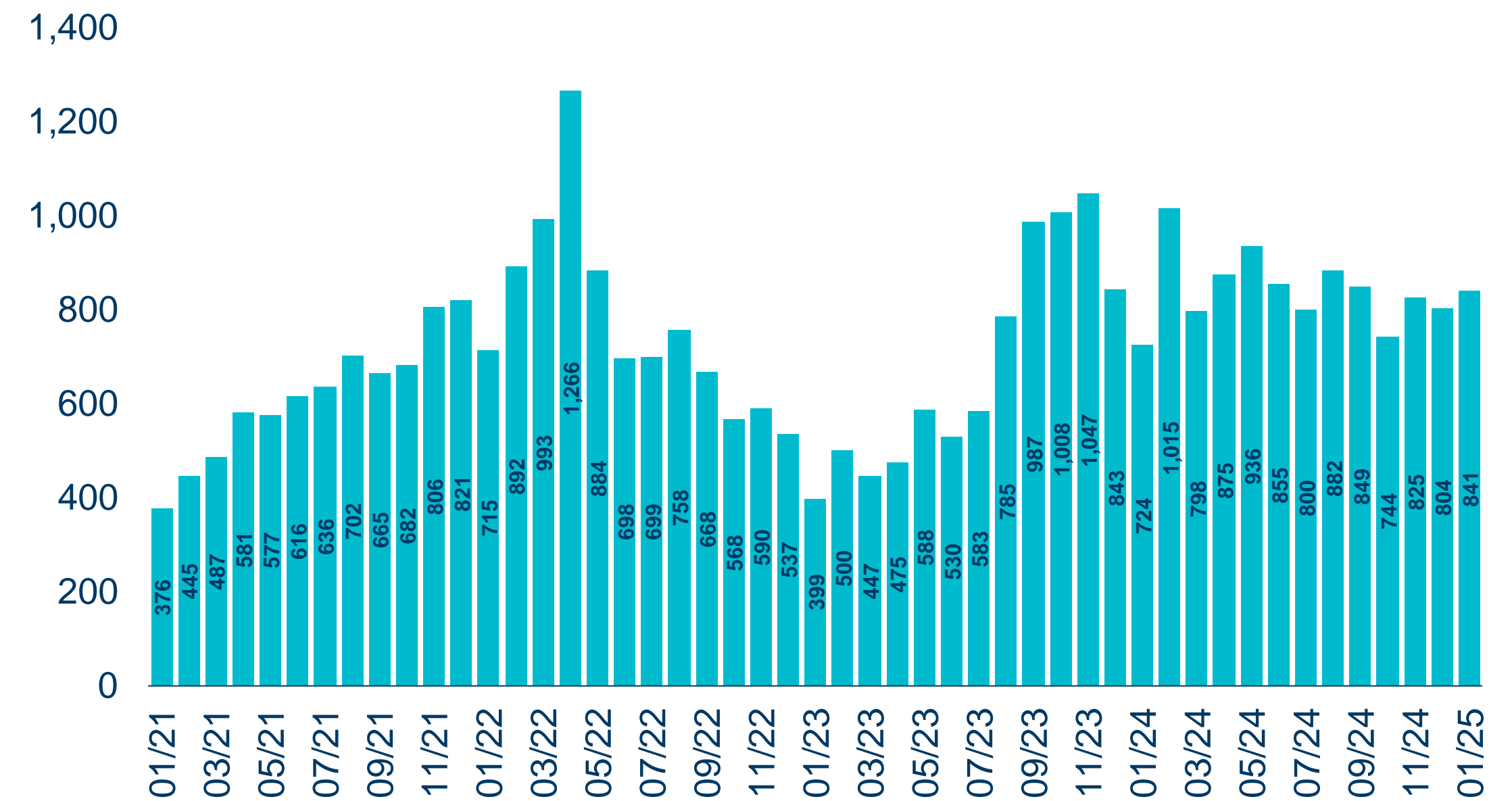
- Russian oil export earnings increased to \$15.8 billion in Jan., which is in line with the 2024 average (of \$16 billion).
- Budget revenues from oil extraction taxes and export duties reached 840 billion rubles (equal the 2024 average).
- Current trends of global oil prices indicate that Russia’s oil export earnings may decline somewhat in February.

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*



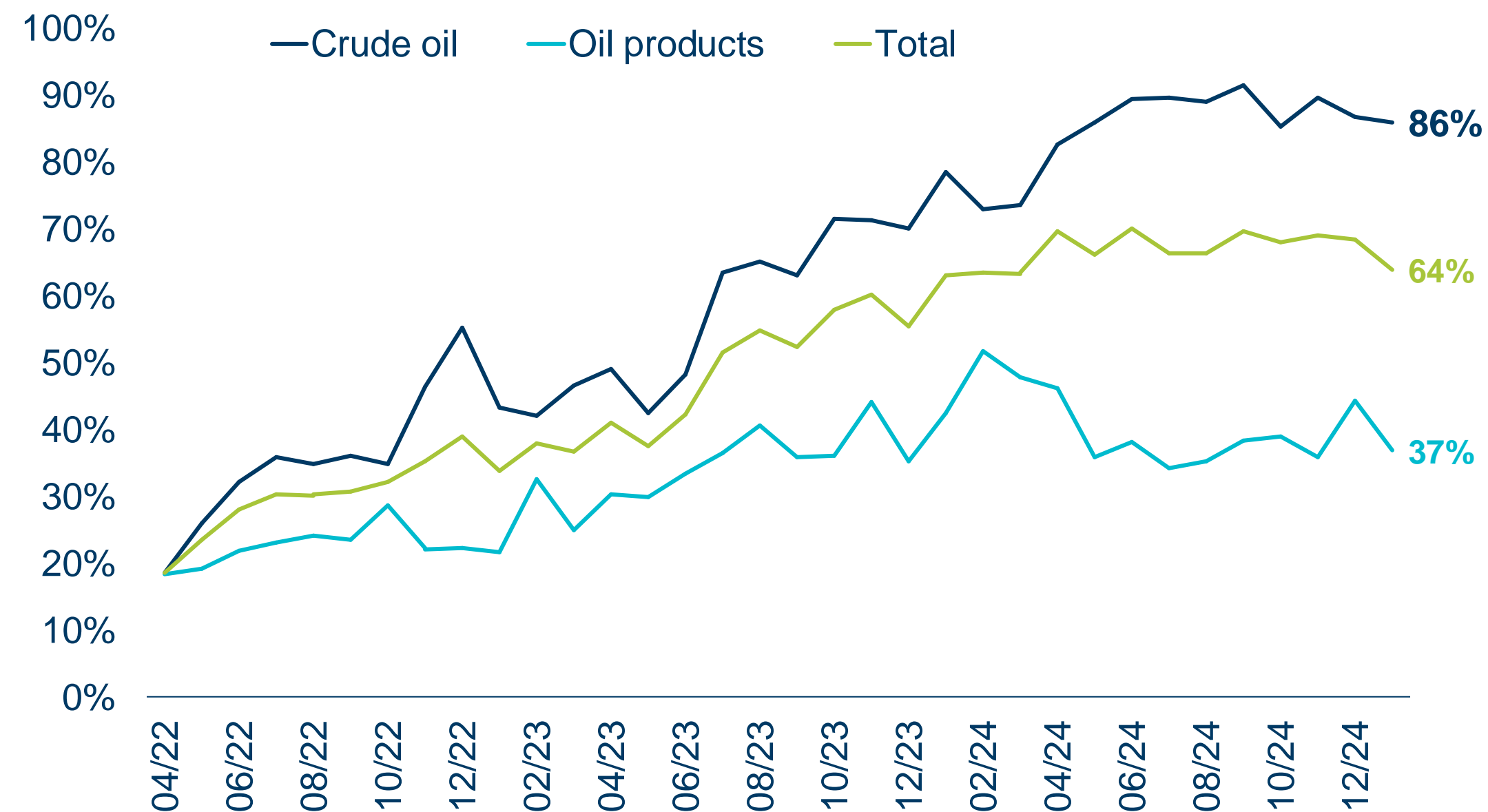
Source: Ministry of Finance, KSE Institute *includes extraction tax and export duty

Shadow fleet has fundamentally eroded the price cap's leverage.

- The shadow fleet allows Russia to evade the G7+ oil price cap for a large share of its exports.
- In Jan. 2025, 86% of seaborne crude oil was transported without involvement of G7+ services.
- This has allowed Russia to generate ~\$10 billion in extra export earnings (from crude) in 2024.

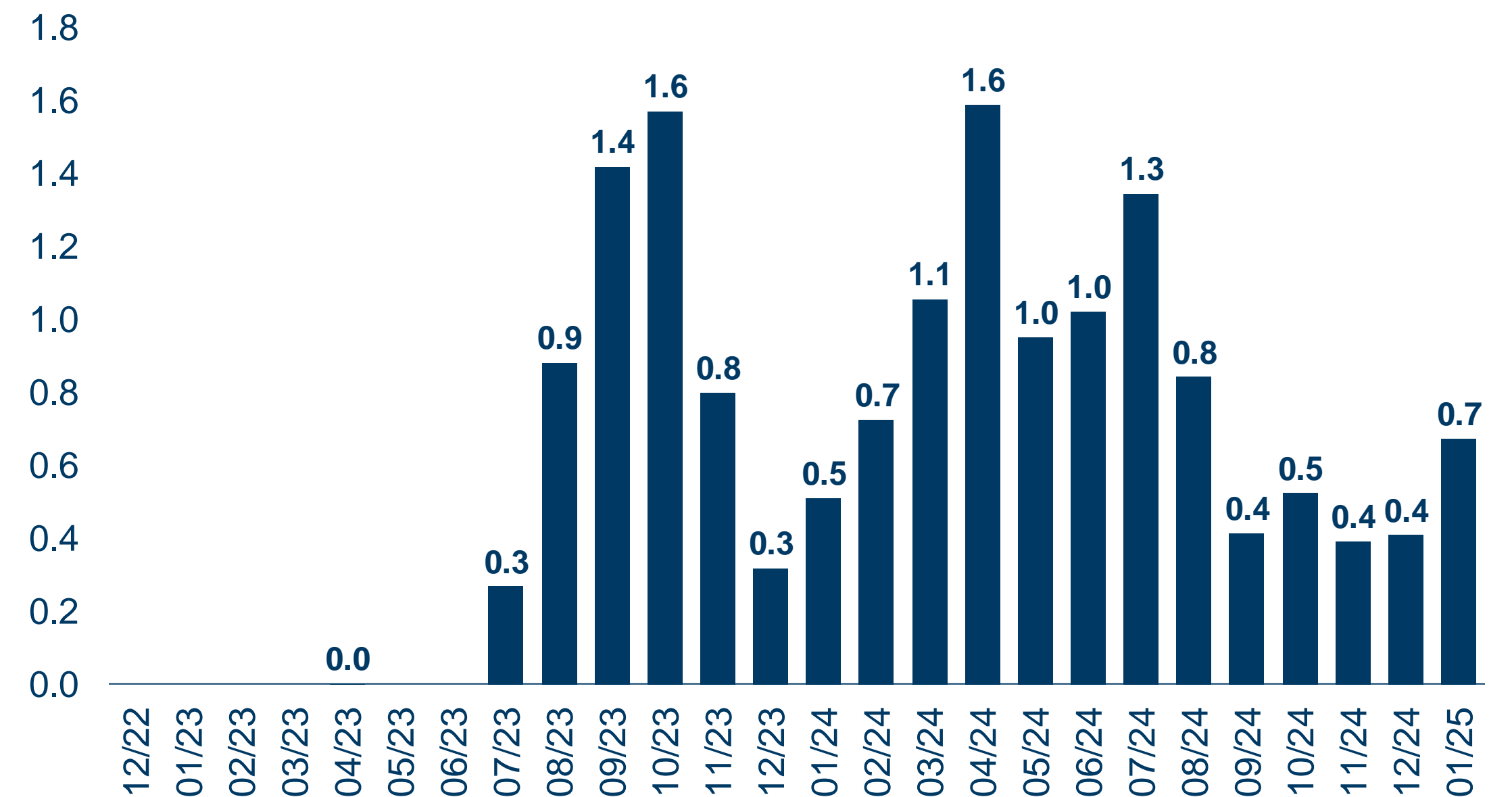
Read KSE Institute's in-depth assessments of the shadow fleet [here](#), [here](#), and [here](#).

Composition of seaborne oil exports, in %



Source: Equasis, Kpler, P&I Clubs, KSE Institute

Additional export earnings from crude oil, in U.S. dollar billion

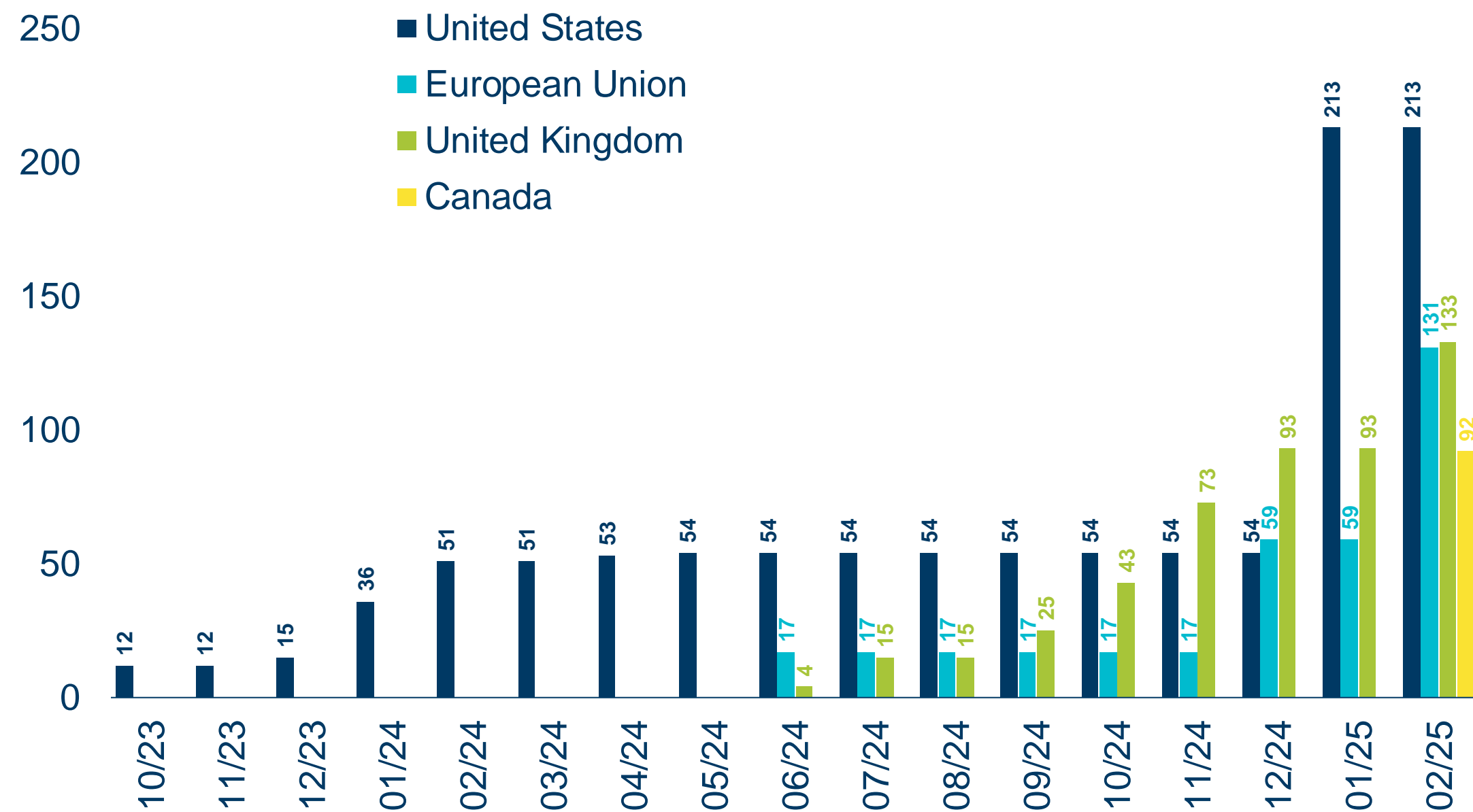


Source: Equasis, International Energy Agency, Kpler, P&I Clubs, KSE Institute

Countries have dramatically stepped-up sanctions on shadow tankers.

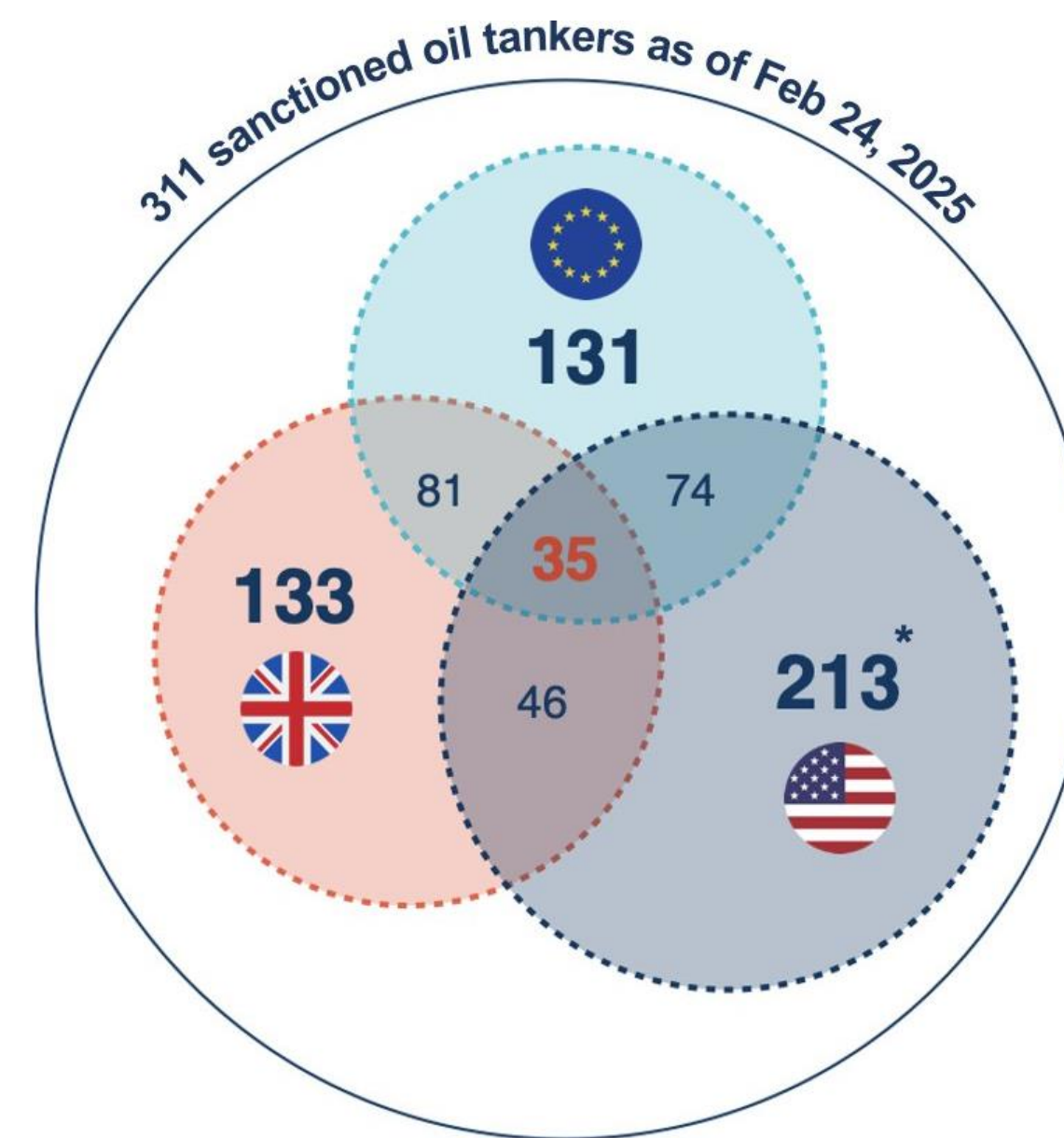
- After an almost 12-months hiatus, the US government adopted a major designations package in January.
- The EU also sanctioned a significant number of vessels in Dec. (15th package) and Feb. (16th package).
- With the UK's continuous designations efforts, 311 vessels are now sanctioned in at least one jurisdiction.

Cumulative vessel designations by jurisdiction and month



Source: European Commission, OFAC, OFSI, KSE Institute

Current vessel designations by jurisdiction



Source: European Commission, OFAC, OFSI, KSE Institute

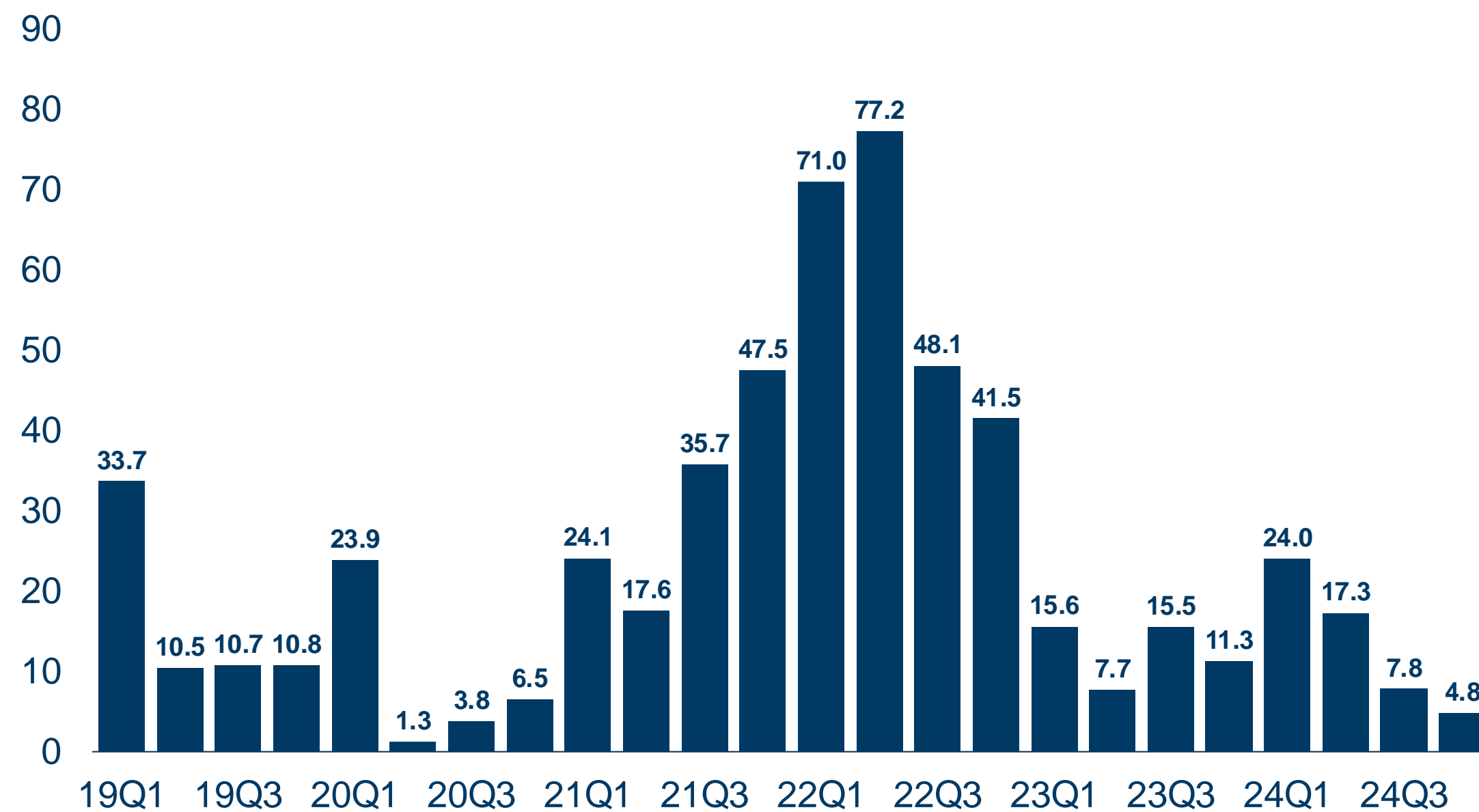
* Includes 2 tankers that were sanctioned by the U.S. under the SDGT program rather than RUSSIA-EO14024, as they had already been sanctioned by one of two other governments.

**External conditions remain less supportive;
current account in deficit in Dec.-Jan.;
hard currency inflows have fallen sharply.**

External environment remains less supportive than in H1 2024.

- Russia’s current account was in deficit in January (-\$0.7 billion) for the second month in a row (-\$1.6 billion in Dec.).
- This indicates that the external environment continues to be more challenging than during the first half of 2024.
- Weaker export earnings, especially non-oil ones, have had an effect, while lower goods import provide some support.

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

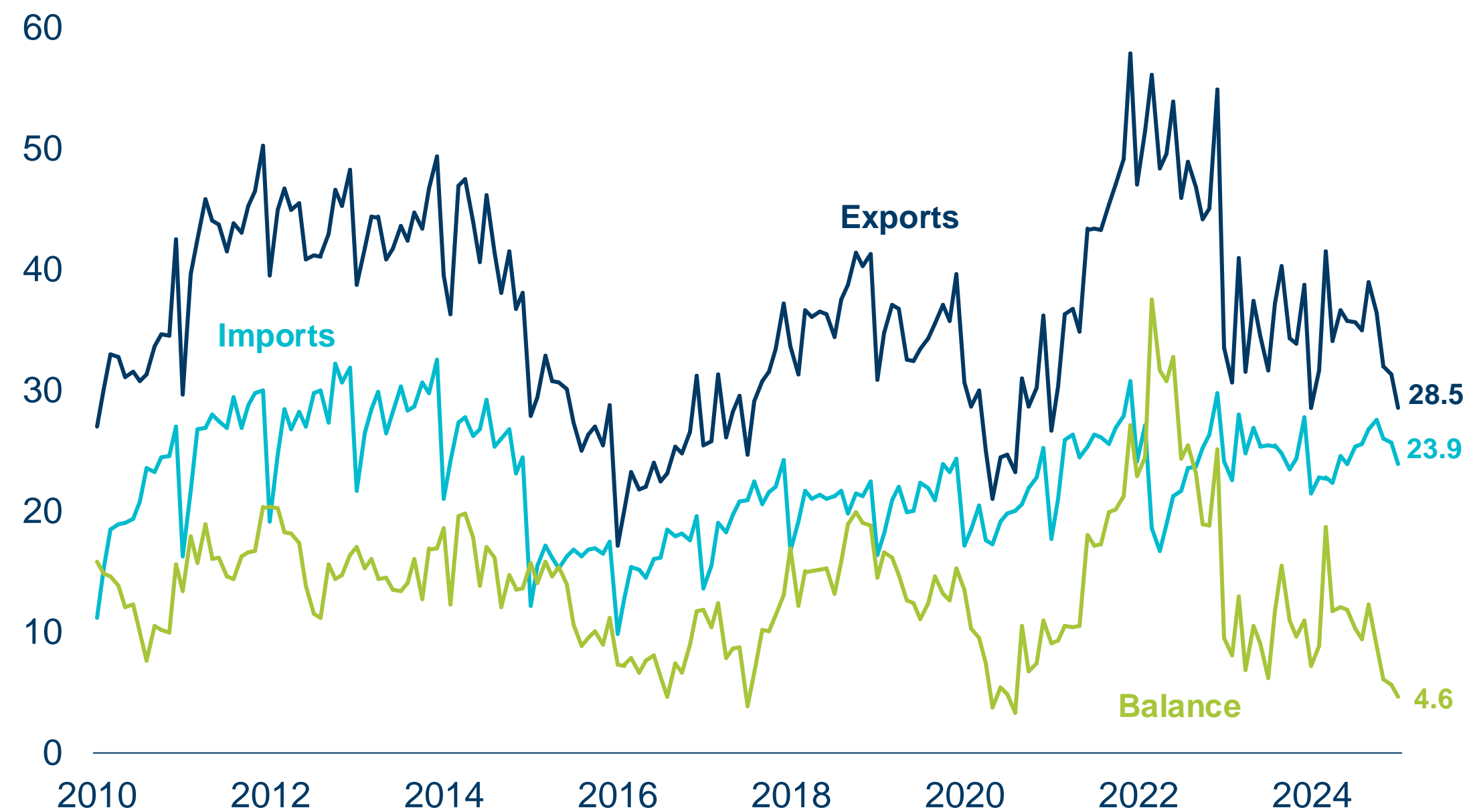
| Time period | C/A | | Goods | | Services | | | Income & transfers | | |
|---------------|-------|-------|-------|-------|----------|-------|------|--------------------|-------|-------|
| | Bal. | Bal. | Exp. | Imp | Bal. | Cred. | Deb. | Bal. | Cred. | Deb. |
| Q1 2024 | 24.0 | 34.7 | 101.7 | 66.9 | -7.2 | 10.2 | 17.4 | -3.5 | 9.3 | 12.8 |
| Q2 2024 | 17.3 | 35.6 | 106.3 | 70.7 | -9.3 | 9.9 | 19.2 | -9.0 | 8.5 | 17.6 |
| Q3 2024 | 7.8 | 31.9 | 109.5 | 77.7 | -12.6 | 10.7 | 23.3 | -11.5 | 8.9 | 20.4 |
| Q4 2024 | 4.8 | 20.4 | 99.6 | 79.2 | -9.2 | 11.5 | 20.6 | -6.5 | 9.1 | 15.6 |
| November 2024 | 2.2 | 6.0 | 32.0 | 25.9 | -2.5 | 3.1 | 5.7 | -1.3 | 2.7 | 4.0 |
| December 2024 | -1.6 | 5.6 | 31.3 | 25.7 | -3.8 | 4.2 | 8.0 | -3.4 | 3.5 | 6.9 |
| January 2025 | -0.7 | 4.5 | 28.5 | 23.9 | -3.0 | 2.9 | 6.0 | -2.1 | 2.6 | 4.8 |
| 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 | -22.1 | 48.8 | 70.9 | -55.8 | 51.0 | 106.8 |
| 2023 | 50.1 | 121.6 | 424.5 | 302.9 | -35.3 | 41.2 | 76.4 | -36.2 | 44.8 | 81.0 |
| 2024 | 53.8 | 122.6 | 417.2 | 294.5 | -38.3 | 42.3 | 80.6 | -30.6 | 35.8 | 66.4 |
| 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 |
| Q3 2023 | 15.5 | 33.4 | 109.1 | 75.7 | -10.3 | 9.7 | 20.0 | -7.6 | 10.0 | 17.6 |
| Q4 2023 | 11.3 | 31.4 | 106.9 | 75.5 | -8.4 | 11.3 | 19.7 | -11.7 | 10.7 | 22.4 |
| Nov. 2023 | 5.3 | 9.5 | 33.8 | 24.3 | -1.9 | 3.3 | 5.2 | -2.3 | 3.0 | 5.3 |
| Dec. 2023 | 0.6 | 10.9 | 38.7 | 27.8 | -4.2 | 4.6 | 8.8 | -6.2 | 4.4 | 10.6 |
| Jan. 2024 | 2.9 | 7.2 | 28.6 | 21.4 | -3.1 | 3.2 | 6.3 | -1.2 | 3.0 | 4.2 |

Source: Bank of Russia, KSE Institute

Russia's trade balance was the lowest in three years in January.

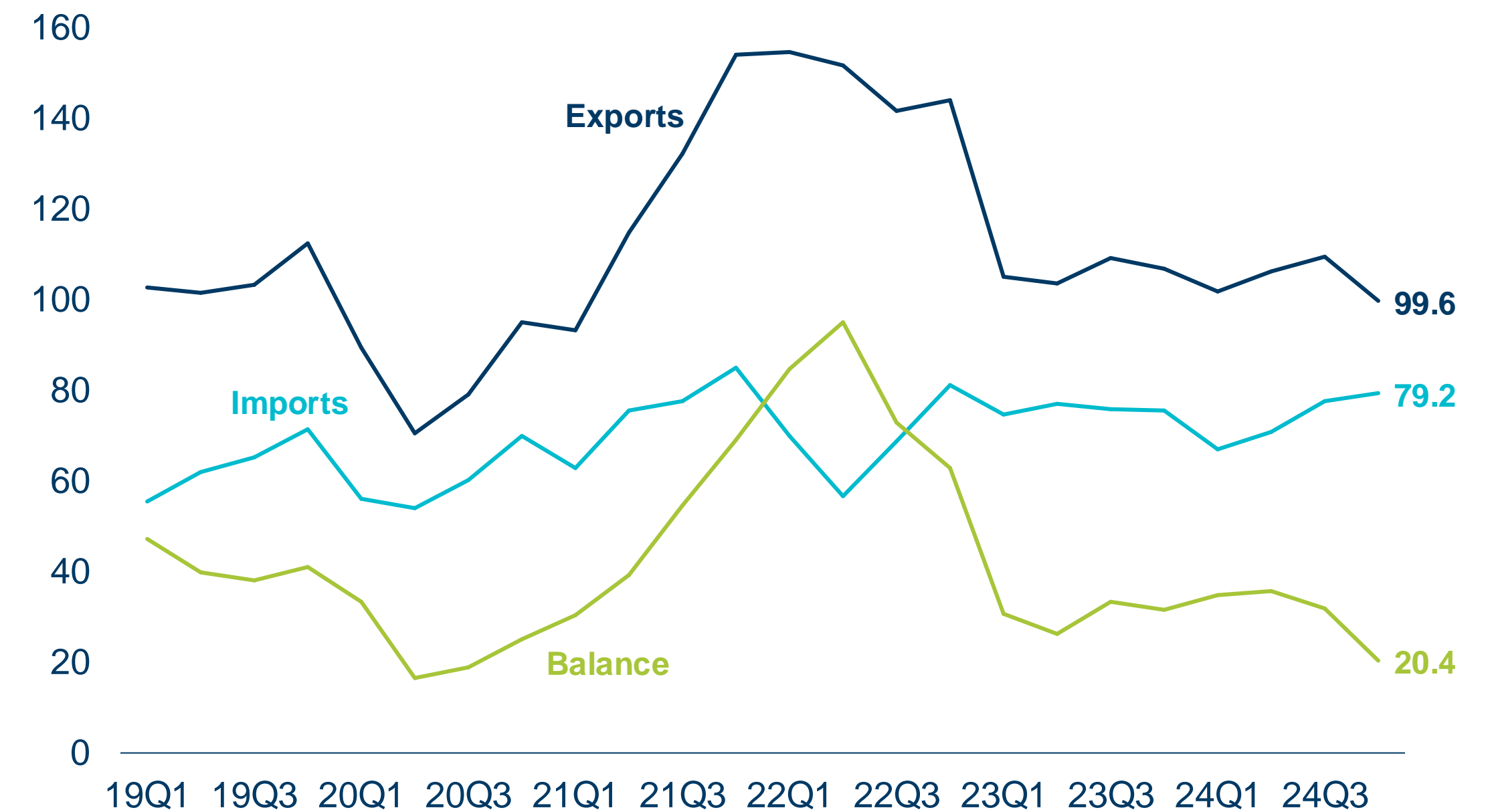
- Russia's foreign trade had stabilized at a new baseline of ~\$100 billion in exports and ~\$75 billion in imports per quarter.
- This represented a significant change to 2022 when soaring commodity prices drove up exports while imports weakened.
- Monthly data indicates that there may be downward pressure as the goods balance fell to its lowest level since Jan. 2021.

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

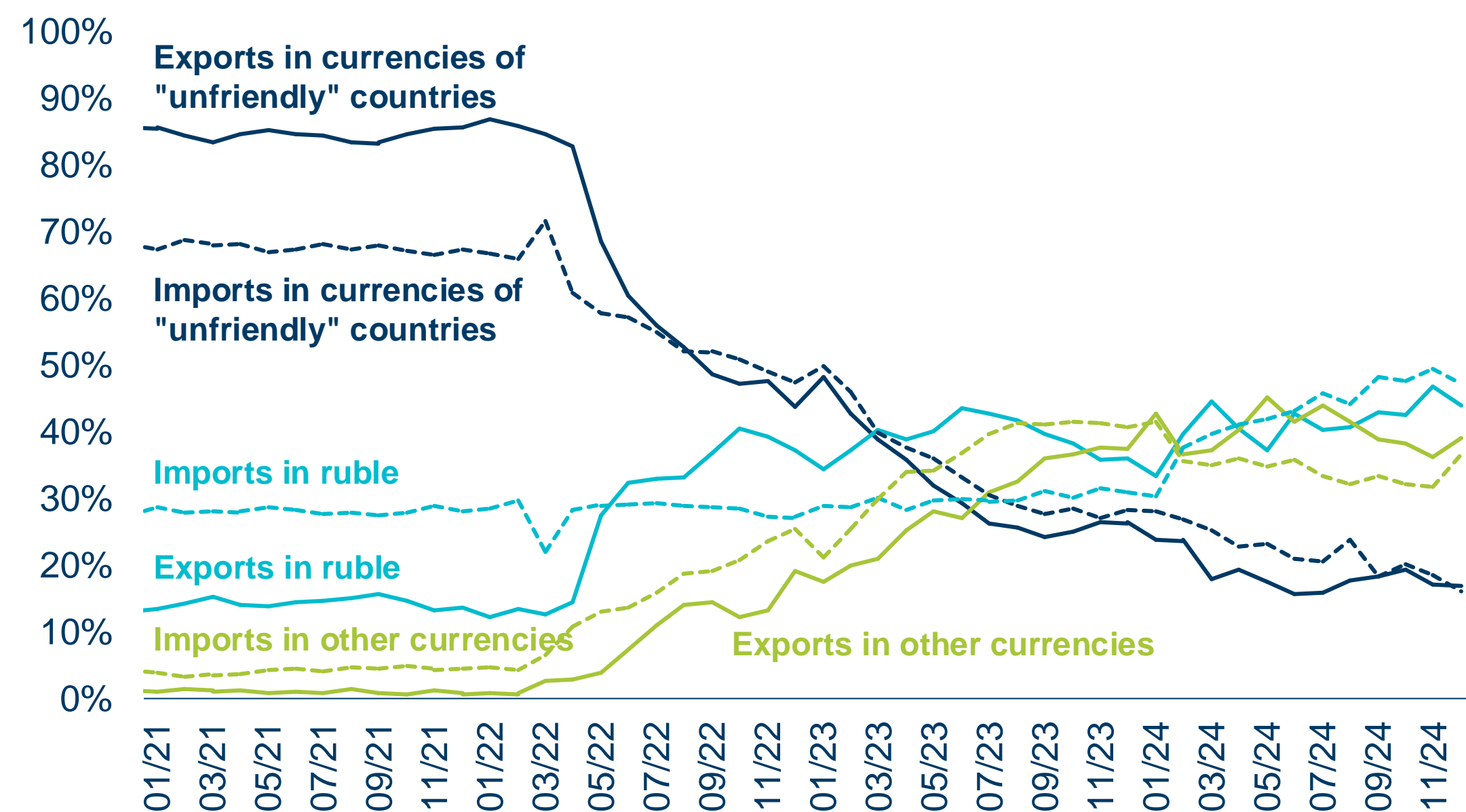


Source: Bank of Russia, KSE Institute

Change to currency composition of trade creates hard currency shortage.

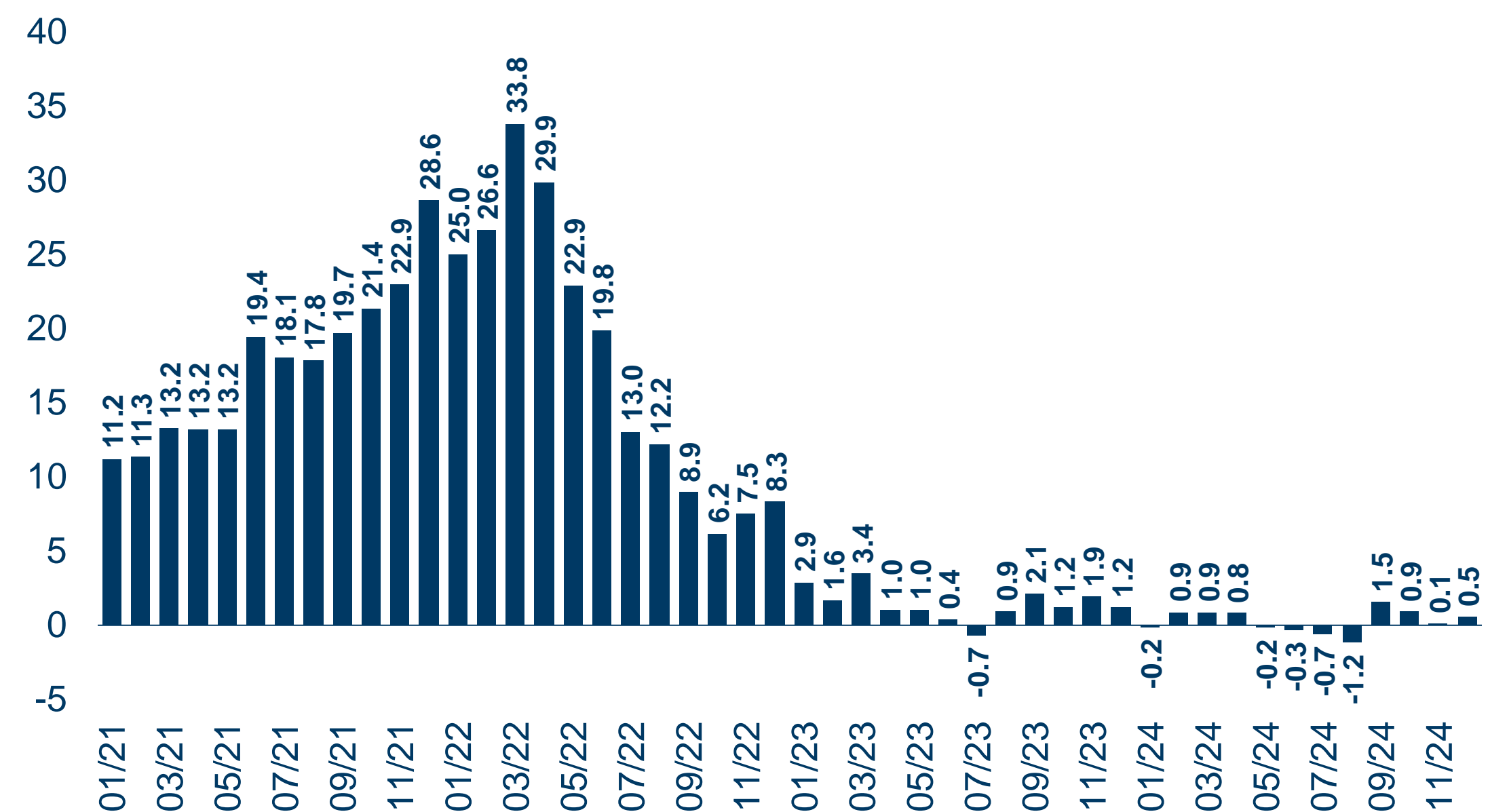
- The share of “unfriendly” countries’ currencies (e.g., USD, EUR, GBP, JPY, CHF) in Russian trade has fallen sharply.
- Other currencies have risen for both exports and imports, while the ruble has gained importance mostly for exports.
- This has created a shortage of hard currency as net inflows from goods and services trade have essentially disappeared.

Currency composition of Russia’s foreign trade, in %



Source: Bank of Russia

Net inflows of hard currency from goods and services trade, in \$ bn*

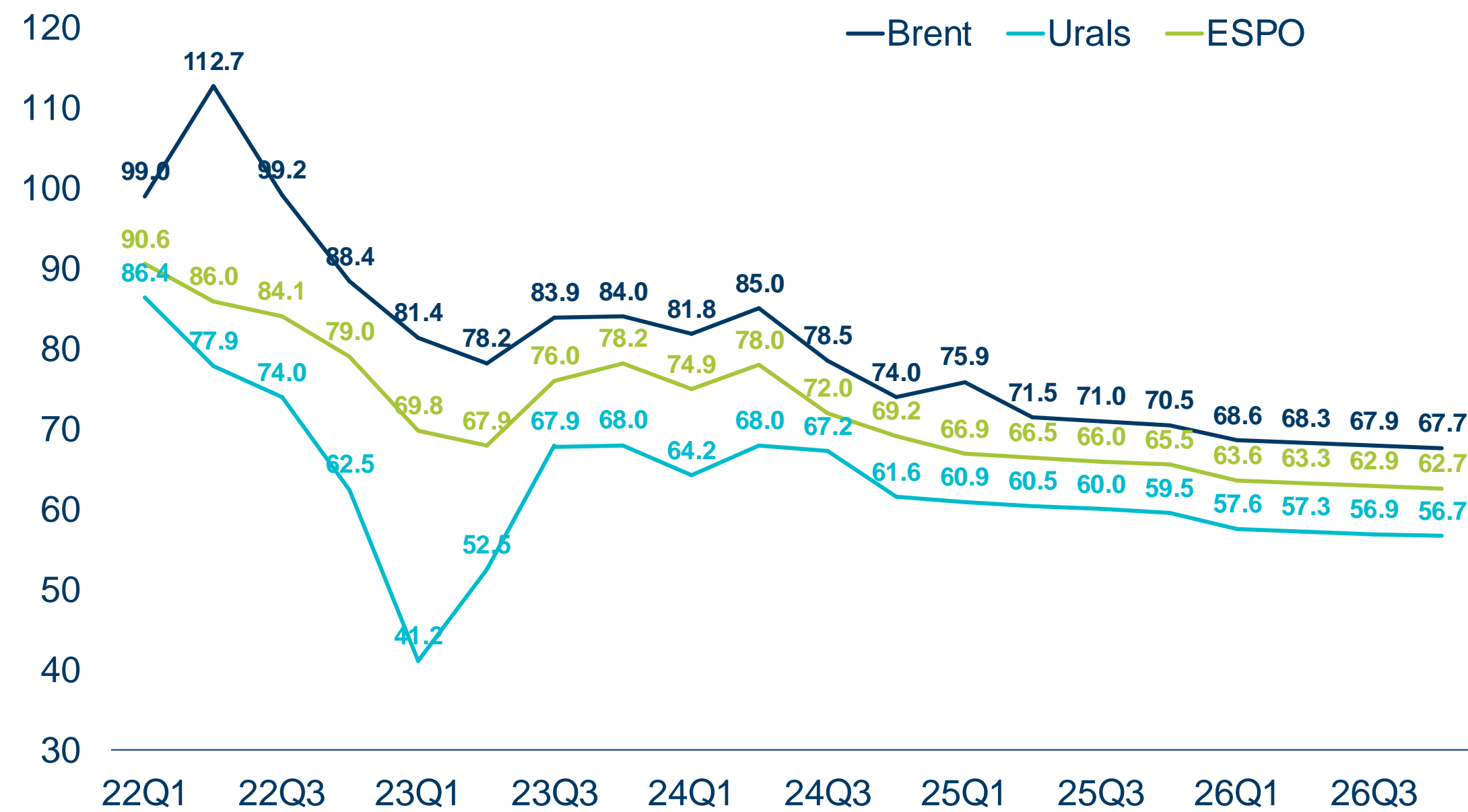


Source: Bank of Russia, KSE Institute *includes currencies of “unfriendly” countries; methodology changed from previous editions of the chartbook by applying currency shares reported by the CBR to goods and services trade instead of goods trade only.

Weak sanctions enforcement scenario remains the likely outcome.

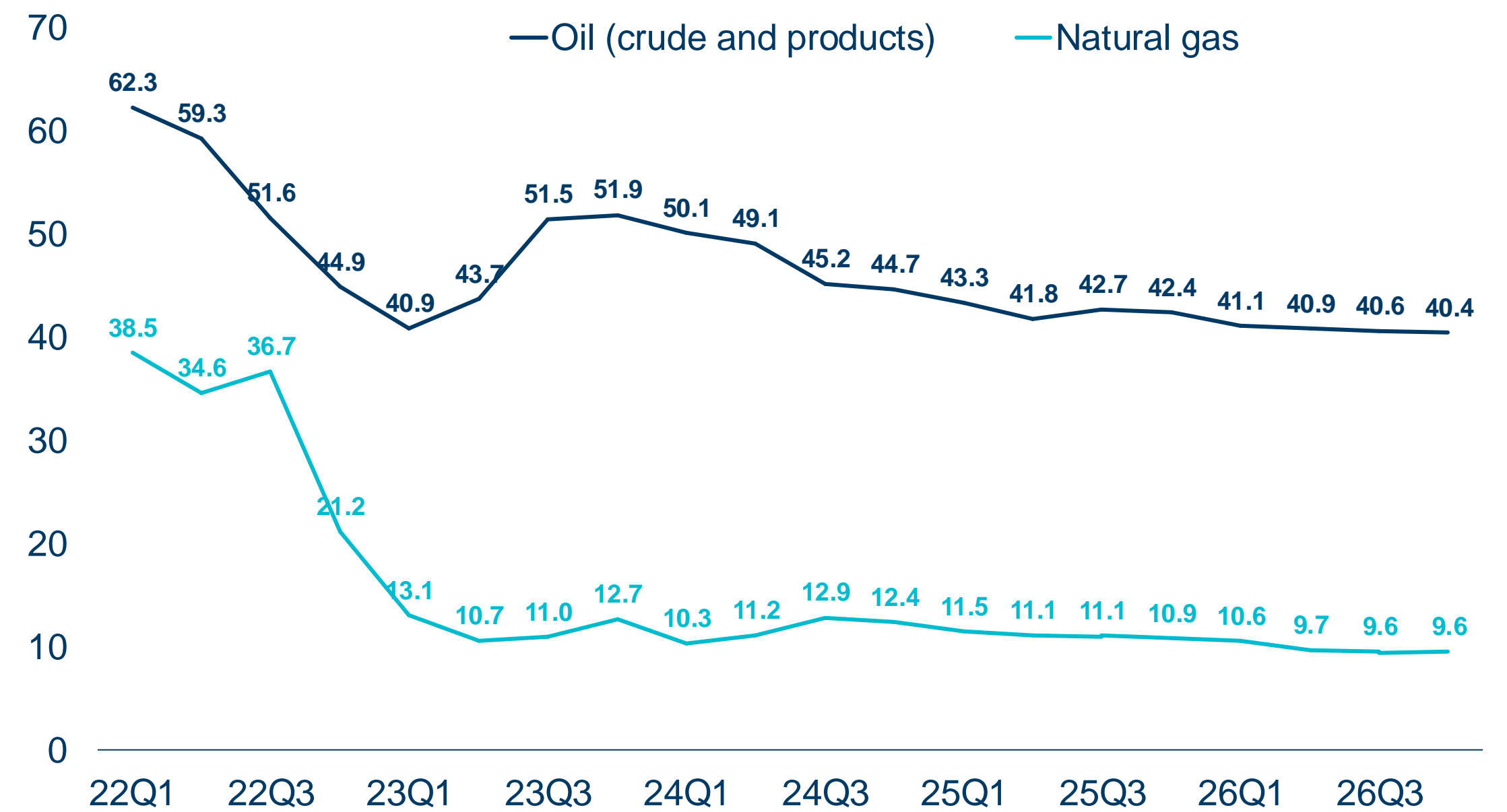
- Despite recent sanctions and their impact on the discount, we maintain our view of a bearish scenario.
- This scenario assumes an Urals discount of \$11/barrel and an ESPO discount of \$5/barrel going forward.
- In this situation, Russia would be able to generate significantly higher oil export earnings vs. the base case.

Oil prices, in U.S. dollar/barrel



Source: KSE Institute

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

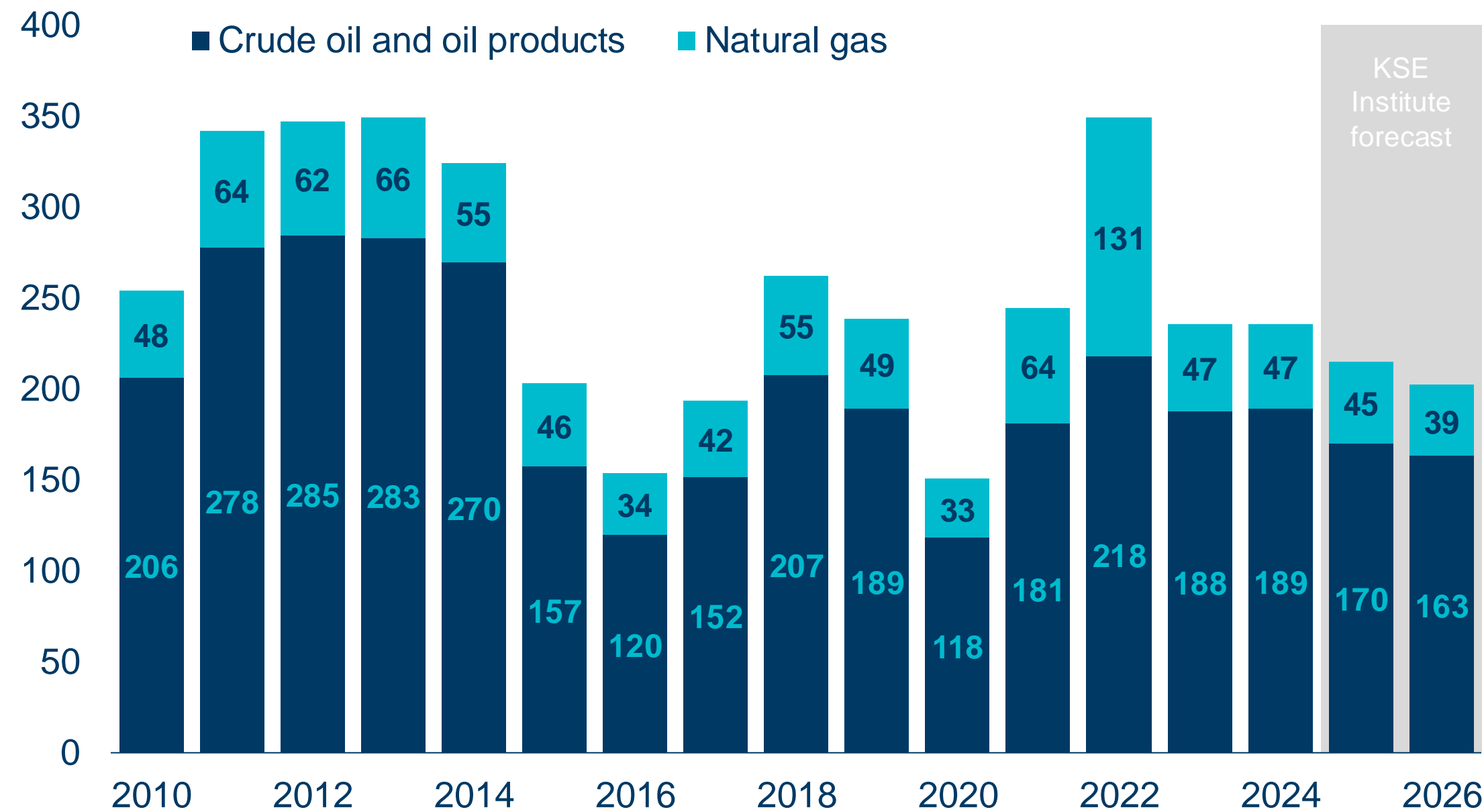


Source: KSE Institute

Current account surplus to decline moderately in 2025-26.

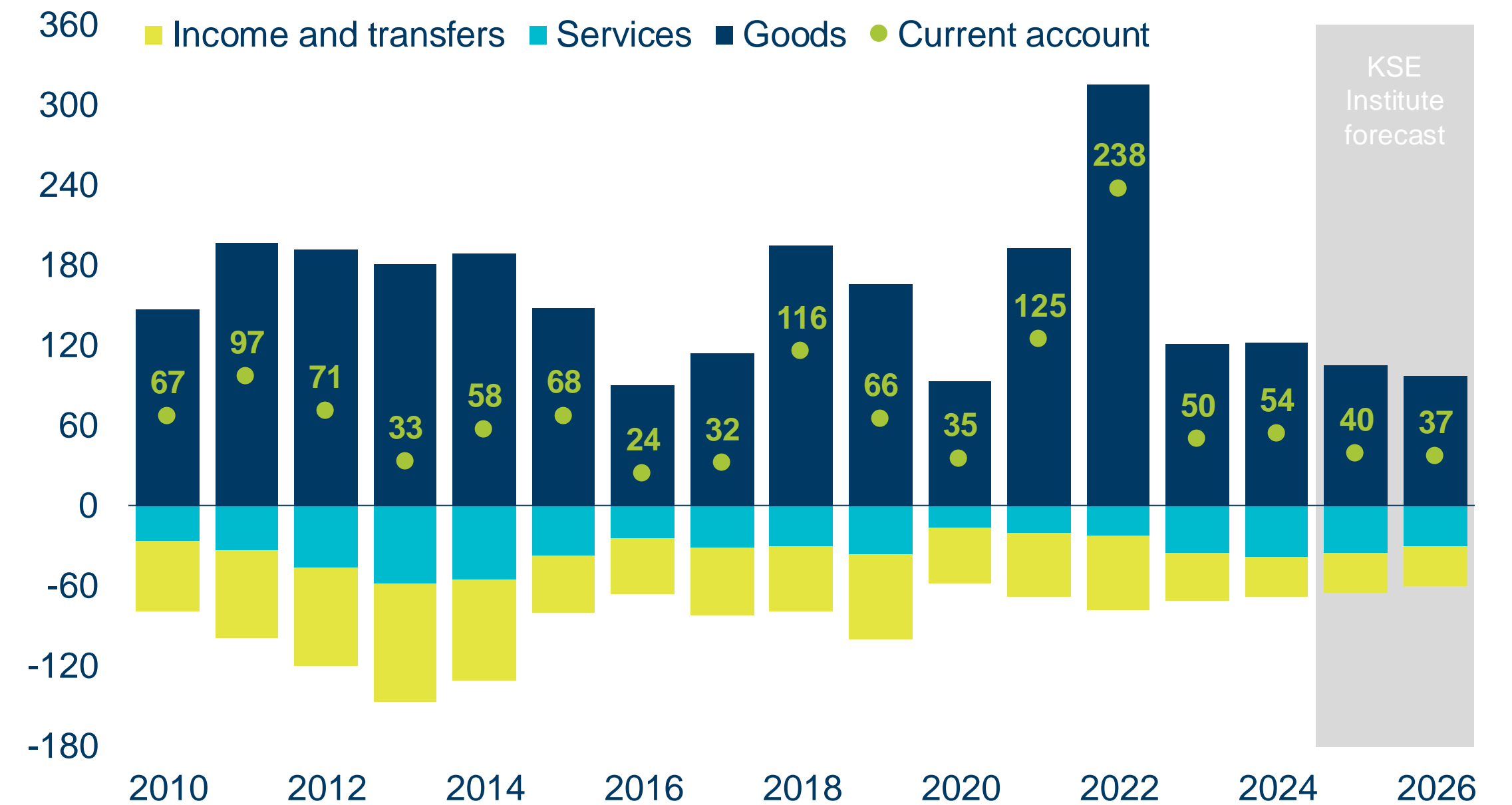
- We estimate oil and gas exports to have reached \$236 billion in 2024, while the current account came in at +\$54 billion.
- The current account surplus is projected to decrease to \$40 billion in 2025 and \$37 billion in 2026 as O&G exports weaken.
- In terms of its external accounts, this leaves Russia in a relatively comfortable position and will limit ruble depreciation.

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



Source: Bank of Russia, KSE Institute

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



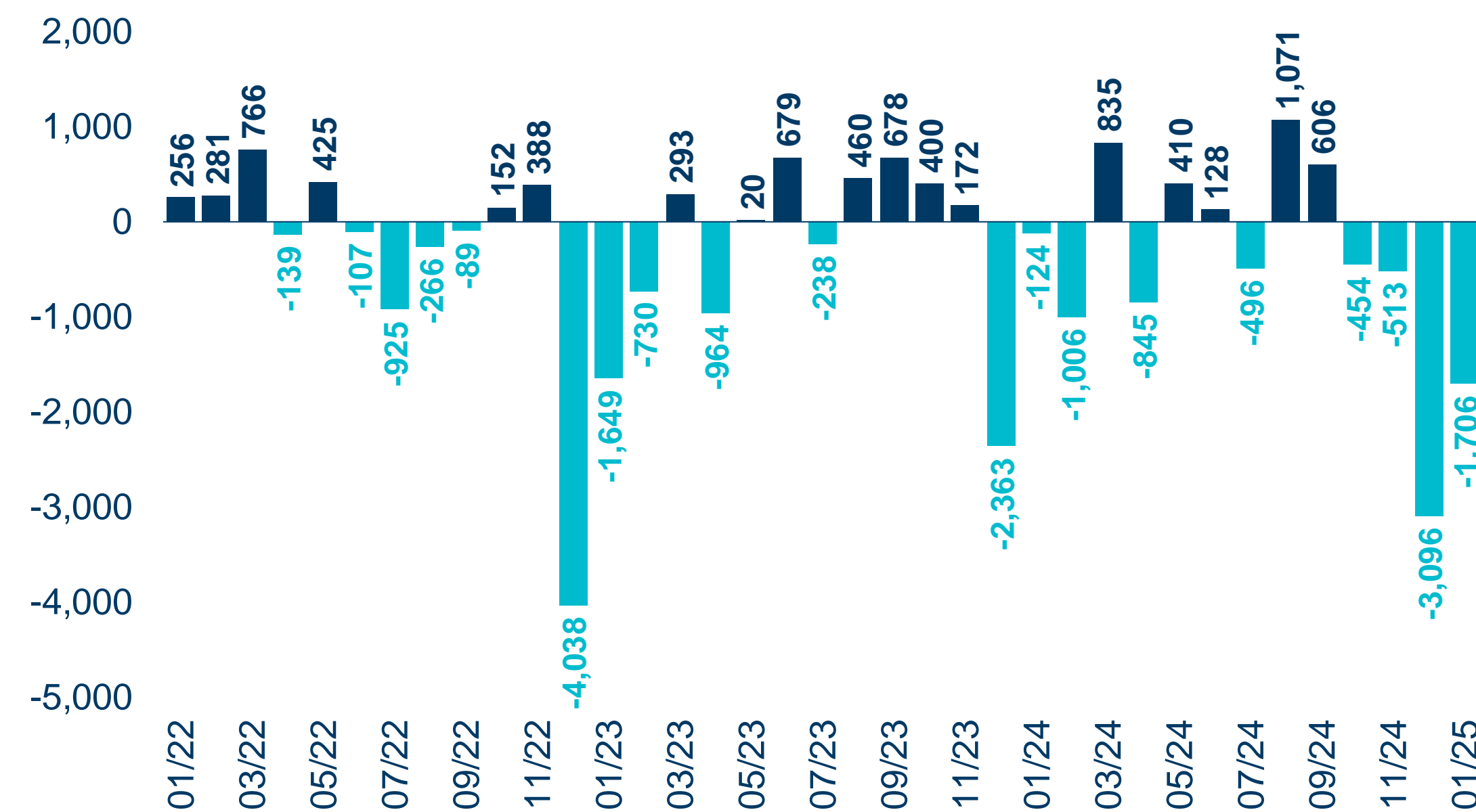
Source: Bank of Russia, KSE Institute

Large budget deficit in January 2025 due to elevated spending; revenues continue to perform well; outlook for full year unclear.

The year started with a large federal budget deficit.

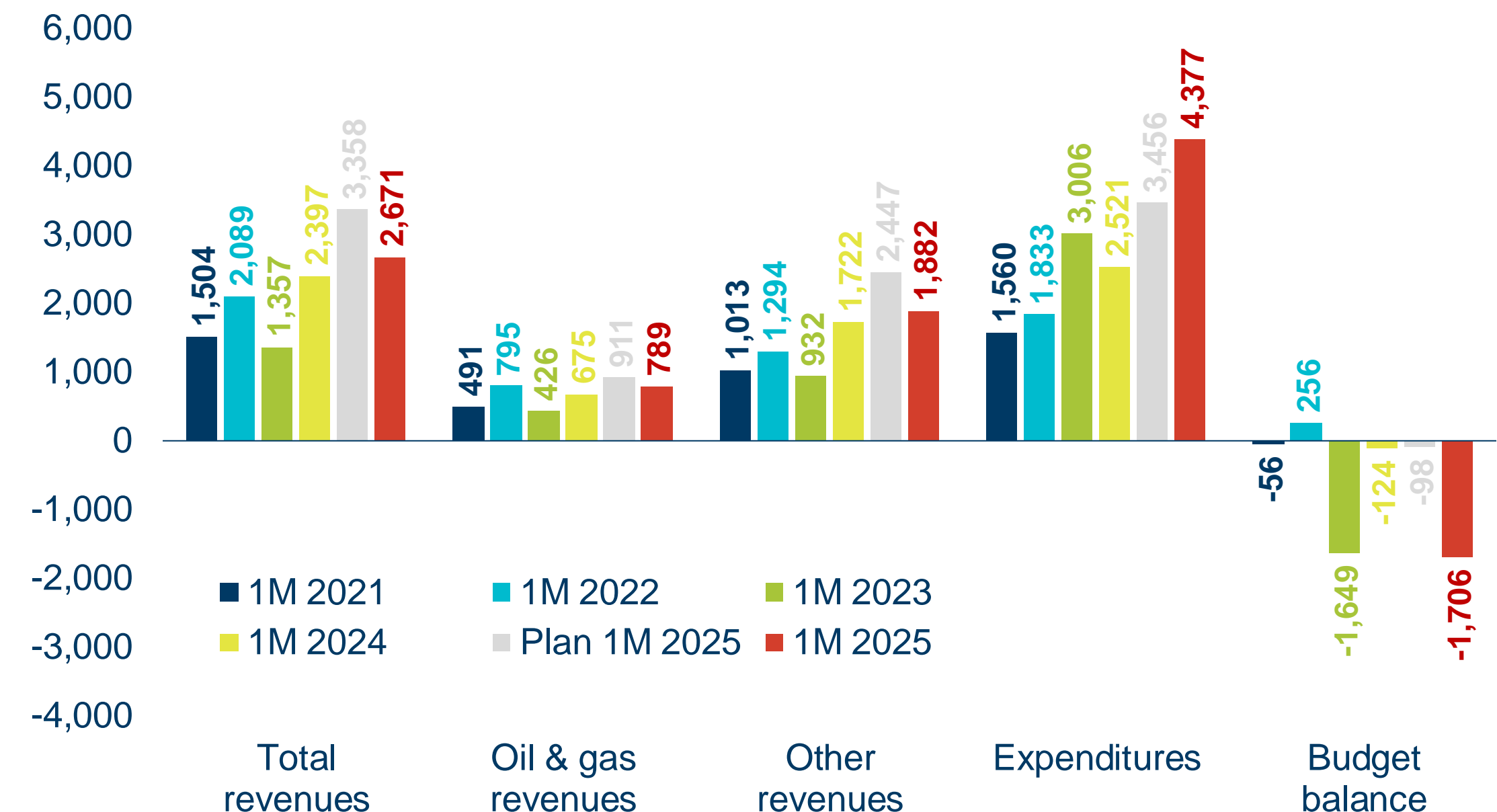
- The budget deficit was significantly larger than last year in January at 1.7 trillion rubles (vs. 0.1 trillion in Jan. 2024).
- This is the largest monthly deficit since the start of the full-scale invasion (excluding December/year end numbers).
- Very high expenditures of 4.4 trillion rubles (largest one-month reading x/ December/year-end) caused the large deficit.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

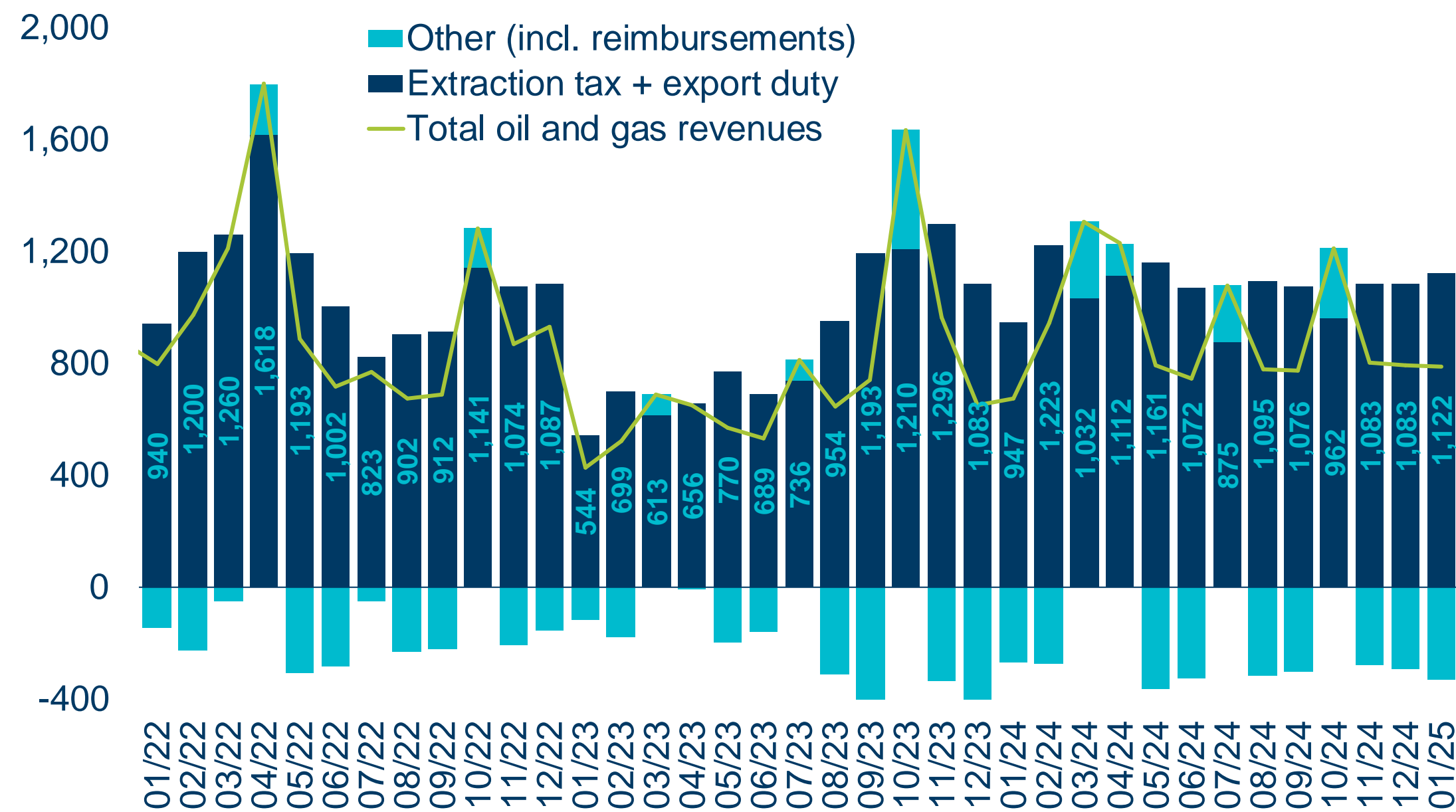


Source: Ministry of Finance, KSE Institute

Strong oil and gas revenues provide support to the budget.

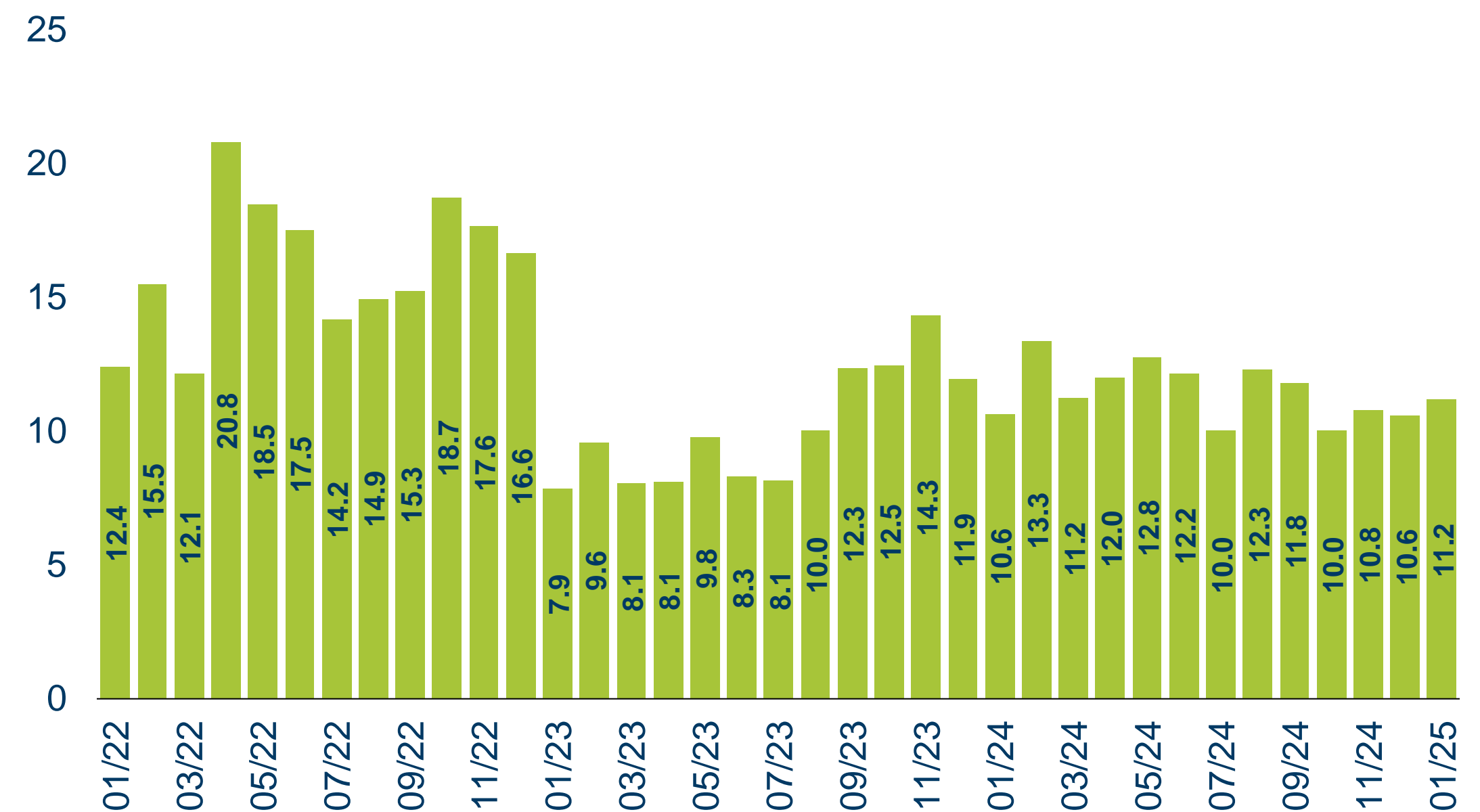
- Oil and gas revenues from extraction taxes and export duties stood at 1.1 trillion rubles in January.
- This is broadly in line with the average since mid-2023 when O&G revenues had bounced back.
- In US dollar-terms, revenues reached \$11.2 billion, a small increase compared to December 2024.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

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



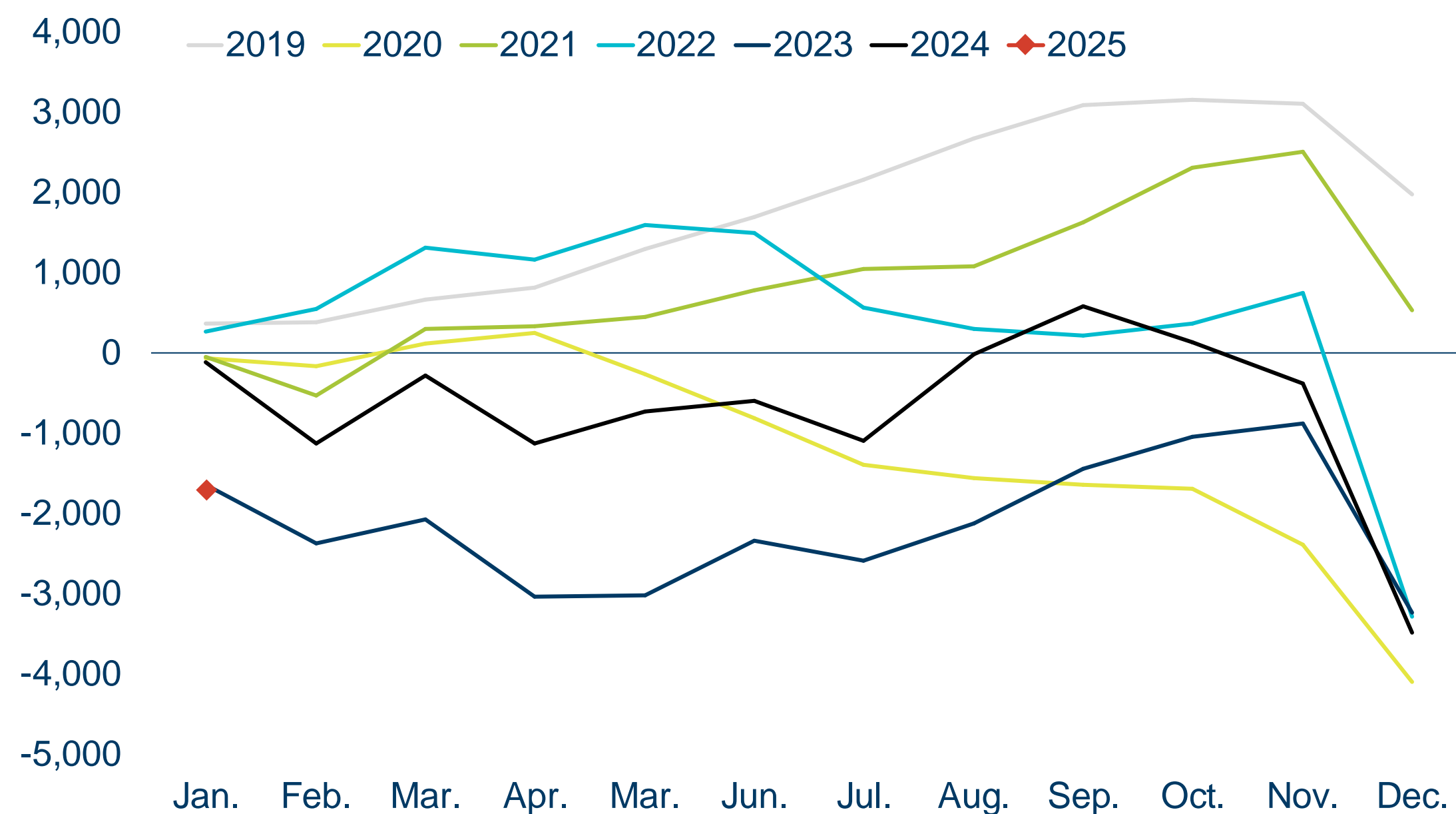
Source: International Monetary Fund, Ministry of Finance, KSE Institute

*includes extraction tax and export duty; calculated with monthly average exchange rate

Budgetary dynamics deserve monitoring in the next months.

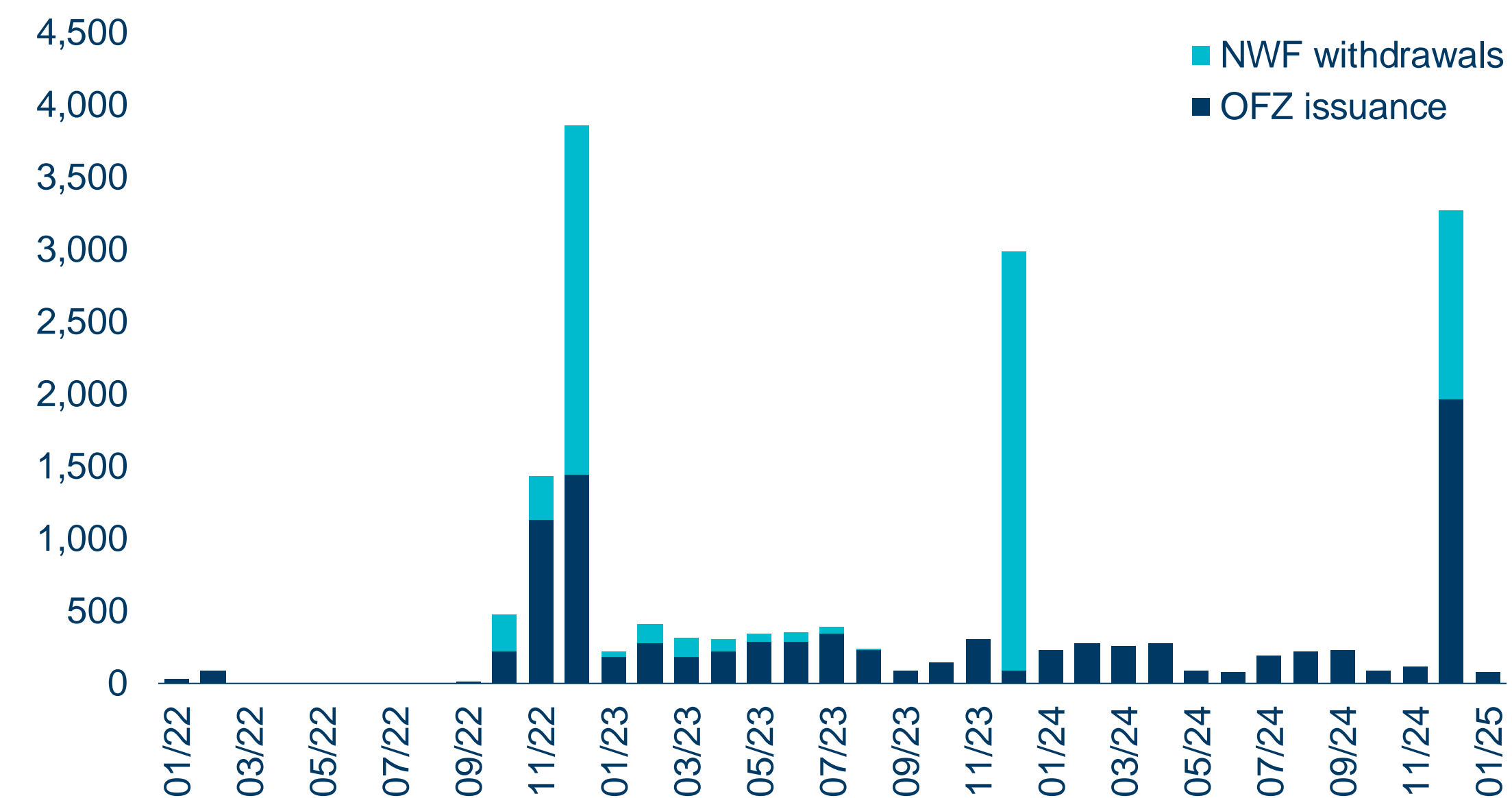
- It is difficult to draw conclusions from just one month of fiscal data for the remainder of the year.
- Fiscal dynamics in Jan. could reflect the pre-financing of military expenditures (as observed in the past).
- Despite the large Jan. deficit, OFZ issuance was small and no NWF funds were used for the budget.

Cumulative federal budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Key fiscal financing channels, in ruble billion

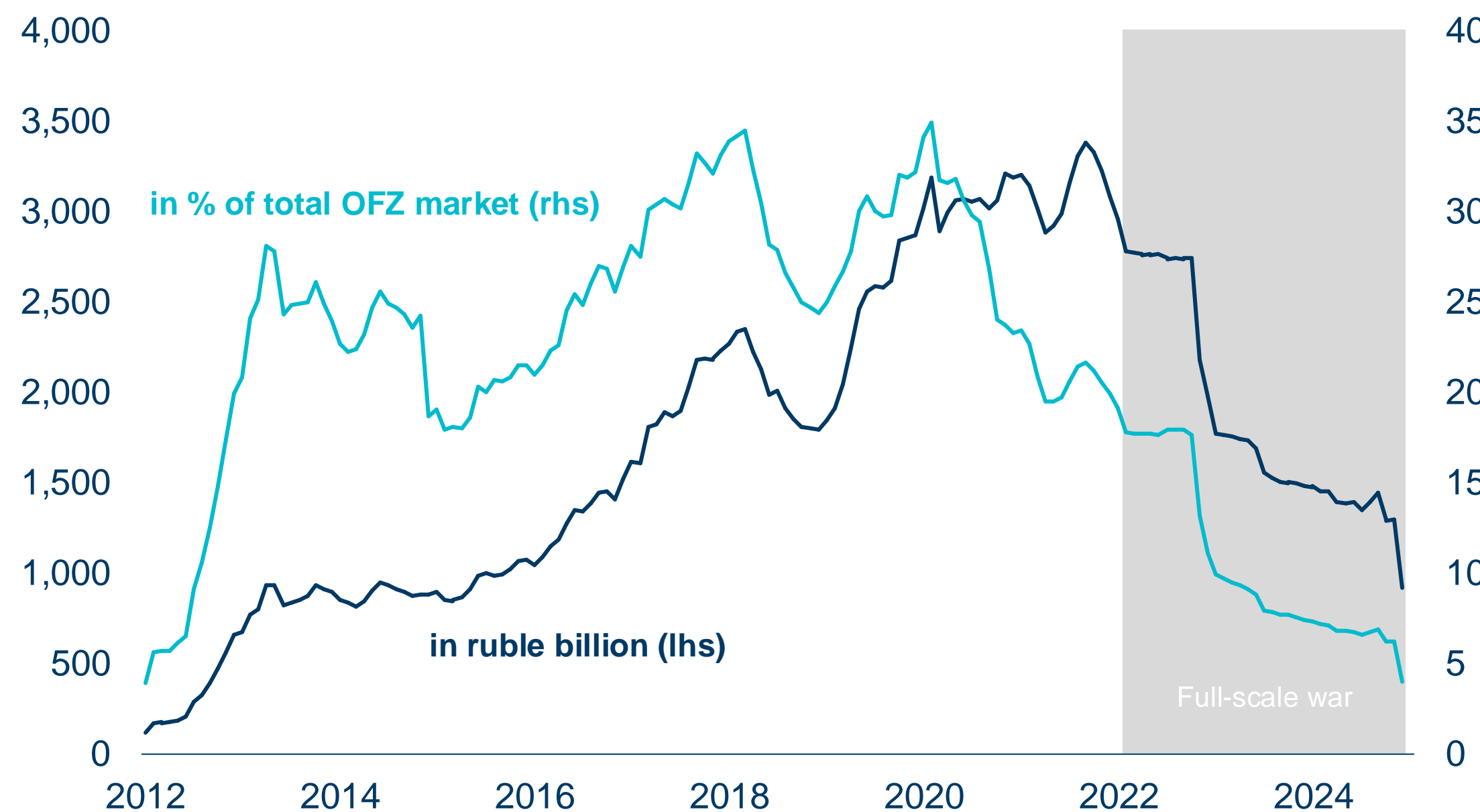


Source: Ministry of Finance, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

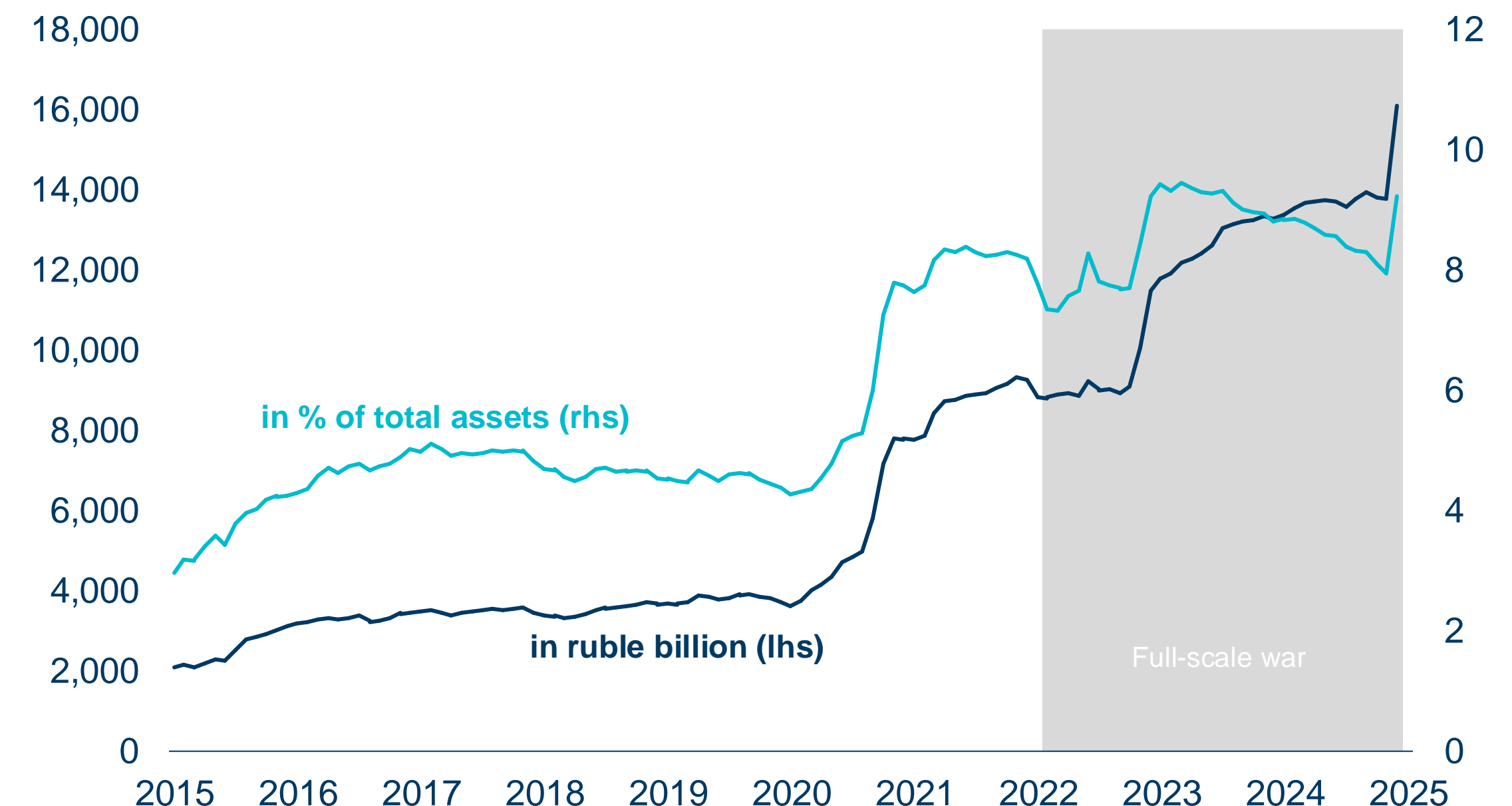
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2.0 trillion rubles (or 69%) since January 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

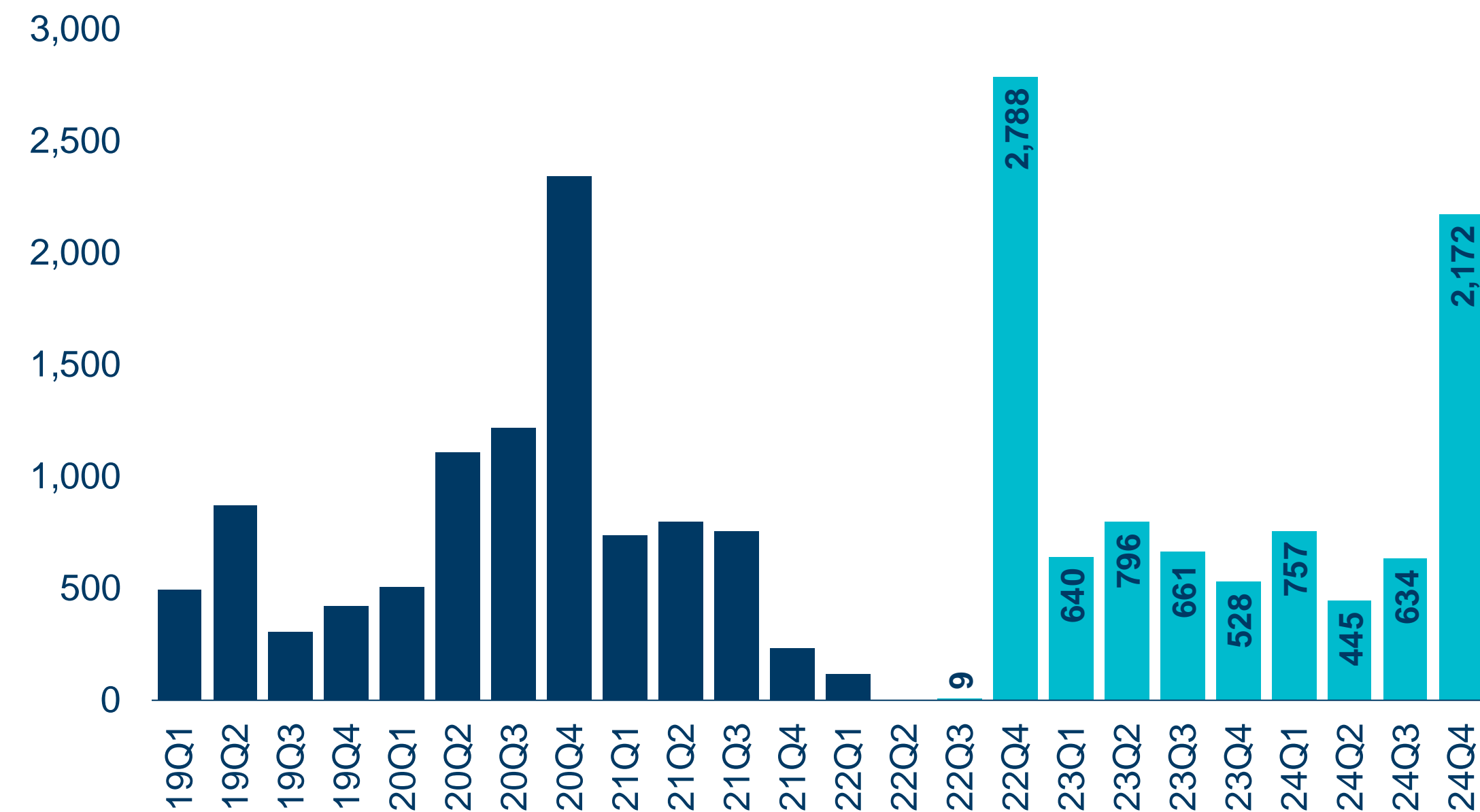


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

Financing via domestic borrowing is becoming significantly more costly.

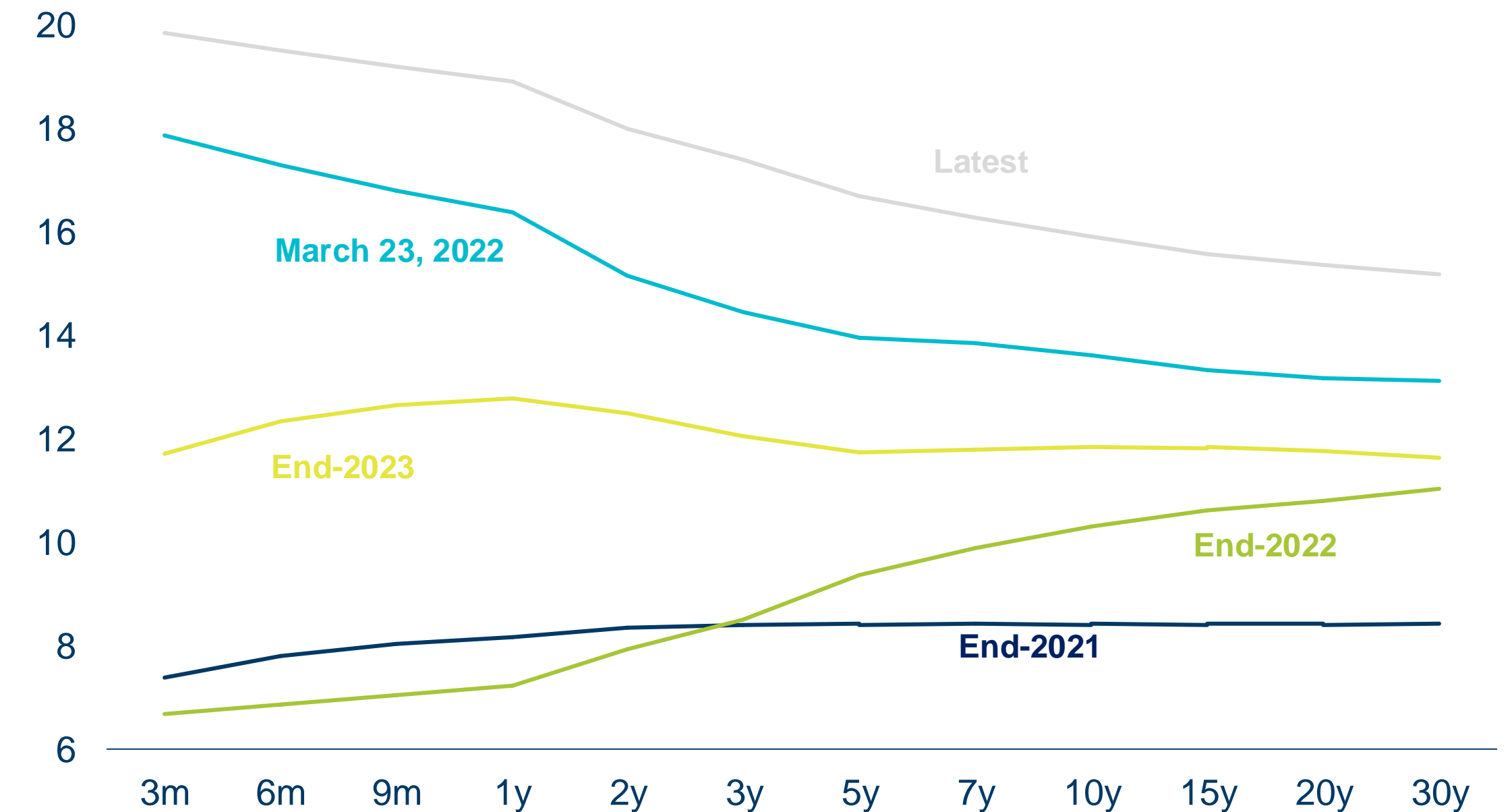
- Borrowing in the domestic market had been broadly stable in the last seven quarters before soaring in Q4 2024.
- The OFZ yield curve reflects recent CBR interest rate hikes, which means that funding costs are rising markedly.
- Despite high yields, the CBR had to institute a repo operation to provide banks with liquidity for OFZ purchases.

New domestic debt (OFZ) issuance, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %



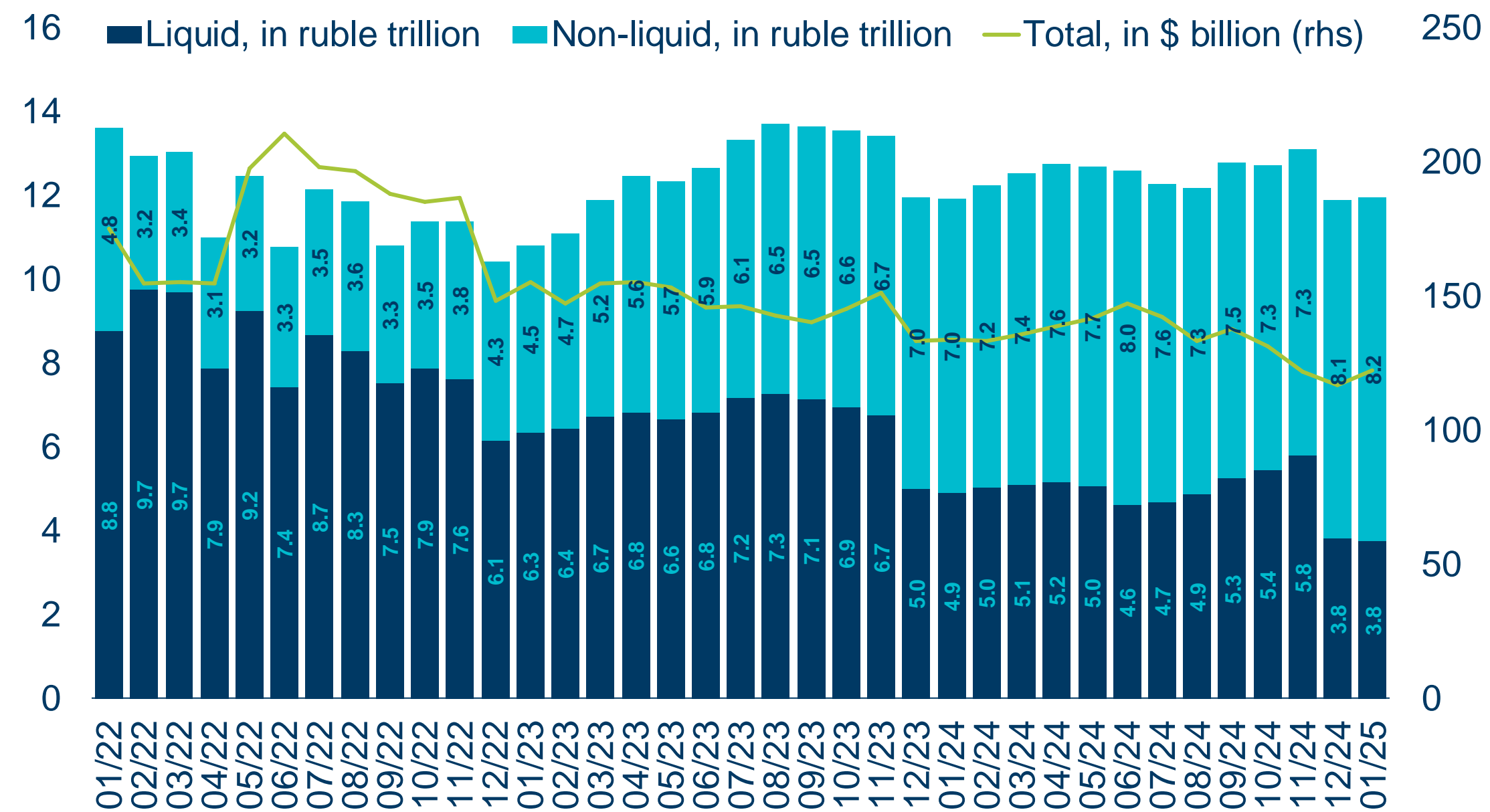
Source: Bank of Russia, KSE Institute

Macro buffers seriously depleted by war and sanctions; limited policy options in the case of further ruble depreciation and inflation.

Depletion of the NWF's liquid assets continued in 2024.

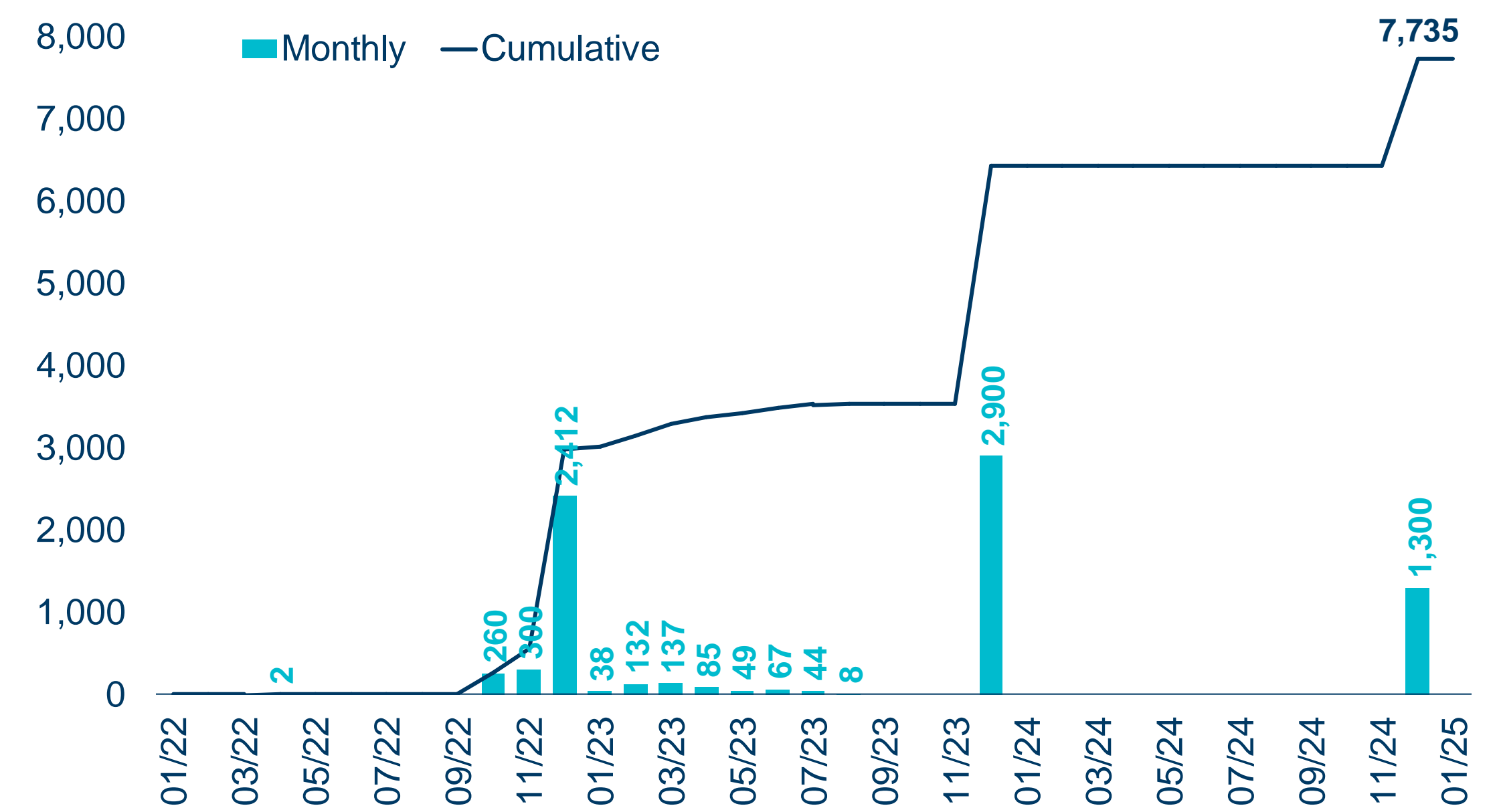
- Total assets of the National Welfare Fund stood at 12 trillion rubles (\$122 billion, 5.6% of GDP) in January 2025.
- The liquid portion stands at 3.8 trillion rubles after 1.3 trillion were used to finance the budget deficit in December.
- Since the start of the full-scale war, Russia has used 7.7 trillion for budgetary purposes and liquid assets fell by 61%.

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



Source: Ministry of Finance, KSE Institute

NWF contributions to the budget, in ruble billion

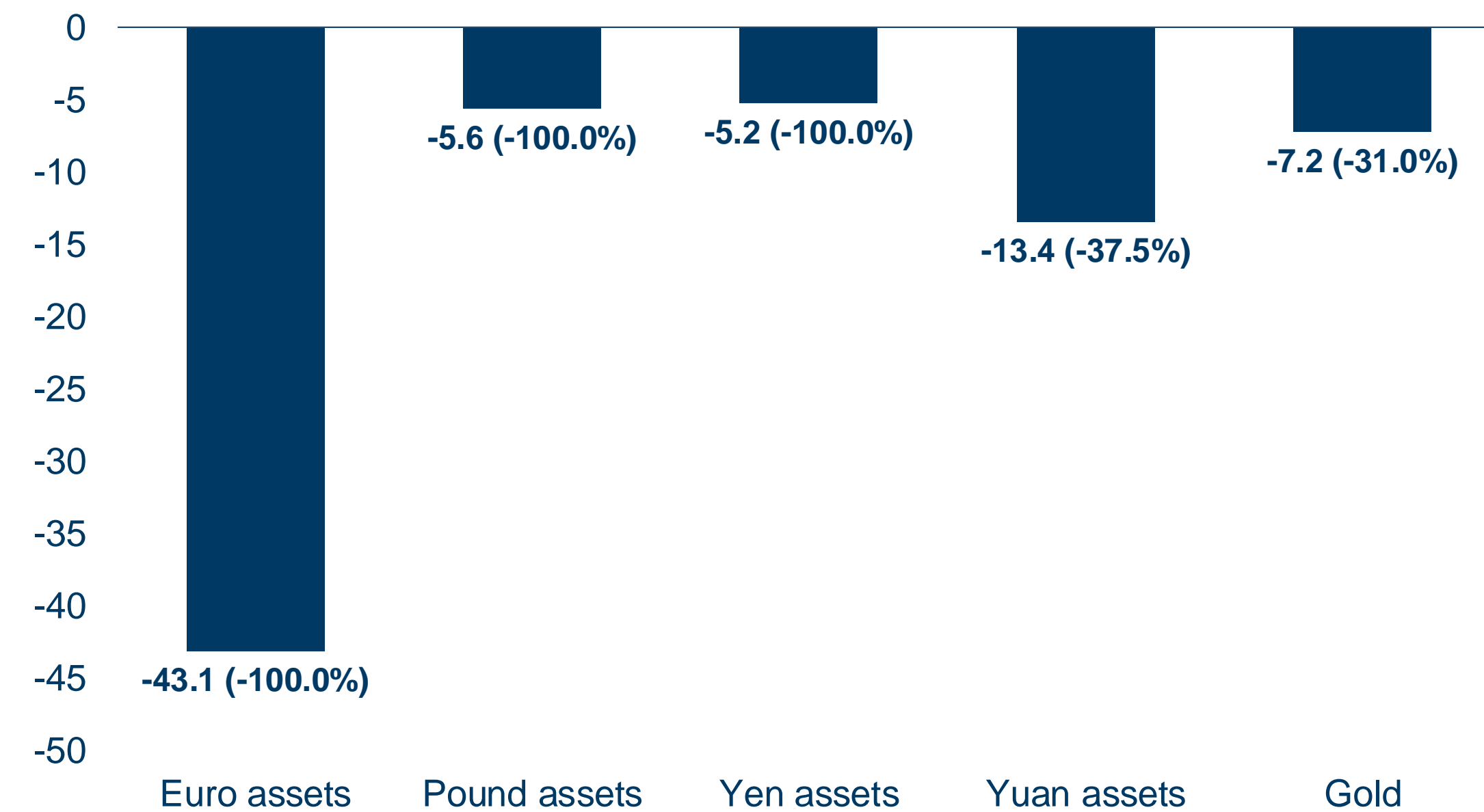


Source: Ministry of Finance, KSE Institute

Only around \$38 billion in liquid NWF funds remain.

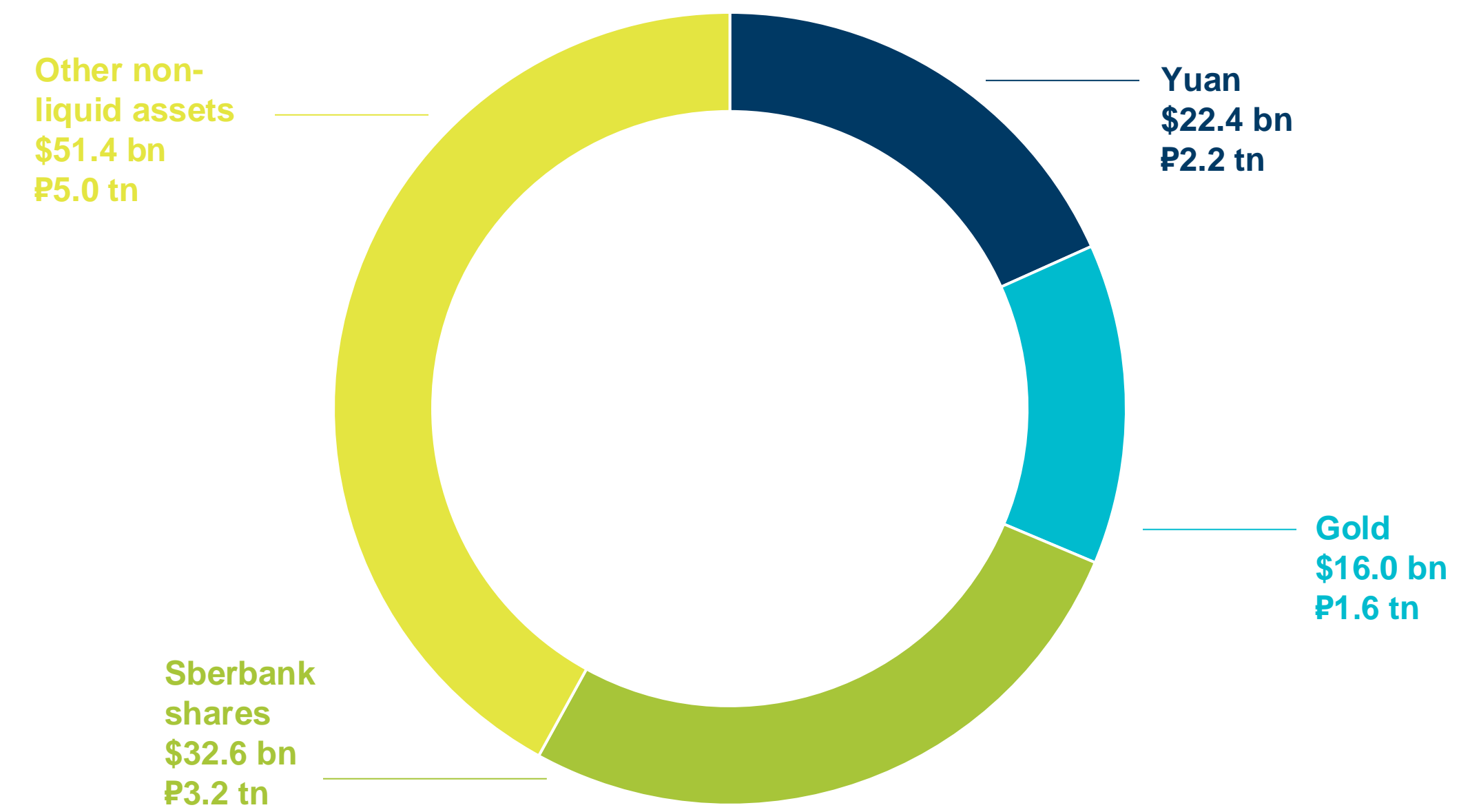
- In December, Russia’s MinFin sold ~\$4 billion in yuan-denominated assets and close to \$8 billion in gold.
- All hard currency assets have been depleted since December 2023, when the remaining Euros were sold.
- Only yuan (2.2 trillion rubles) and gold (1.6 trillion) are left, and the NWF’s liquid share has fallen to 31%.

Change in liquid assets vs. Jan. 2022, in U.S. dollar billion*



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

Composition of NWF assets as of February 1, 2025*

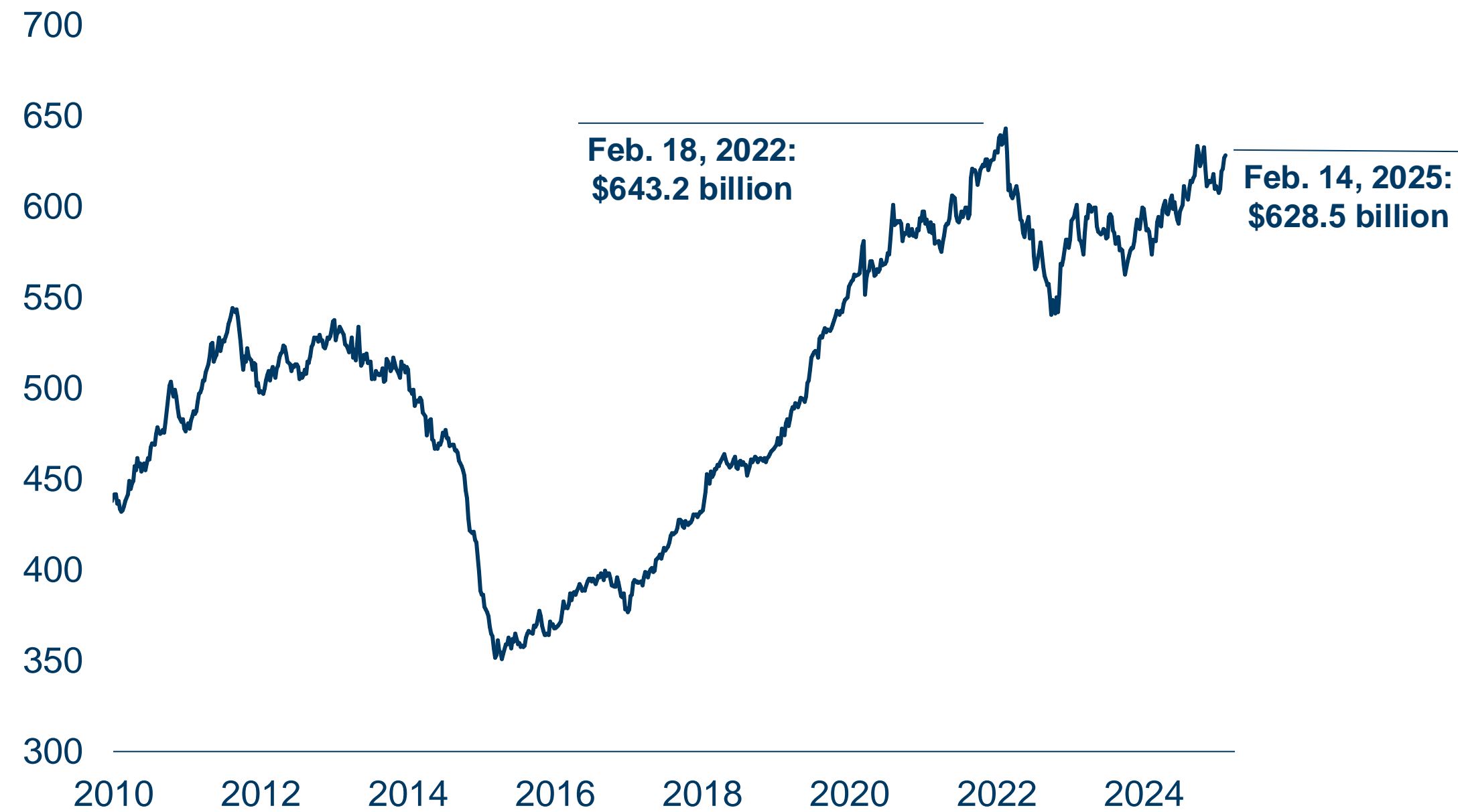


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

A substantial share of international reserves remain immobilized.

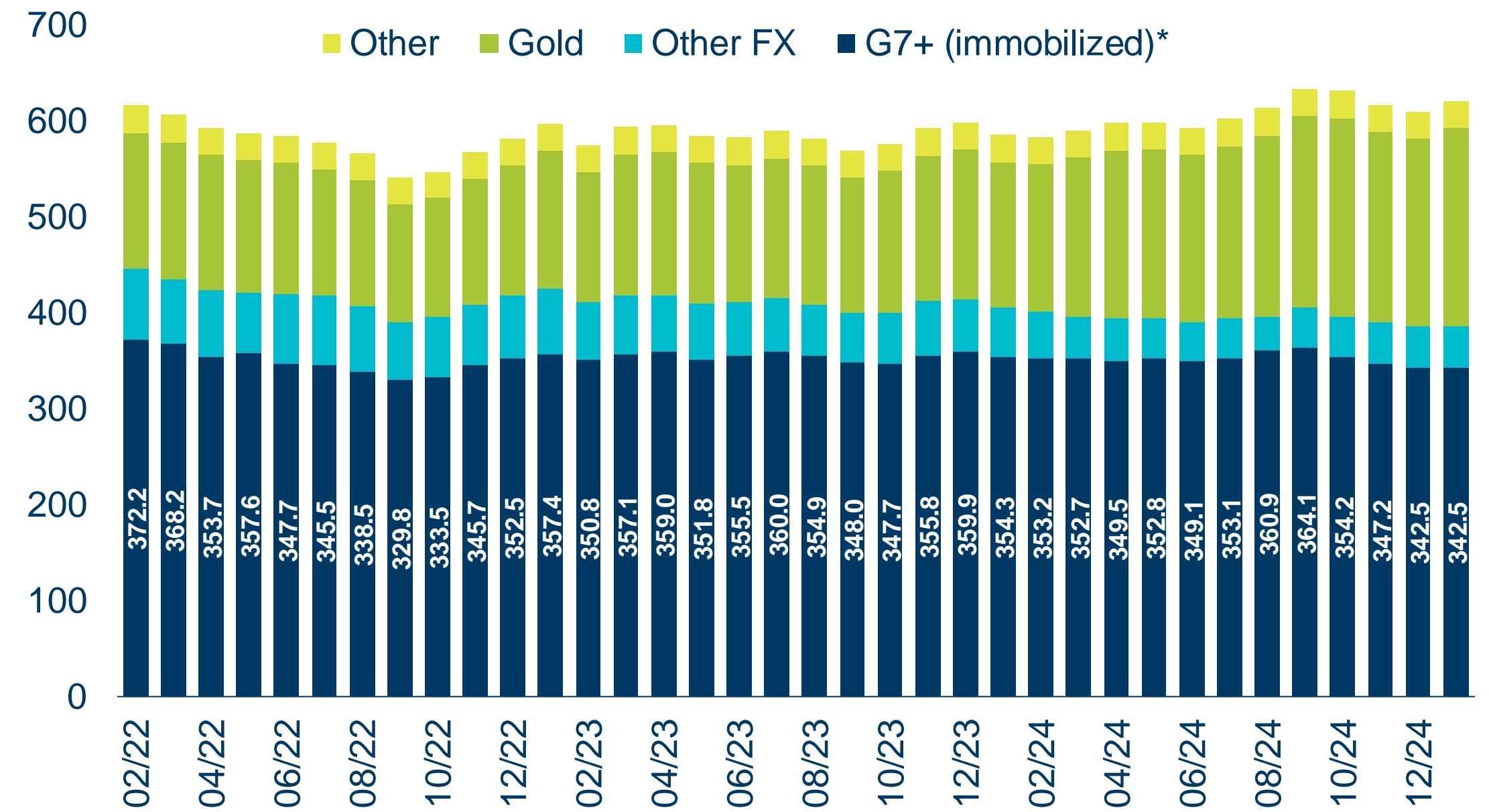
- Before the start of the full-scale invasion, Russia held \$643 billion in international reserves—an all-time high.
- We estimate, based on the CBR’s Dec. 2021 data, that frozen reserves have a current value of ~\$340 billion.
- This leaves Russia with \$44 billion of foreign exchange, \$207 billion of gold, and \$28 billion of other assets.

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

Composition of reserves, in U.S. dollar billion*



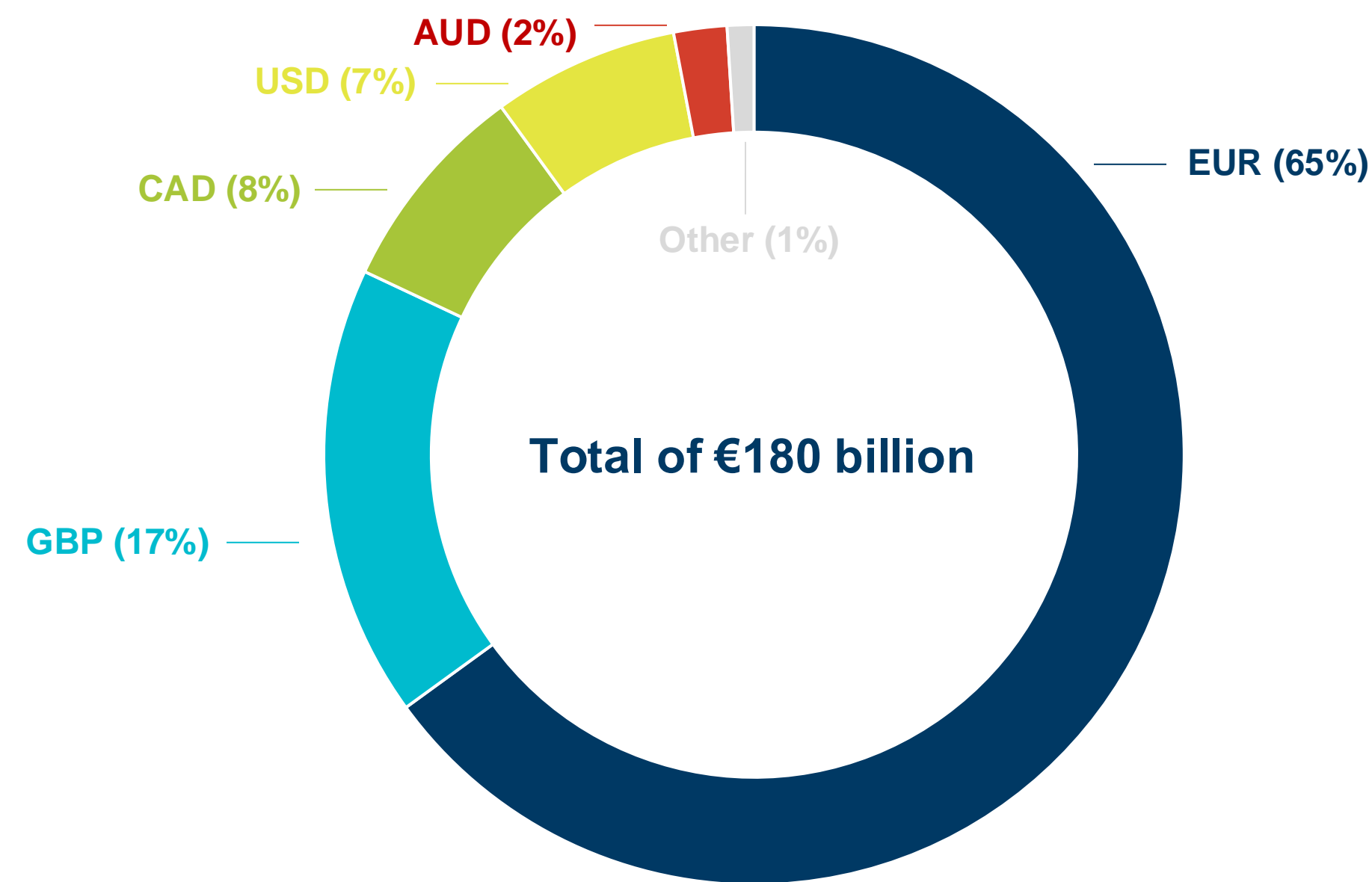
Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD,

Euroclear accounts for a large share but other jurisdictions factor in.

- Close to \$300 billion in immobilized CBR assets are accounted for, with ~\$200 billion managed by Euroclear.
- A large share of these assets have turned from securities to cash (~90% of all Russian assets with Euroclear).
- In addition to Euroclear-managed assets, \$68-95 billion of CBR reserves could be in sanctioning jurisdictions.

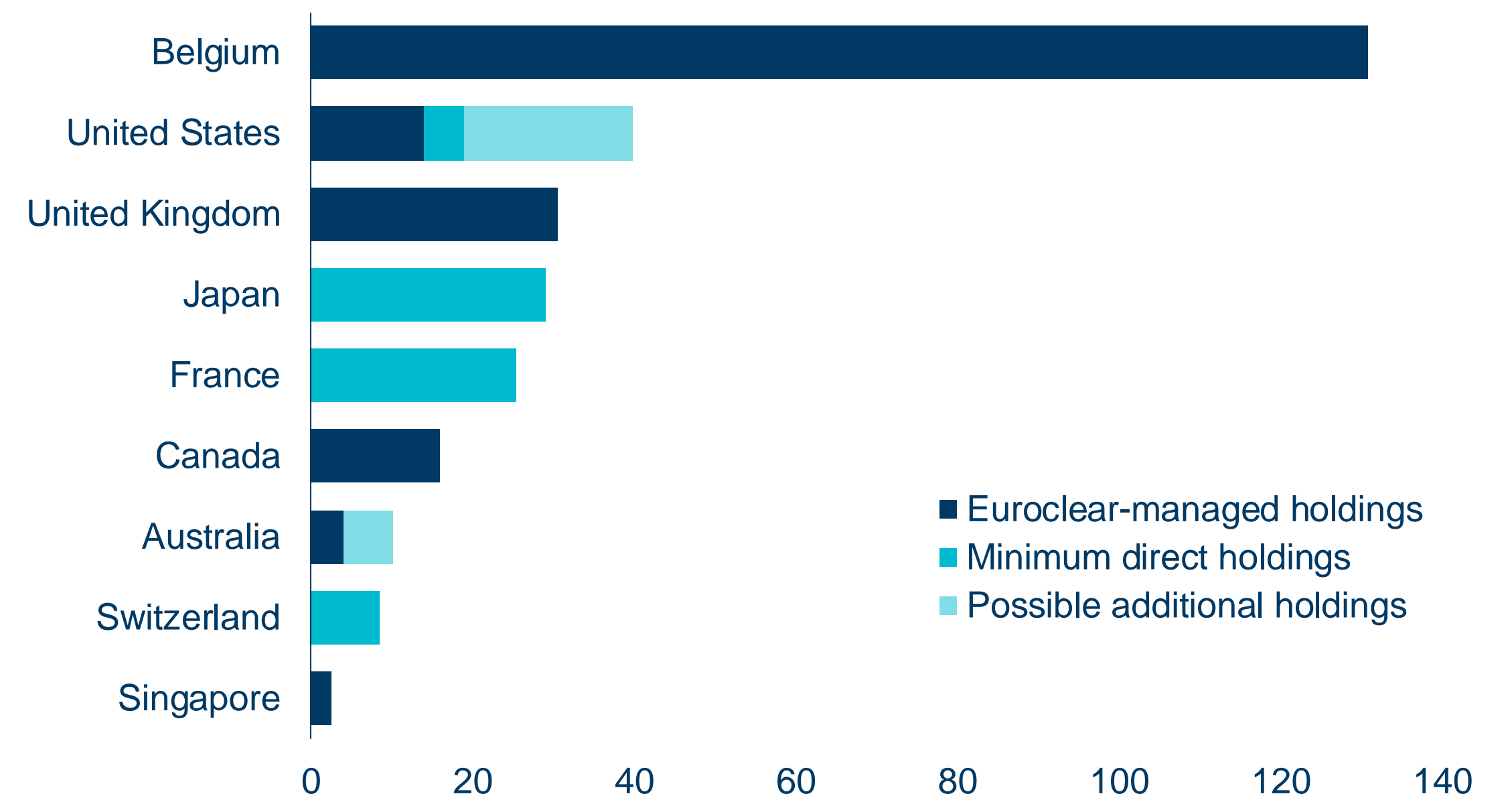
Read the paper “Resolving Accountability Over Russian State Assets” by the New Lines Institute [here](#).

Currency composition of Euroclear-managed CBR assets, in %



Source: Euroclear, New Lines Institute, KSE Institute

Accounting of immobilized CBR reserves, in U.S. dollar billion

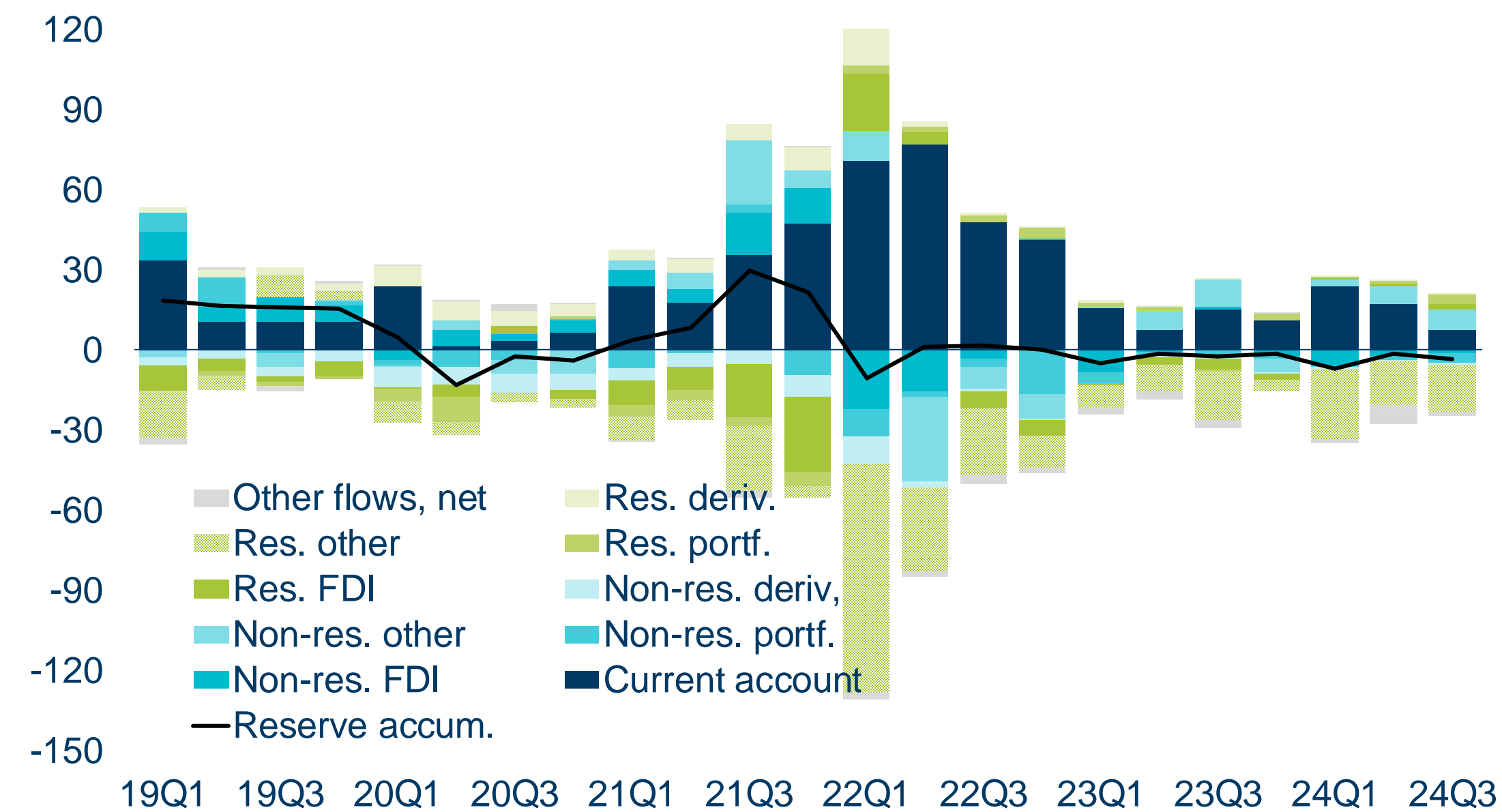


Source: New Lines Institute

Significant accumulation of new foreign assets since 2022.

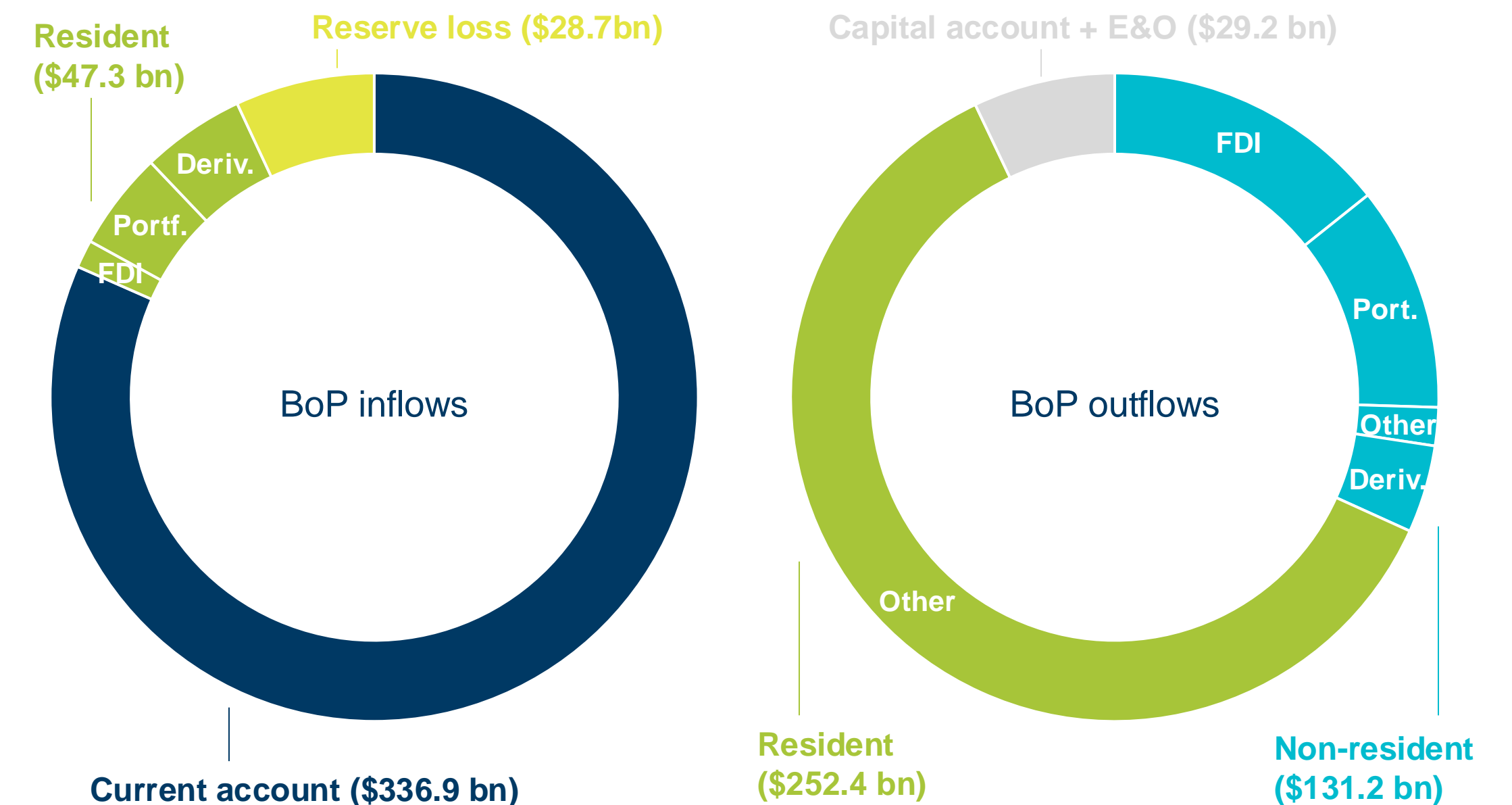
- With the ruble under pressure and regular reserves partly immobilized, it is time to focus on new Russian assets abroad.
- Non-resident capital outflows partially ate up the large current account surplus and resident inflows in Q1 2022-Q3 2024.
- But Russian banks and corporates were able to acquire \$252 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

2022Q1-2024Q3 balance of payments flows, in U.S. dollar billion

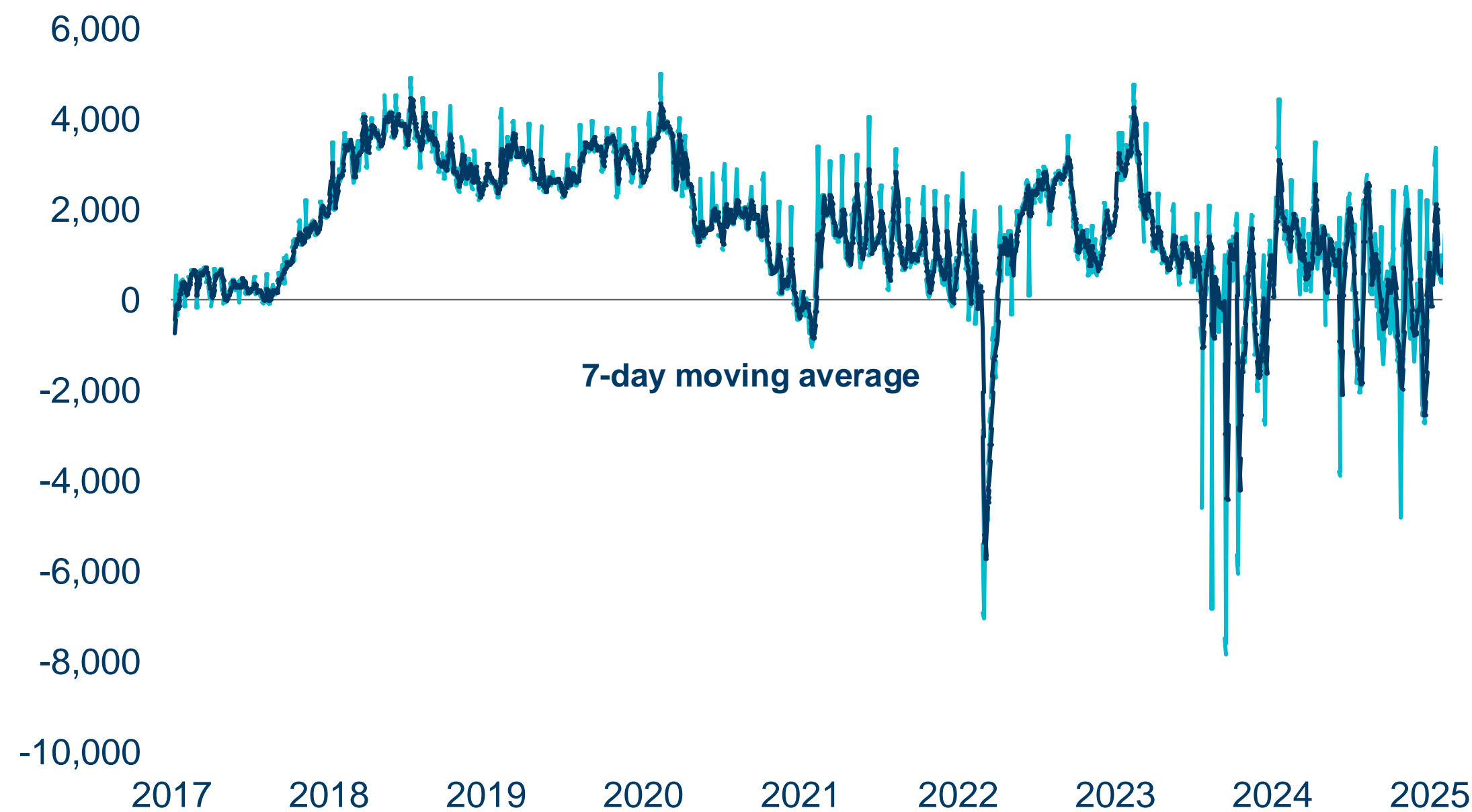


Source: Bank of Russia, KSE Institute

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

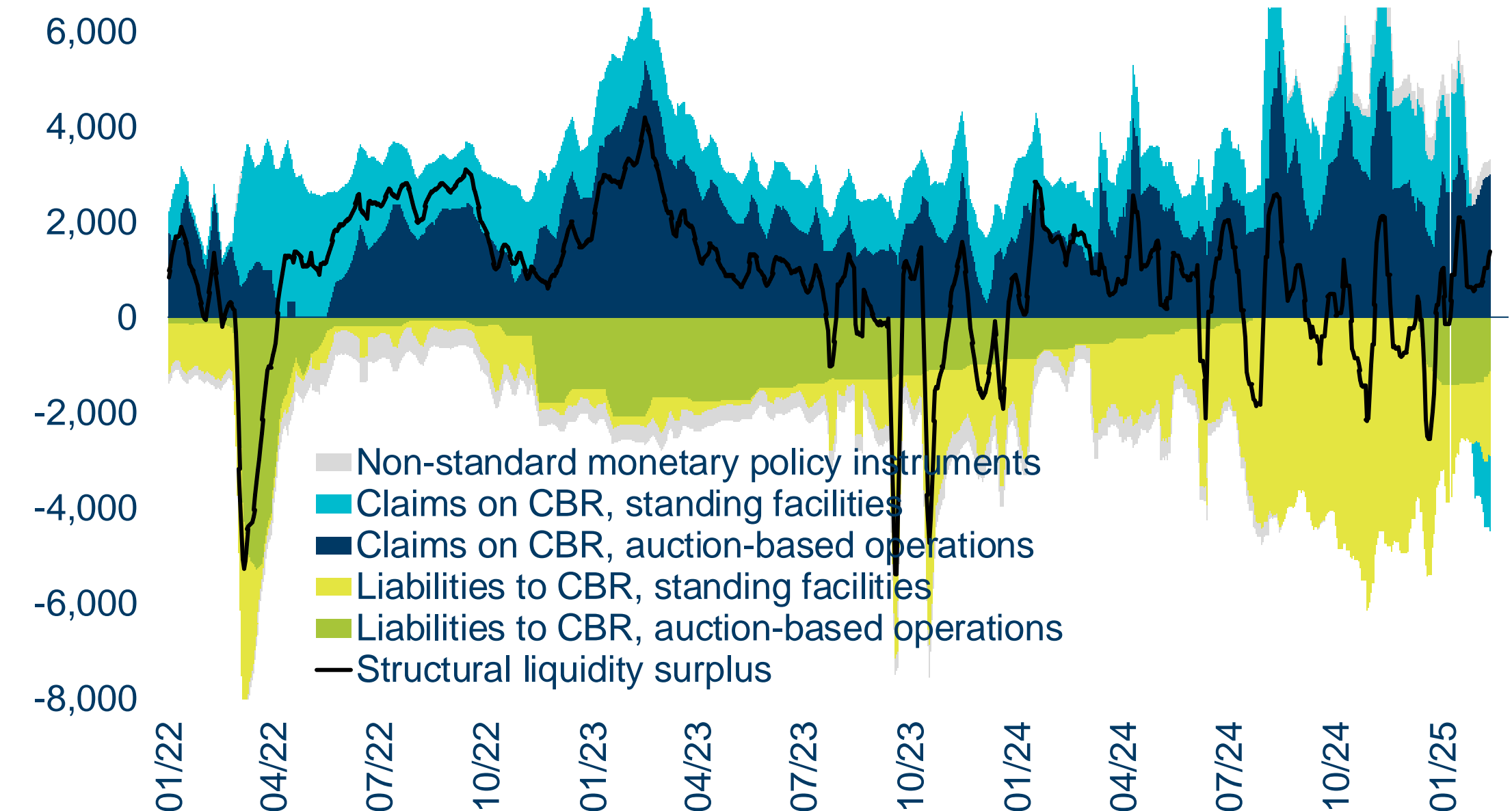
- Liquidity conditions recovered quickly after the initial shock from the full-scale war and imposition of sanctions.
- A closer look at the composition of the structural liquidity surplus points to some stress in the interbank market.
- The data clearly shows the effects of the CBR's monetary tightening since mid-2023 (cumulative +1,350 bps).

Banking system structural liquidity surplus, in ruble billion



Source: Bank of Russia, KSE Institute

Composition of structural liquidity surplus, in ruble billion*



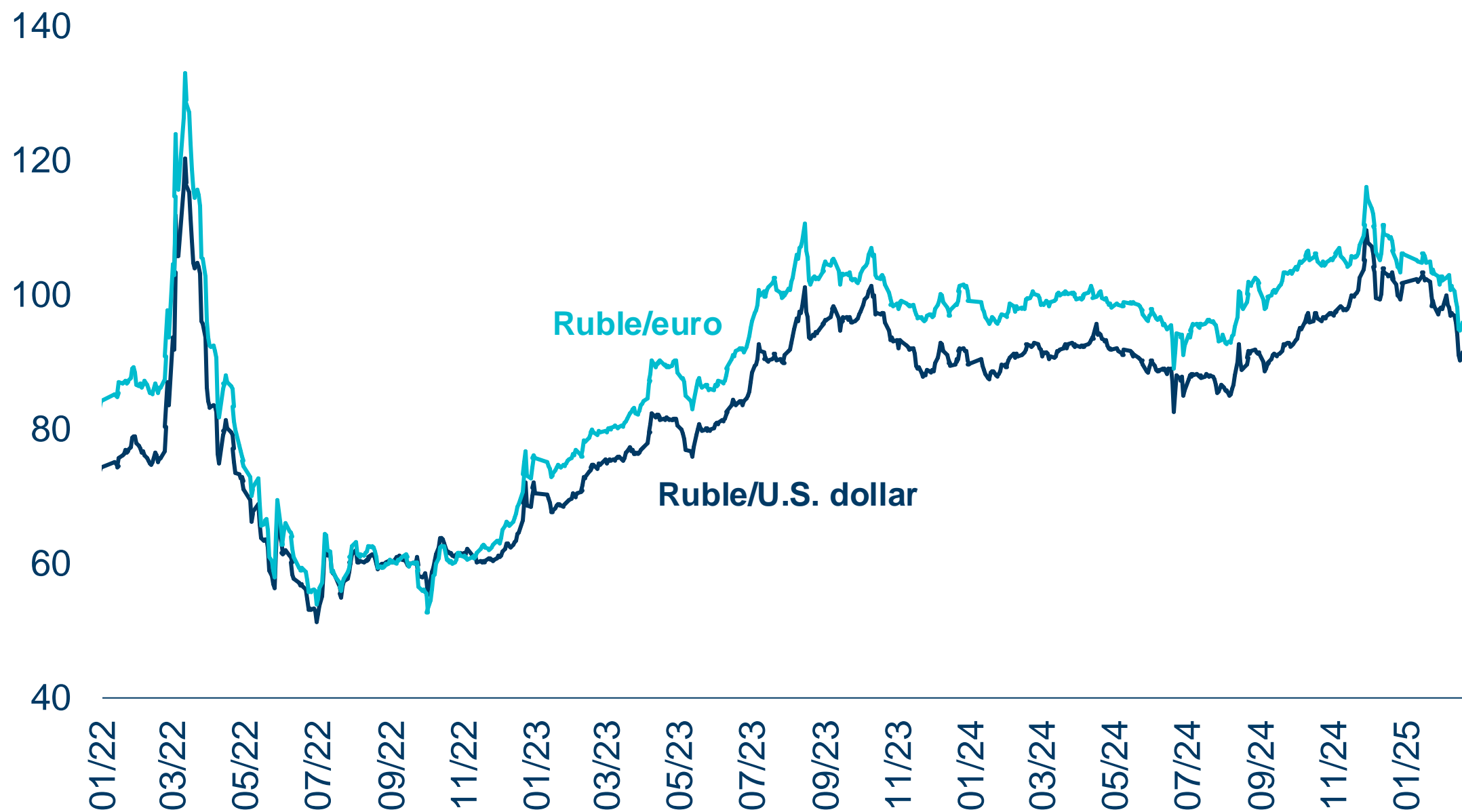
Source: Bank of Russia, KSE Institute *7-day moving average

**Inflation elevated despite CBR tightening;
real GDP growth of 4.1% in 2024,
but slowdown expected in 2025-26.**

Ruble has weakened dramatically against major currencies.

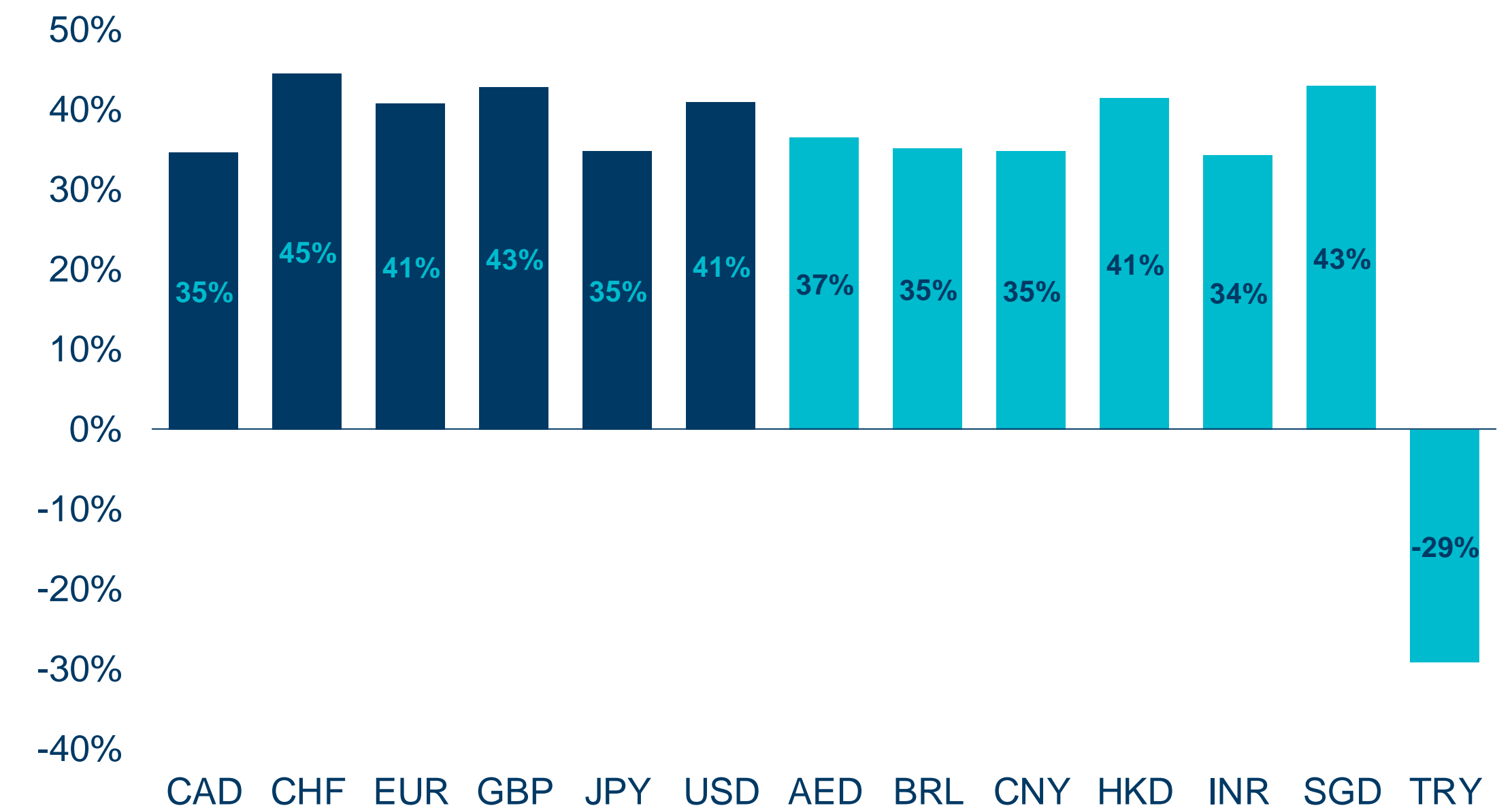
- While the December depreciation episode has reversed, the ruble has persistently lost value for six months.
- Altogether, Russia’s currency lost 41% of its value vs. the dollar and 41% vs. the euro since the mid-2022.
- The ruble’s recent appreciation has no macroeconomic basis—it’s purely driven by U.S.-Russia negotiations.

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



Source: Bank of Russia, KSE Institute

Ruble value loss vs. key currencies since Q2 2022, in %

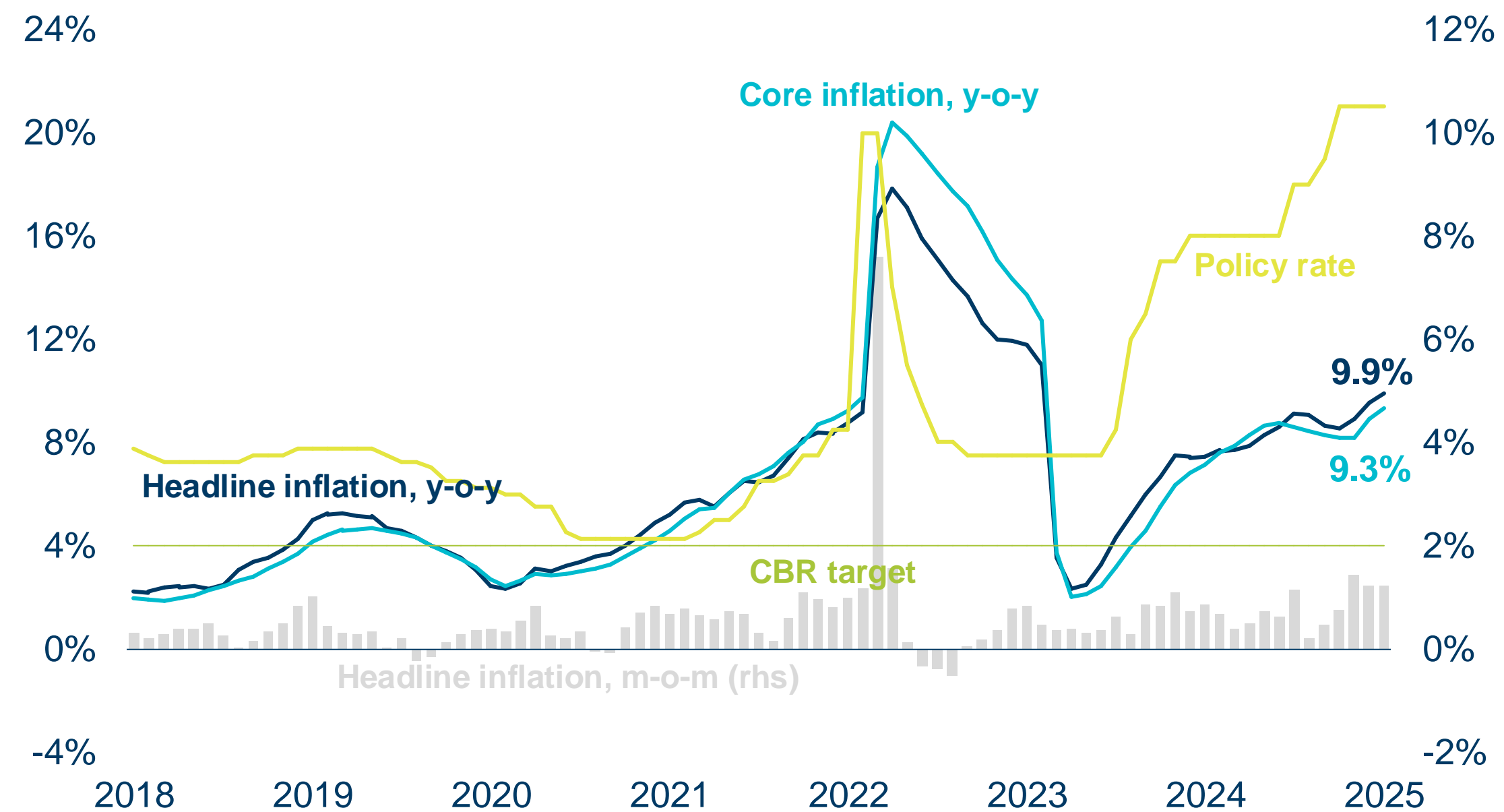


Source: Bank of Russia, KSE Institute

Inflation continues to rise despite CBR policy response.

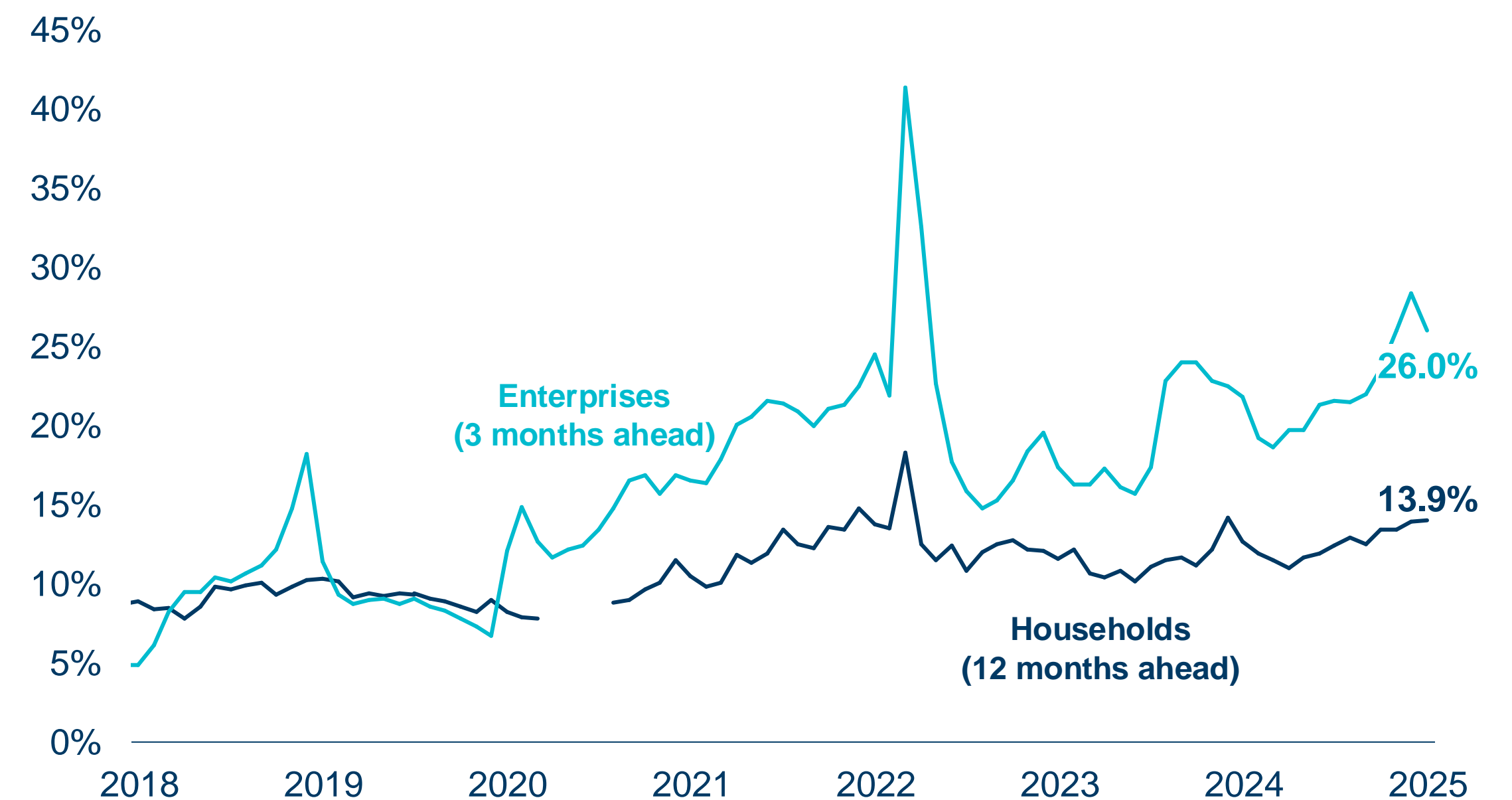
- Headline inflation reached 9.9% y-o-y in Jan. and m-o-m changes indicate no dissipating of price pressures.
- Inflation expectations have risen again, especially those of enterprises, despite significant monetary tightening.
- After taking a break from rate hikes in December, the CBR may soon be forced to tighten conditions further.

Inflation and CBR policy rate, in %



Source: Bank of Russia, KSE Institute

Inflation expectations, in %

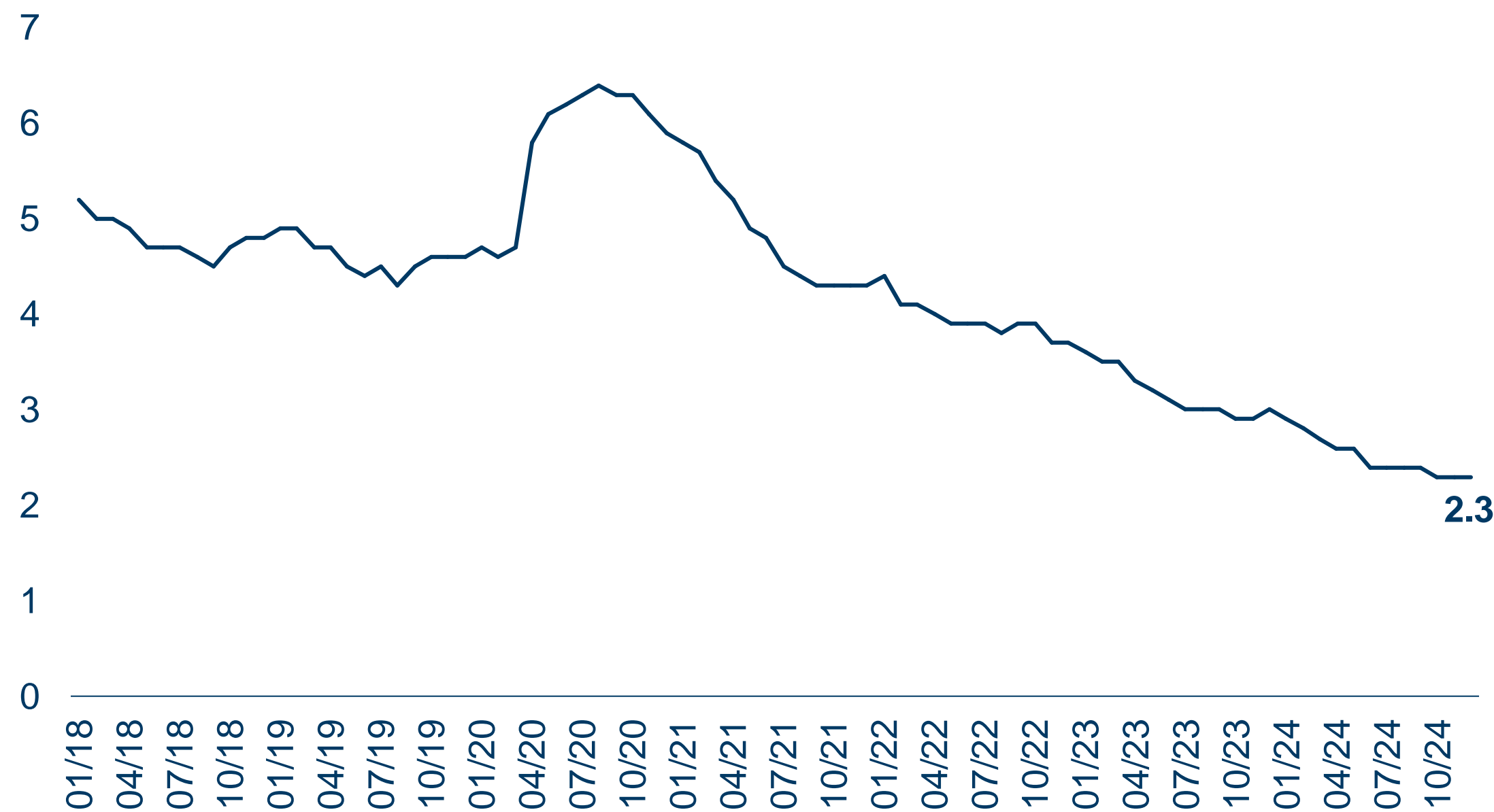


Source: Bank of Russia, KSE Institute

Tight labor market is driving up wages and inflation.

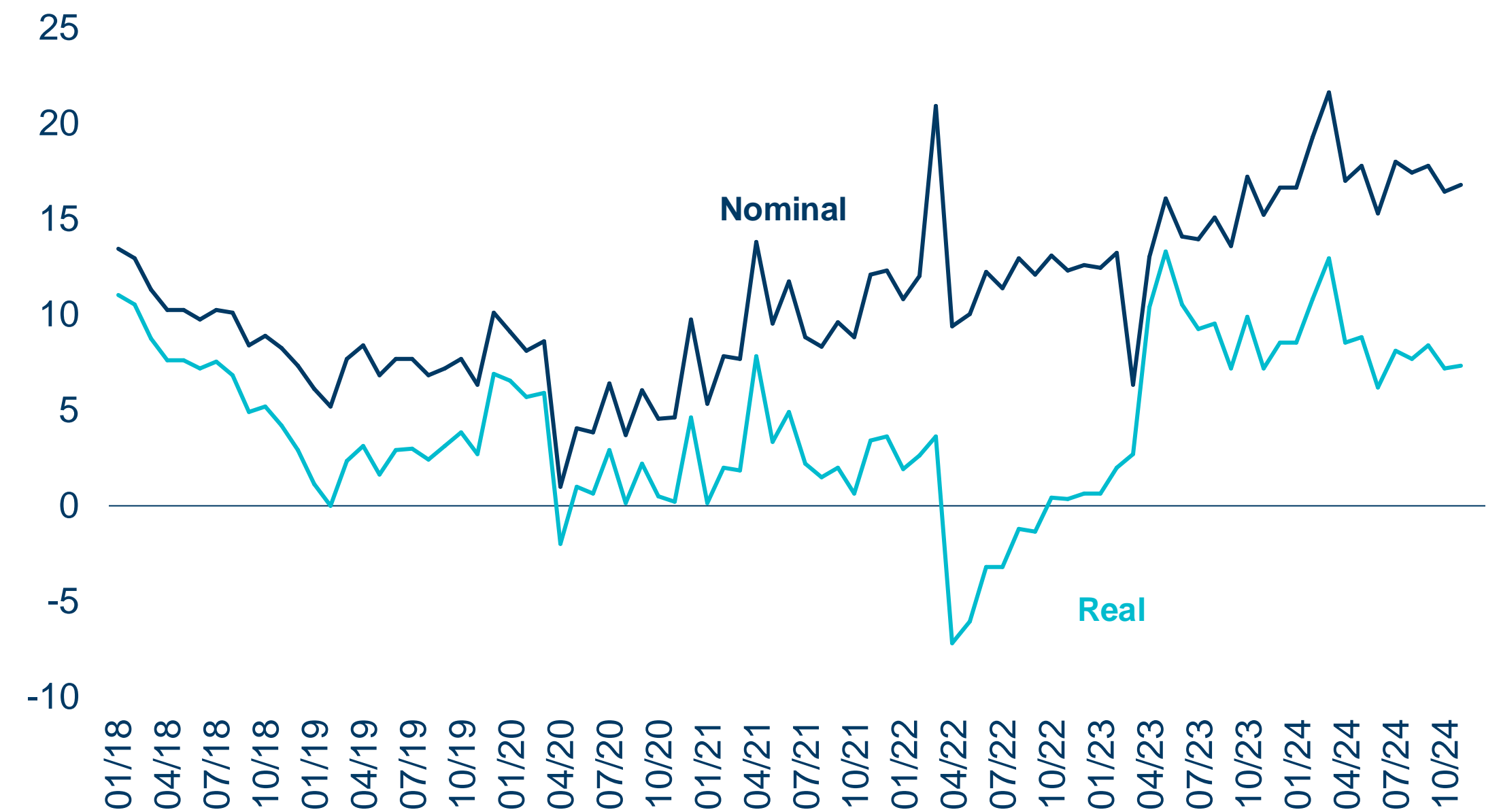
- The unemployment rate remains at record-low level of 2.3%—which technically means full employment.
- Nominal wage growth has trended up since the start of the full-scale invasion and stood at 16.8% in November.
- In addition to creating inflationary pressures, the economy has effectively no spare capacity left to draw from.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

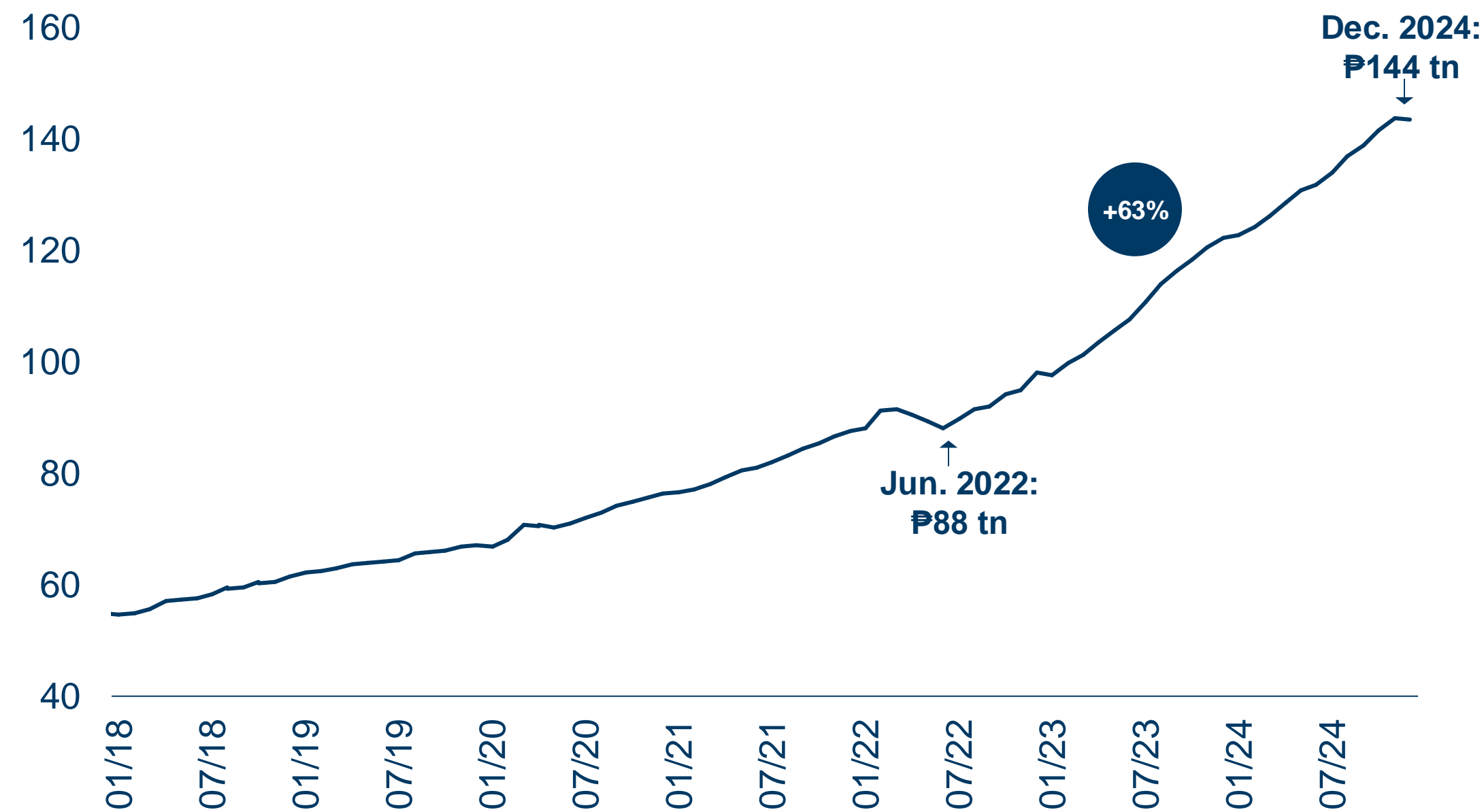


Source: Rosstat

Significant credit growth creates inflationary pressures.

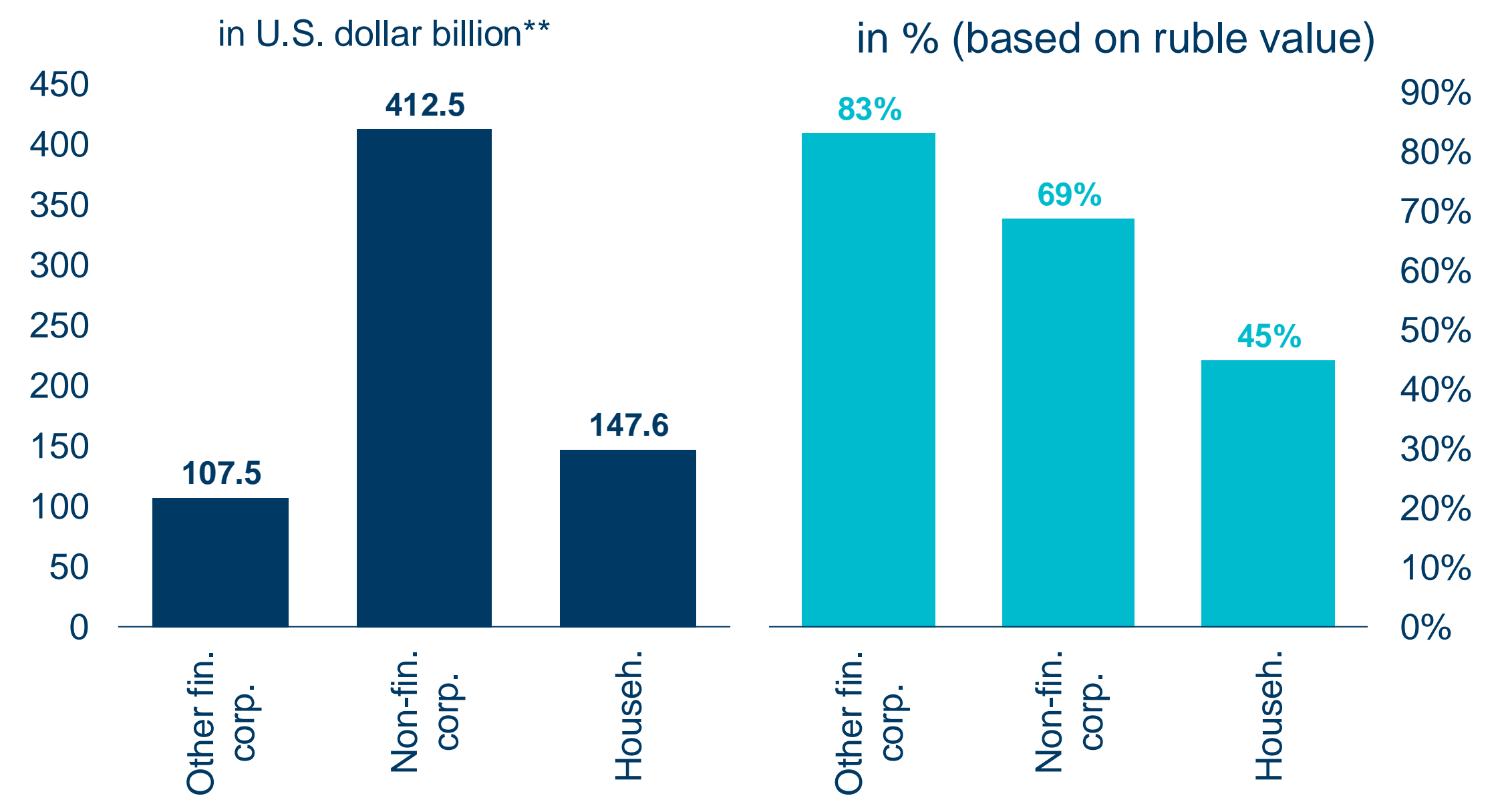
- Credit provided by the Russian banking system to the private sector has grown sharply since summer 2022 (+63%).
- Close to \$670 billion in loans have been provided to financial and non-financial corporations as well as households.
- More than \$400 billion went to non-financial corporations and a substantial amount likely went to the military industry.

Credit to the private sector, in ruble trillion*



Source: Bank of Russia, KSE Institute *by depository corporation excluding the CBR

New credit to the private sector vs. June 2022*

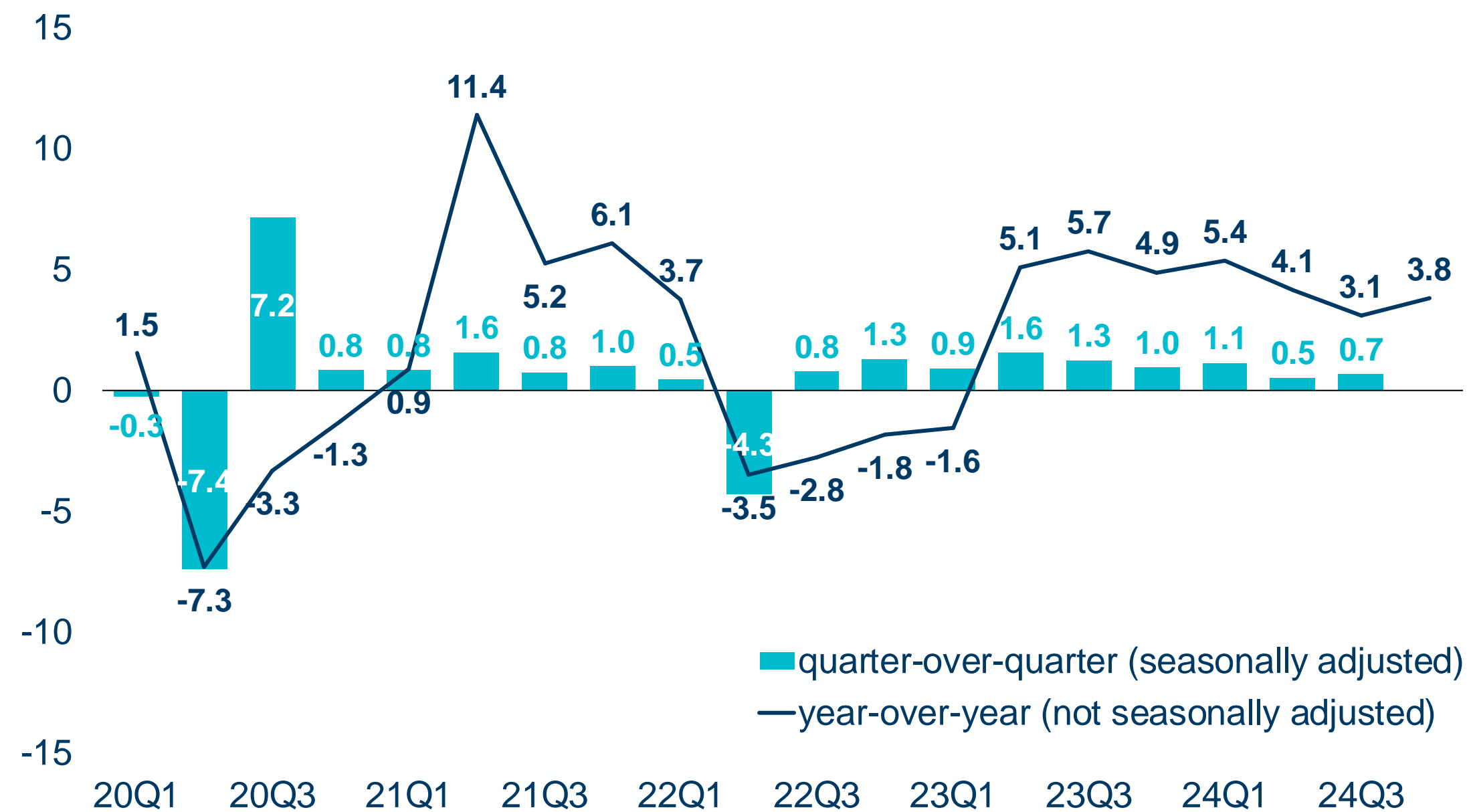


Source: Bank of Russia, KSE Institute *by depository corporation excluding the CBR
 **calculated by applying exchange rate on monthly basis

The Russian economy is projected to grow more slowly going forward.

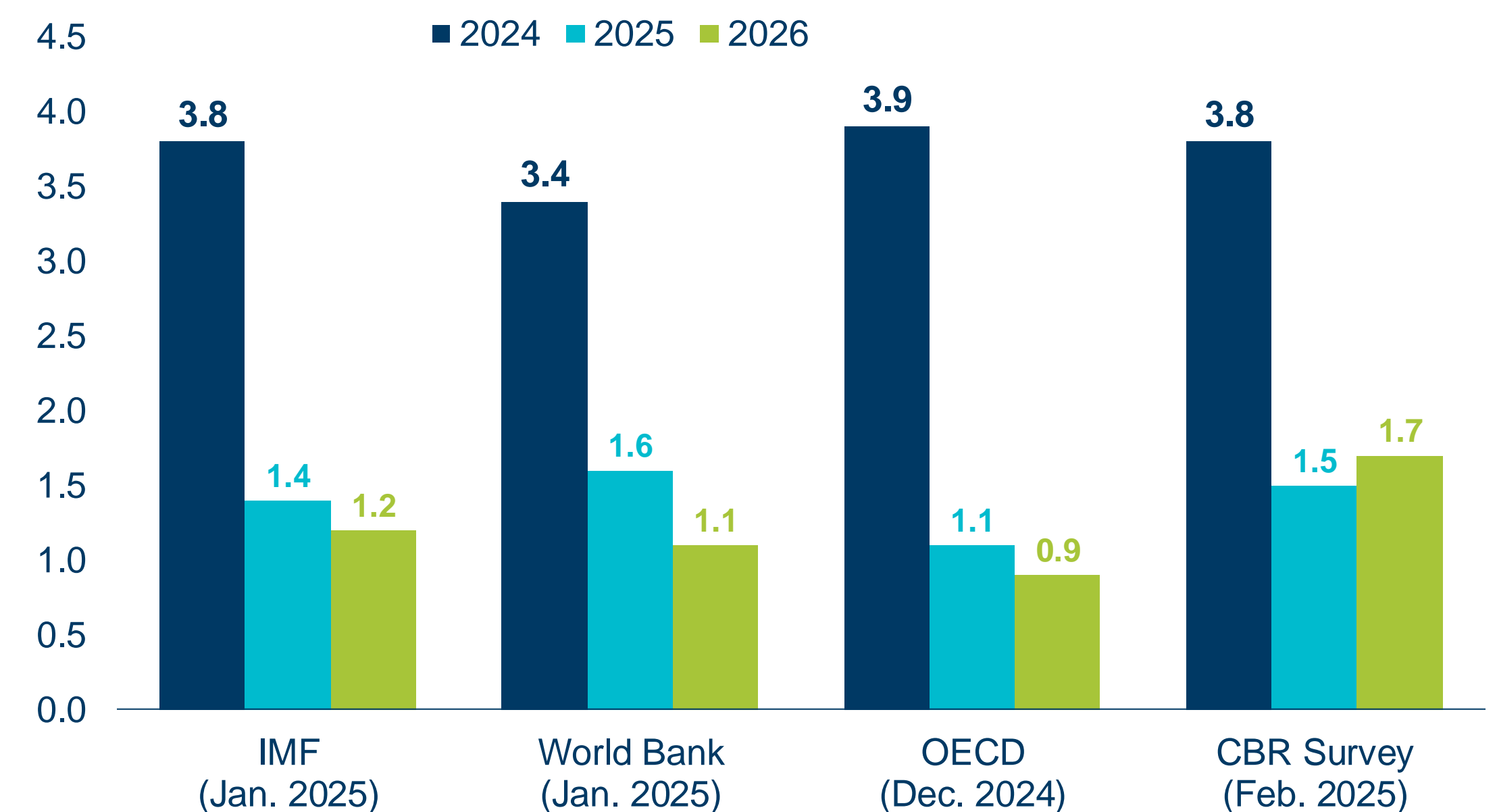
- Real GDP growth picked up in Q4 2024 to 3.8% y-o-y and growth is estimated at 4.1% for 2024 overall.
- Most institutions project that growth will decline significantly in 2025 and slow down further in 2026.
- Key drivers: labor market constraints, missing (foreign) investment, significantly tighter monetary conditions.

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute

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



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

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