

KSE INSTITUTE RUSSIA CHARTBOOK

BUDGET DEFICIT CONTINUES TO GROW; LOW OIL PRICES ARE A MAJOR CHALLENGE

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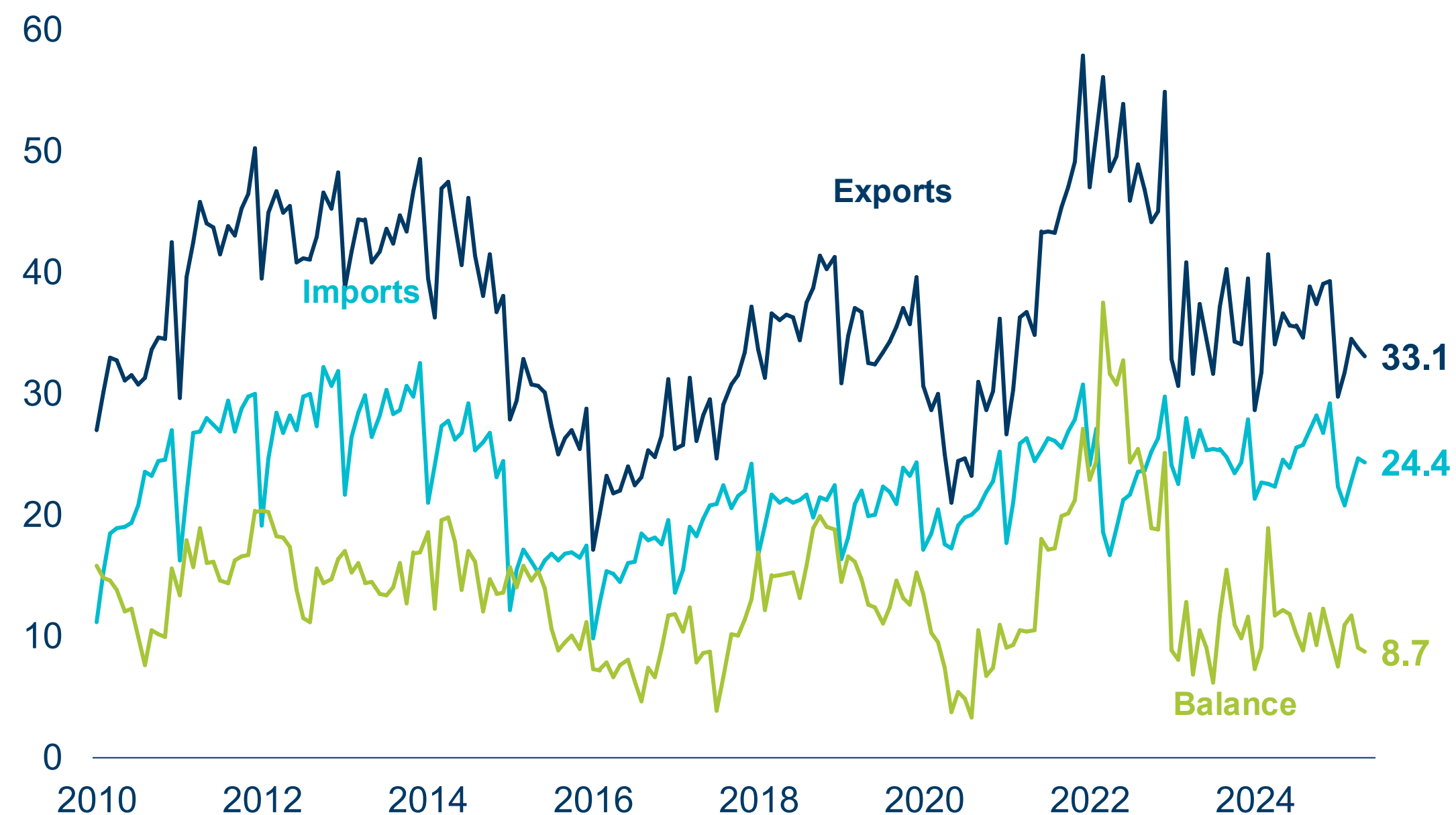
Executive Summary

1. **Low global oil prices weigh on exports, revenues.** Russia's oil export earnings rose moderately to \$13.6 bln in Jun. as global prices temporarily increased due to the Israel-Iran conflict and pushed Russian export prices to ~\$60/bbl. However, this has essentially been reversed in recent weeks and Russian oil is expected to trade around ~\$50-55/bbl for the rest of 2025 and beyond. Therefore, budgetary challenges will persist. In May-Jun., oil and gas revenues were 35% lower than in May-Jun. 2024. Revenues will likely improve in Jul. as they will be based on the (somewhat higher) prices recorded in Jun. but return to precarious levels again in the following months.
2. **Budget deficit close to full-year target already in June.** In H1 2025, Russia's budget recorded a deficit of 3.7 trillion rubles (97% of the target for 2025) as O&G revenues dropped 17% y-o-y, non-O&G revenues grew only 13%, and expenditures rose by 20%. This is more than five times larger than the deficit in H1 2024 and 57% above the biggest H1 deficit in recent years (2023). The budget review has, thus, been already rendered meaningless and, should oil prices behave as markets expect, Russia is very likely to miss its budget target of 3.8 trillion rubles by a significant margin. This will put pressure on the remaining financing channels—the NWF and OFZ issuance.
3. **NWF under pressure but debt issuance appears robust.** In Jun., the NWF's liquid portion grew by 1.3 trillion rubles to 4.1 trillion as purchases of Yuan and gold under the fiscal rule were transferred to the fund. In the absence of fiscal consolidation, Russia will be forced to rely on the NWF heavily towards the end of the year for budget financing. In H1 2025, MinFin issued 2.3 trillion rubles in OFZ (90% more than in H1 2024 and 48% of the issuance plan for this year). A marked drop in yields indicates that demand for these assets among Russian banks is quite strong. Ultimately, the CBR can also engineer further re-po schemes to provide banks with additional liquidity.
4. **Inflation has started to fall due to tight monetary policy.** The CBR's high interest rates—and, likely, attempts to restore the monetary policy transmission mechanism—have led to a decline in inflation to 9.4% y-o-y in Jun. (from close to or above 10% in Jan.-May). As its tight policy put a heavy burden on the economy, the central bank has cut rates by 300 bps (to 18%). Some of the fundamental issues behind inflationary pressures remain in place, however, including elevated budget deficits and a tight labor market. Consequently, the objectives of the CBR (i.e., price stability) and MinFin (i.e., financing the war and boosting the economy) will continue to collide.
5. **Economic activity is slowing precipitously.** Real GDP shrunk q-o-q (by 0.6%) in Q1 2025. Thus, the economy is on the verge of a recession. Due to serious capacity constraints in terms of labor and capital, growth is expected to slow down considerably in 2025.

Exports and imports remain subdued.

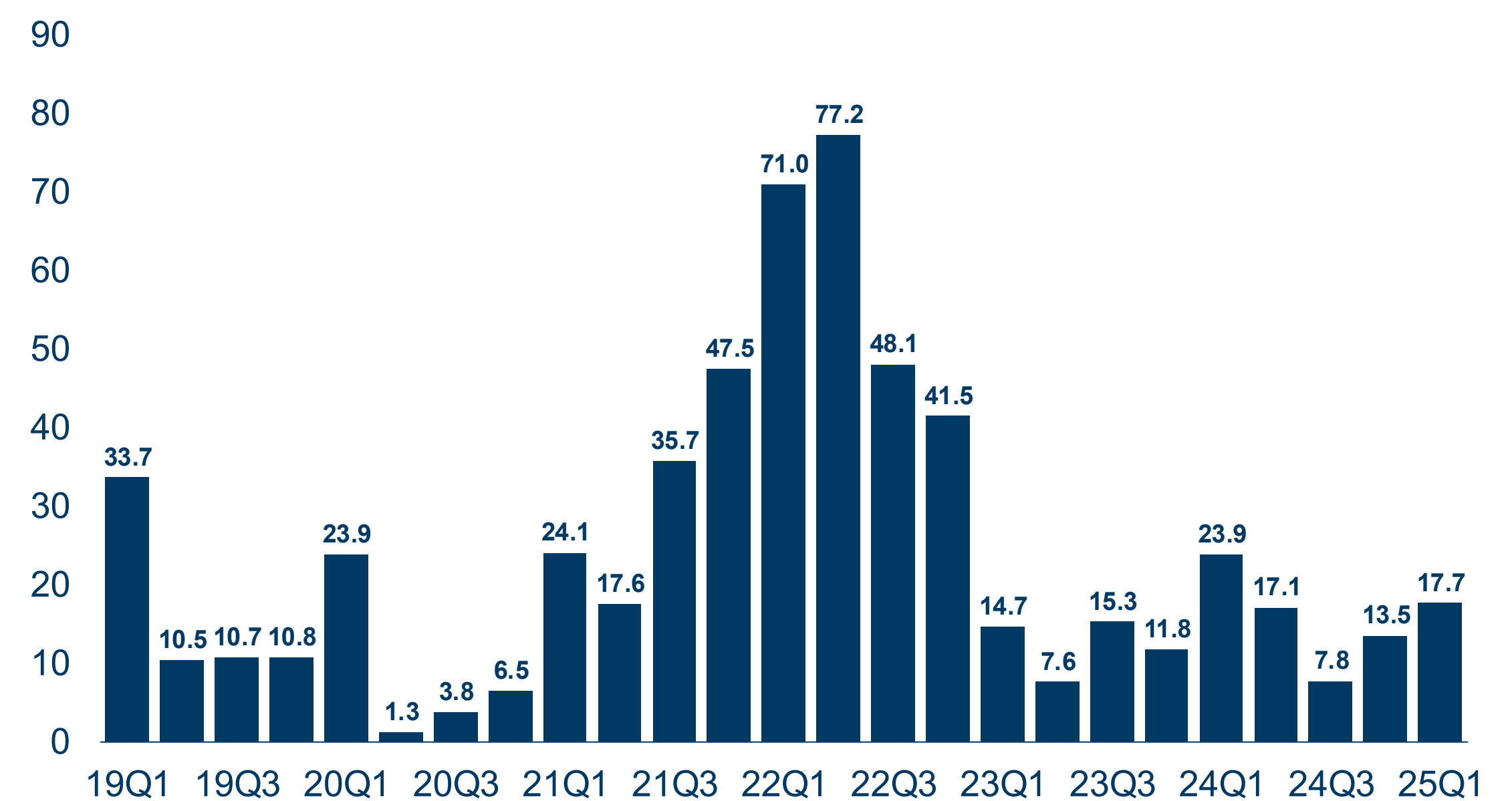
- Russia's exports and imports have only partially recovered from their marked drop in early 2025.
- As a result of these simultaneous developments, the trade surplus has remained broadly stable.
- Other factors—services, income, transfers—were responsible for the higher current account in Q1.

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

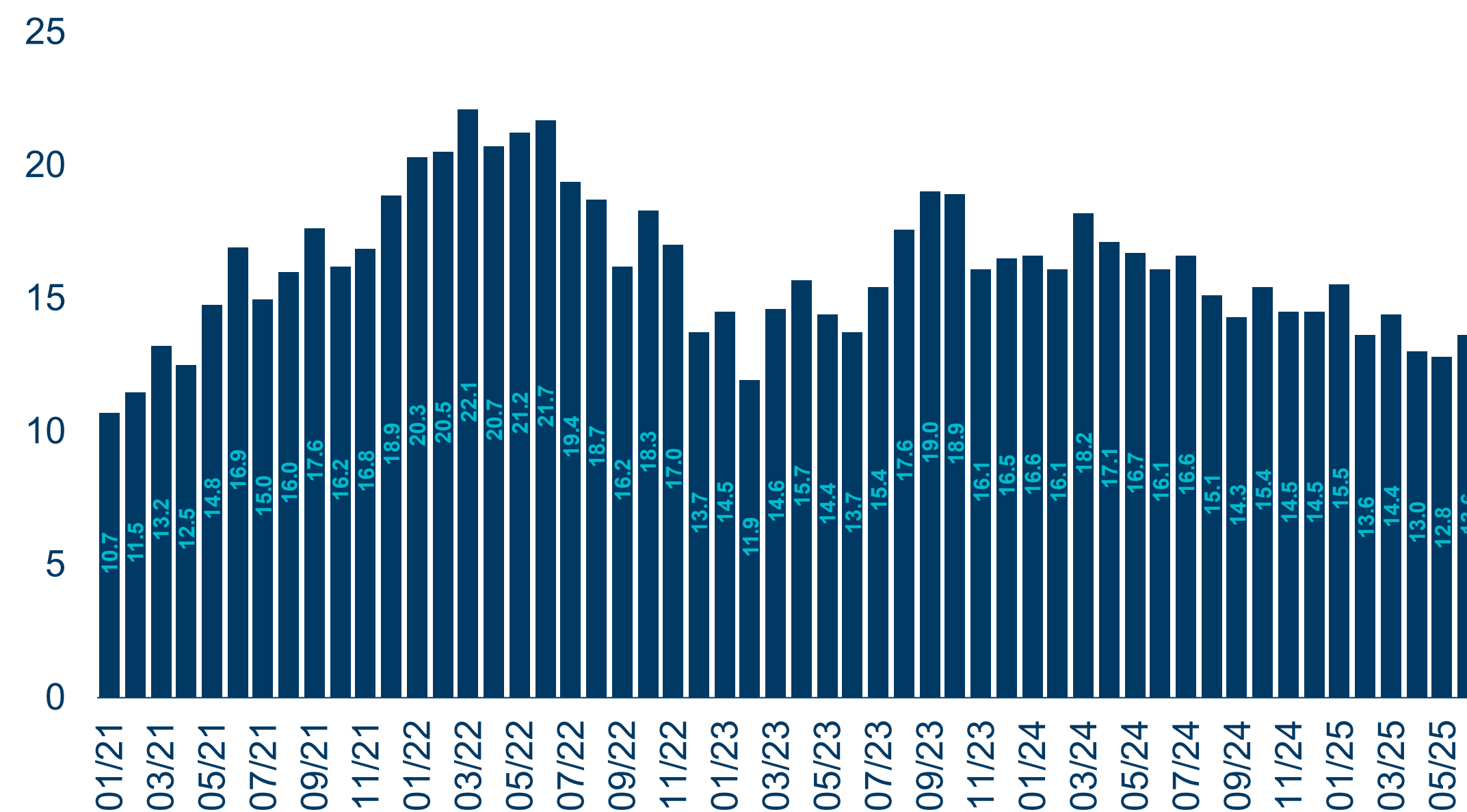


Source: Bank of Russia, KSE Institute

Temporary increase in oil export earnings.

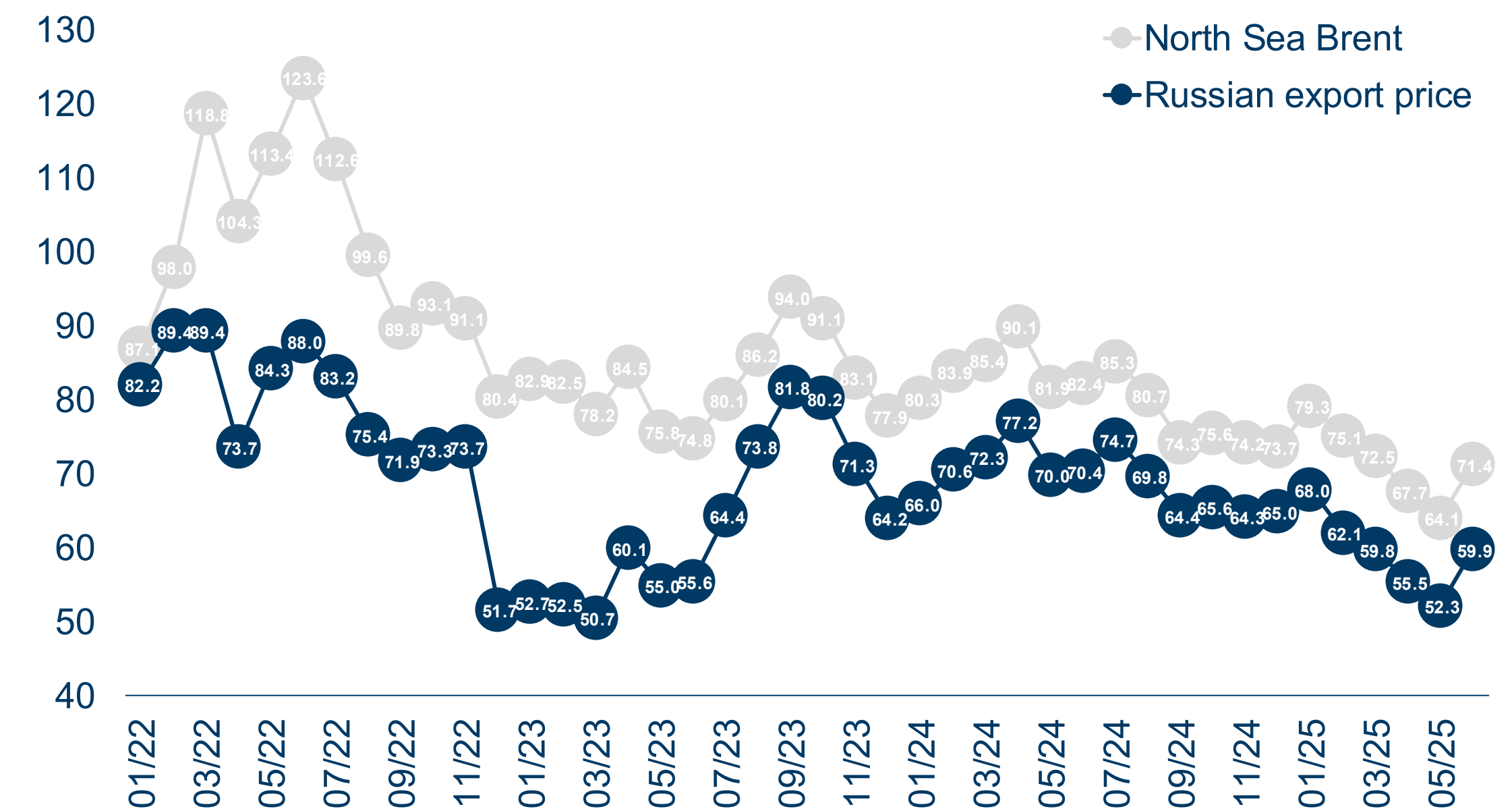
- Oil exports earnings rose to \$13.6 billion in June on the back of higher prices during the Israel-Iran confrontation.
- With the discount on Russian oil broadly stable, export prices increased to \$59.9/barrel—basically at the price cap.
- Global prices have now given away their temporary gains, which will weigh on Russian earnings in July and beyond.

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

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

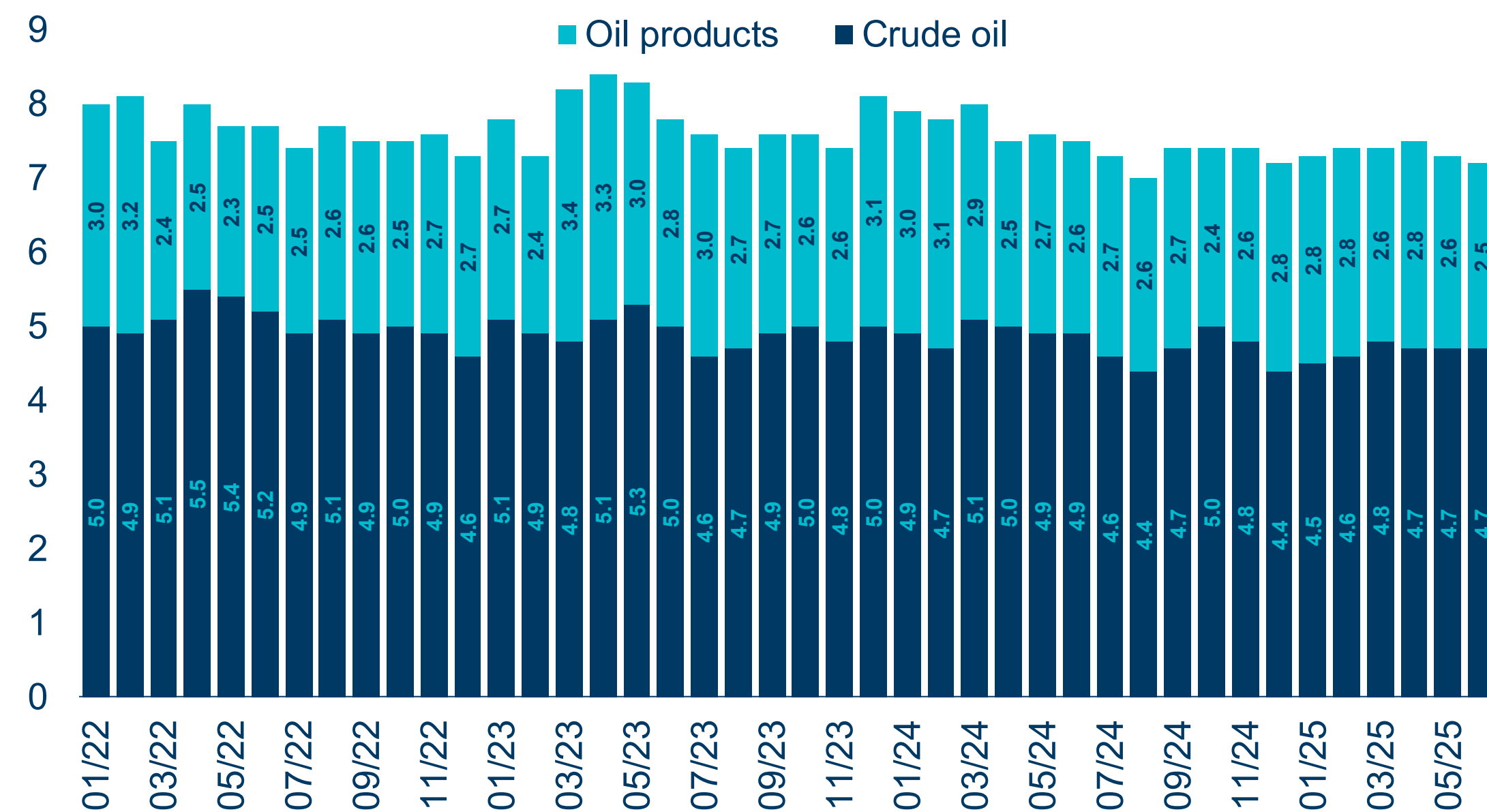


Source: International Energy Agency, KSE Institute

Supply of Russian oil remains stable.

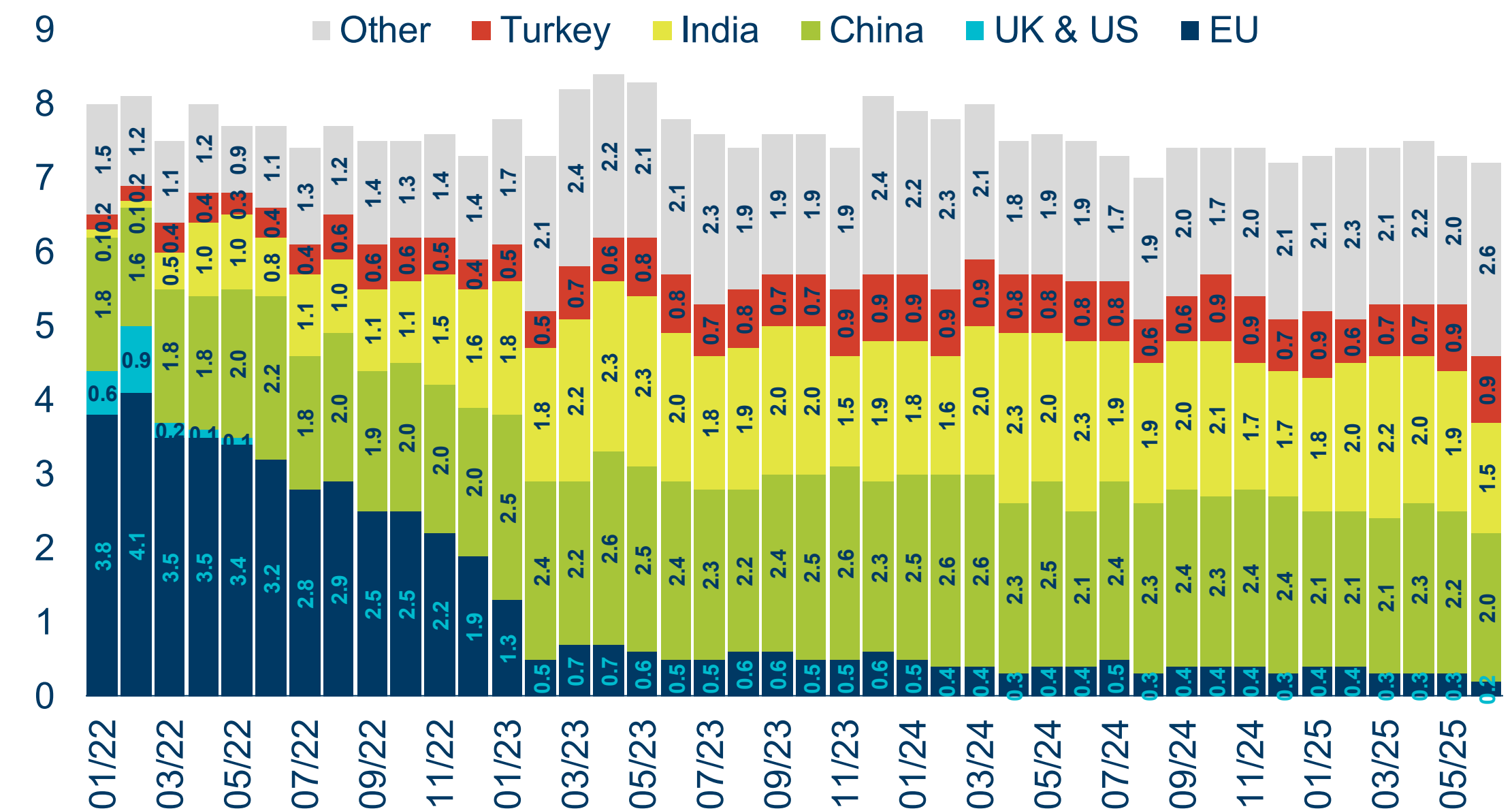
- Russian oil export volumes have been remarkably steady over the last 3.5 years.
- Overall, the G7+ oil price cap has succeeded at keeping Russian oil on the market.
- China, India, and Turkey are the most important buyers (~60-70% of oil exports).

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



Source: International Energy Agency, KSE Institute

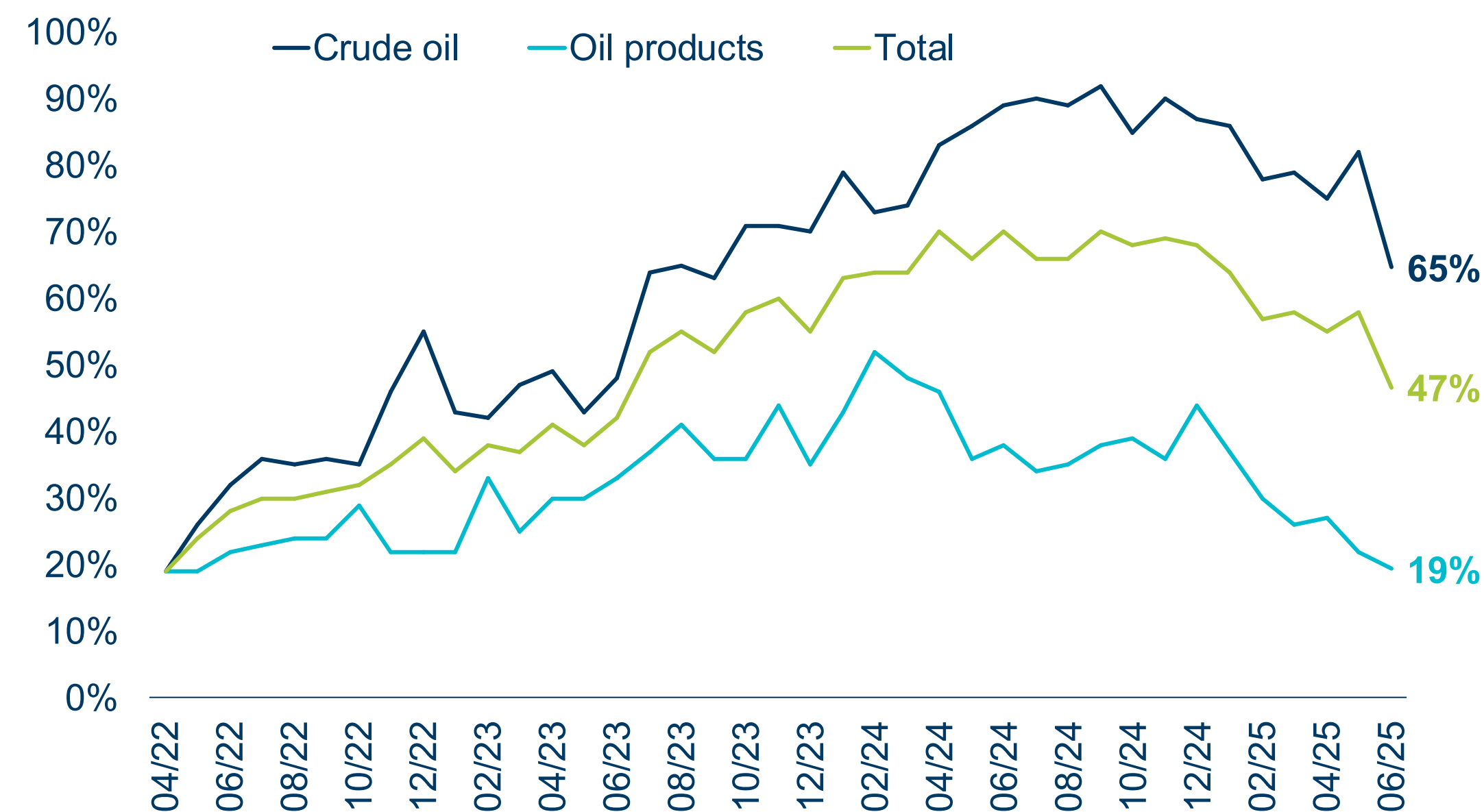
Russian oil export volume by destination, in million barrels/day



Shadow fleet share drops markedly.

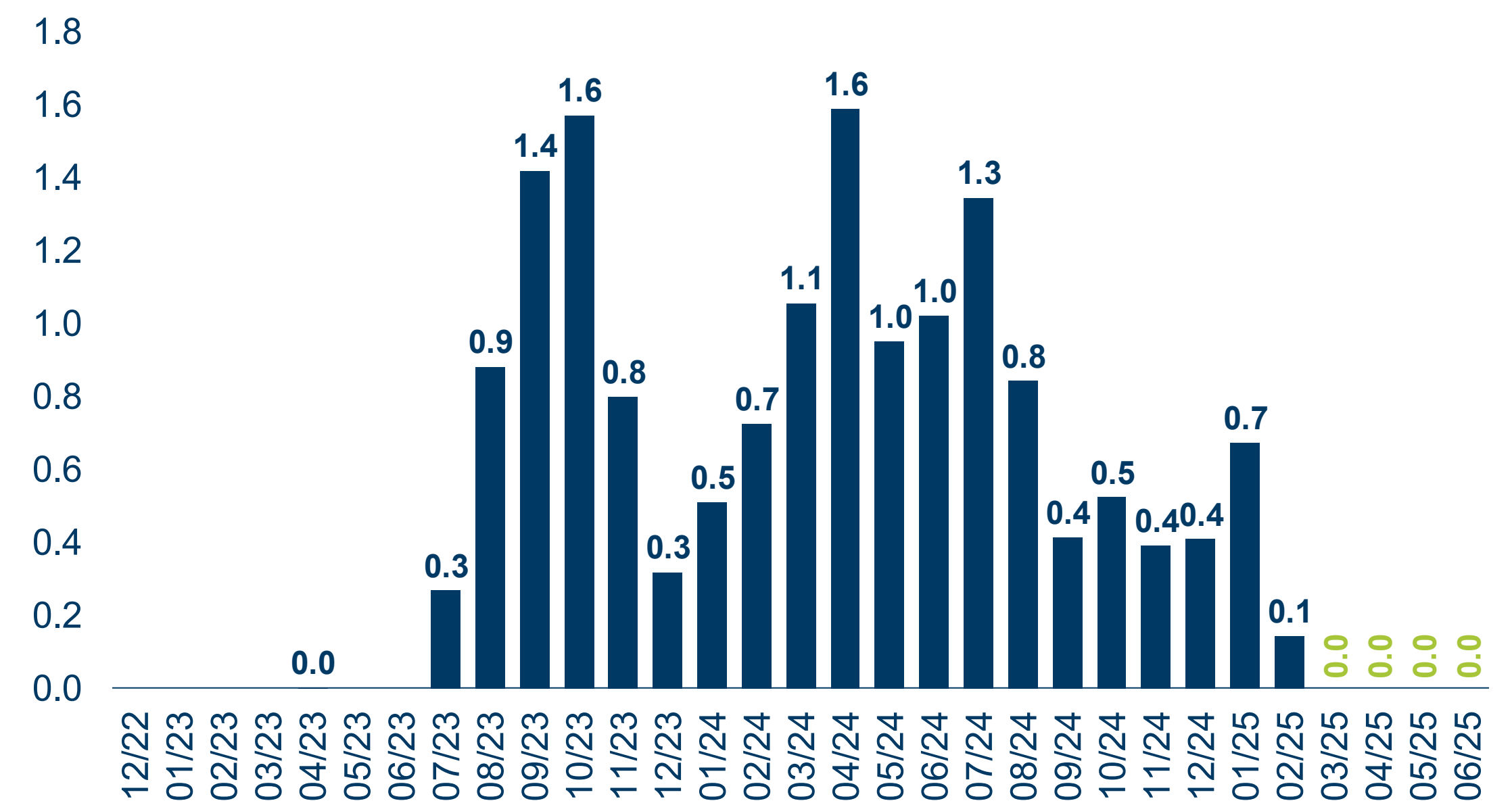
- In June 2025, 65% of Russian seaborne crude oil was transported without the involvement of G7+ services.
- Shadow tanker sanctions and overall lower oil prices appear to drive up the share of oil on mainstream ships.
- With the average export price bellow \$60/barrel, no extra earnings were generated for four months in a row.

Shadow fleet share 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

Stepped-up shadow tanker sanctions require tighter enforcement.

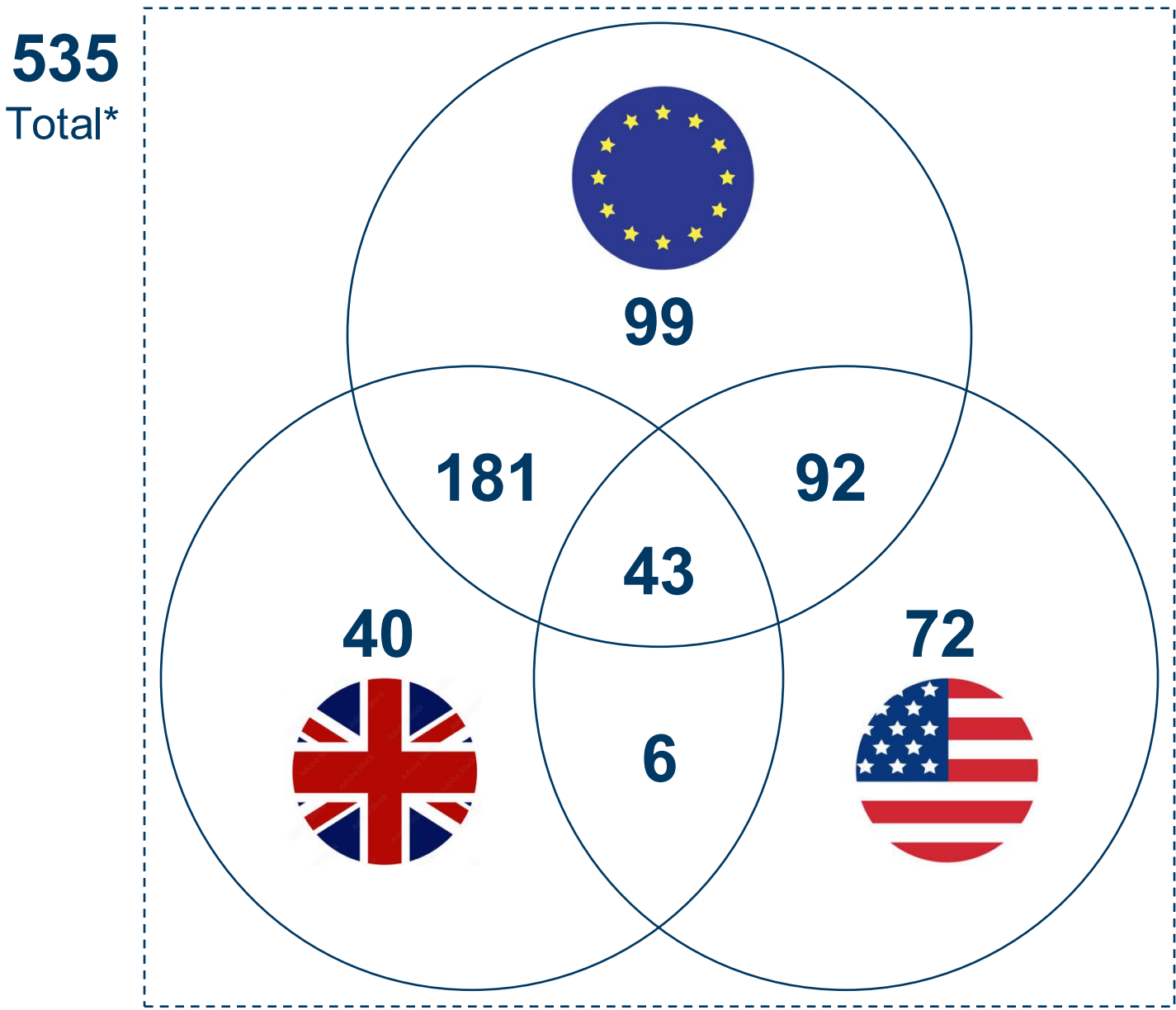
- In June, the UK, Canada, and—for the first time—Australia and New Zealand adopted tanker sanctions.
- This brings the total number of sanctioned shadow tankers to 535, with 43 listed by the EU, UK, and US.
- With listings reaching ~66% of the shadow fleet, more effective enforcement will need to be in the focus.

Cumulative vessel designations by jurisdiction and month

Group	Sanctioned by:	# of tankers	unique # by jurisdiction
By one government	EU	415	88
	US	213	68
	UK	270	15
	CA	275	2
	AU	60	-
	NZ	25	-
By two governments	EU ∩ US	135	
	EU ∩ UK	224	
	EU ∩ CA	238	
	US ∩ UK	49	
	US ∩ CA	81	
	UK ∩ CA	228	
	AU ∩ EU	55	
	AU ∩ US	13	
	AU ∩ UK	60	
	AU ∩ CA	60	
	NZ ∩ EU	25	
	NZ ∩ US	8	
	NZ ∩ UK	25	
	NZ ∩ CA	25	
	NZ ∩ AU	7	
By six governments	EU ∩ US ∩ UK ∩ CA ∩ AU ∩ NZ	2	

Source: European Commission, OFAC, OFSI, KSE Institute

Current vessel designations by jurisdiction

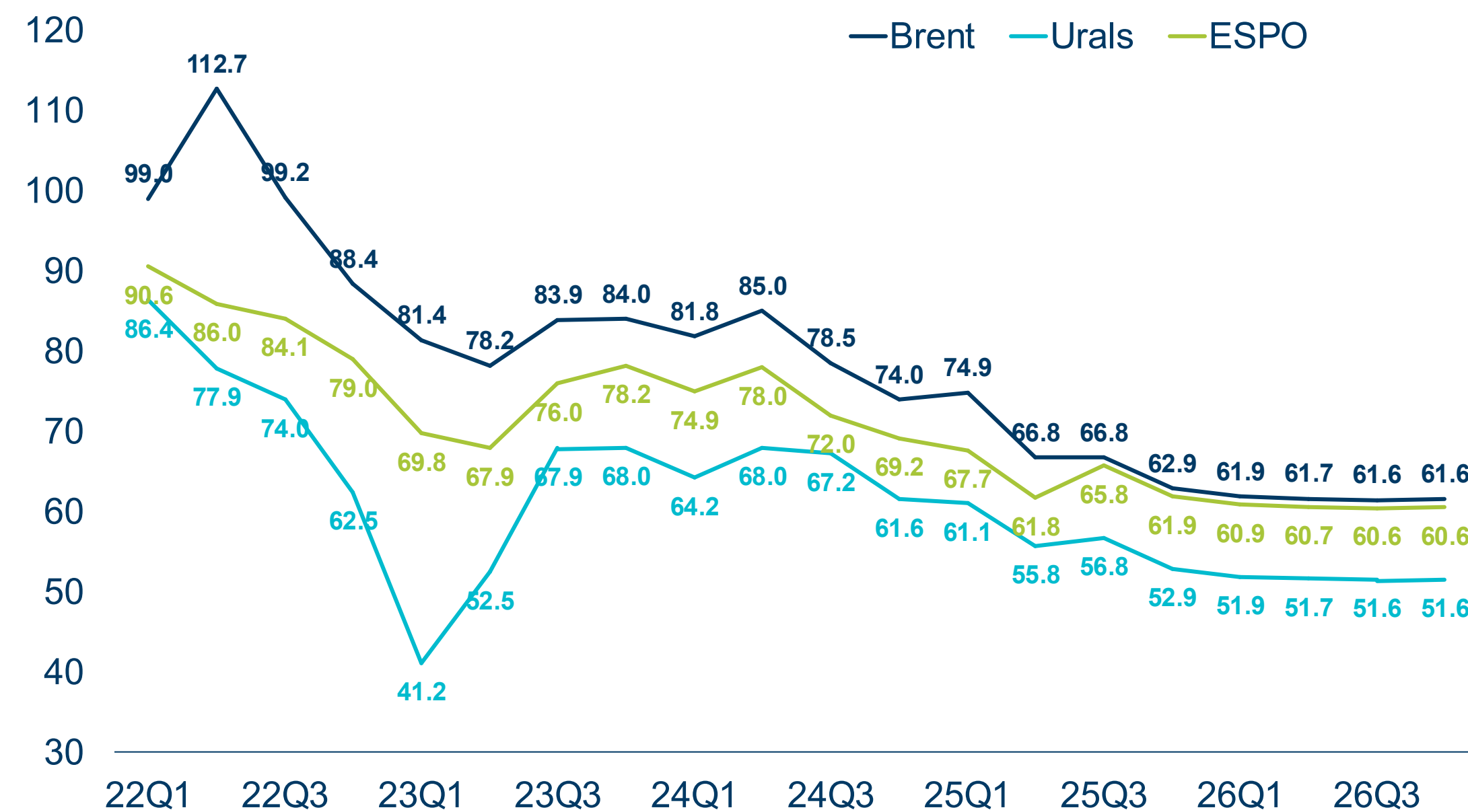


Source: European Commission, OFAC, OFSI, KSE Institute.
* Includes 2 tankers sanctioned by Canada only; visualization does not show details about vessel designations by Australia (60 vessels), Canada (275), and New Zealand (25).

Challenging outlook for Russian oil and gas exports.

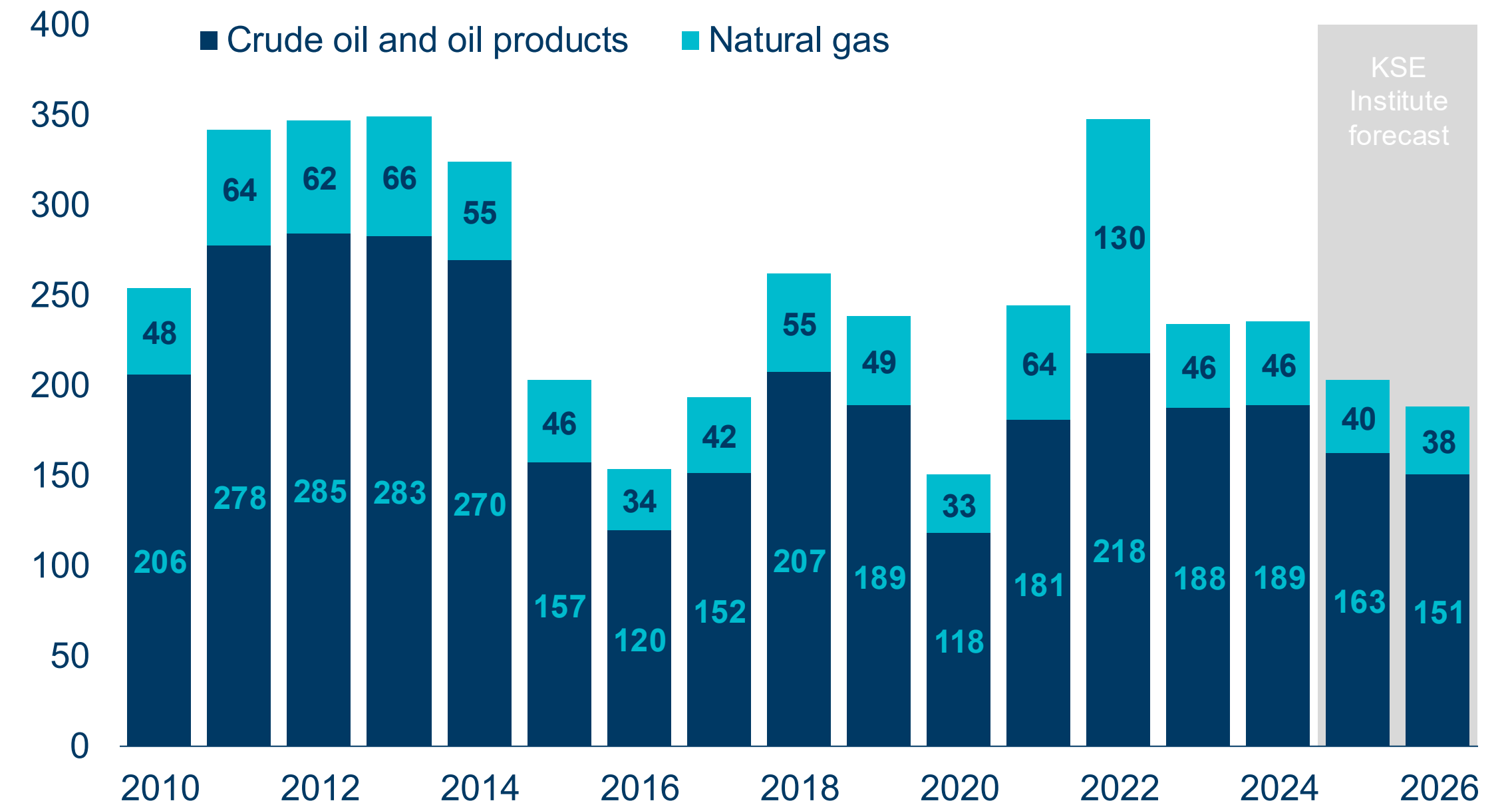
- Markets expect global oil prices to weaken further to ~\$62/barrel by Q4 2025 and remain there throughout 2026.
- Even at a discount of \$10/barrel due to weak sanctions enforcement, this would drive Urals to around \$52/barrel.
- Russian oil exports are projected to drop from \$189 billion in 2024 to \$163 billion in 2025 and \$151 billion in 2026.

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



Source: Bank of Russia, KSE Institute

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

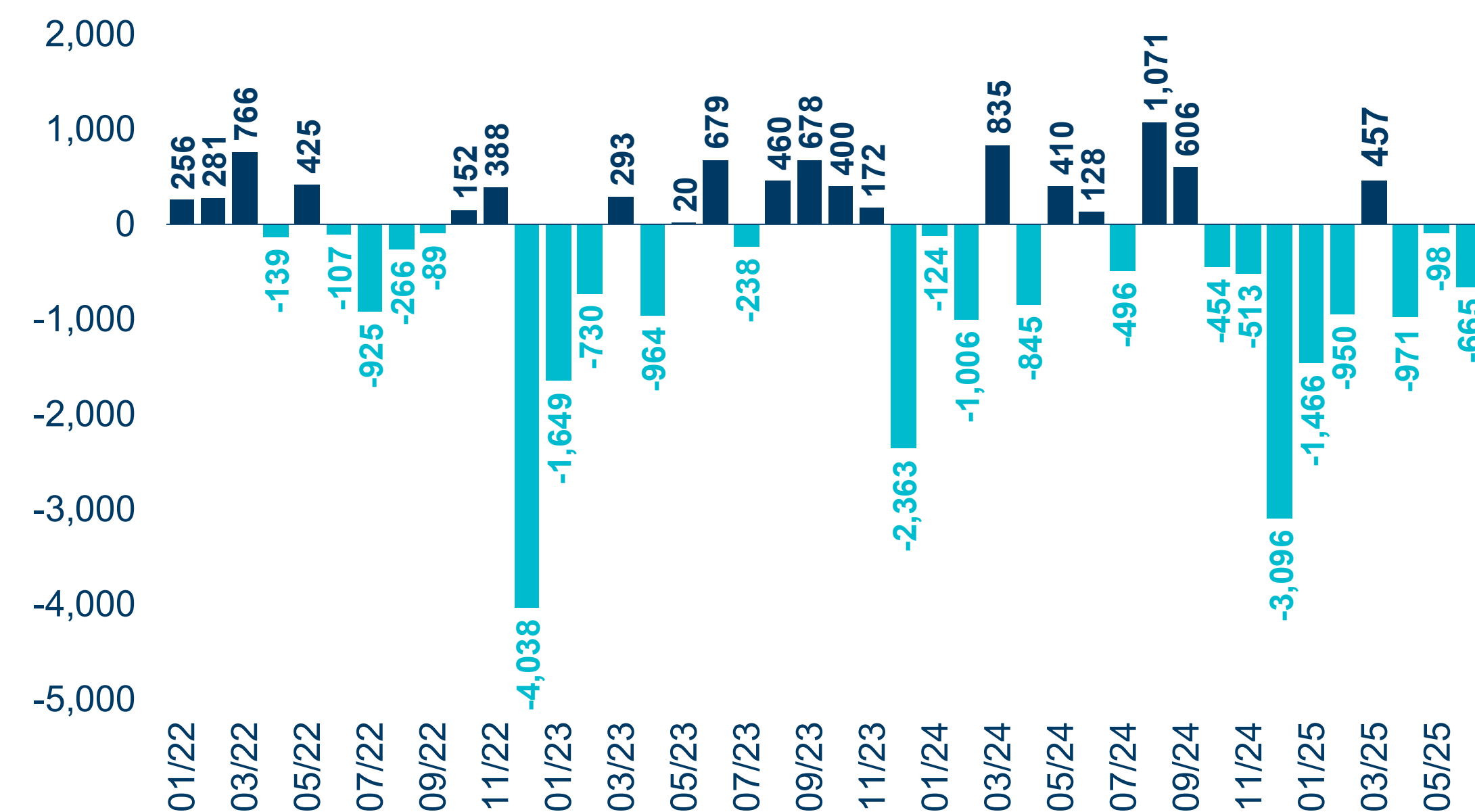


Source: Bank of Russia, KSE Institute

Budget deficit continues to grow.

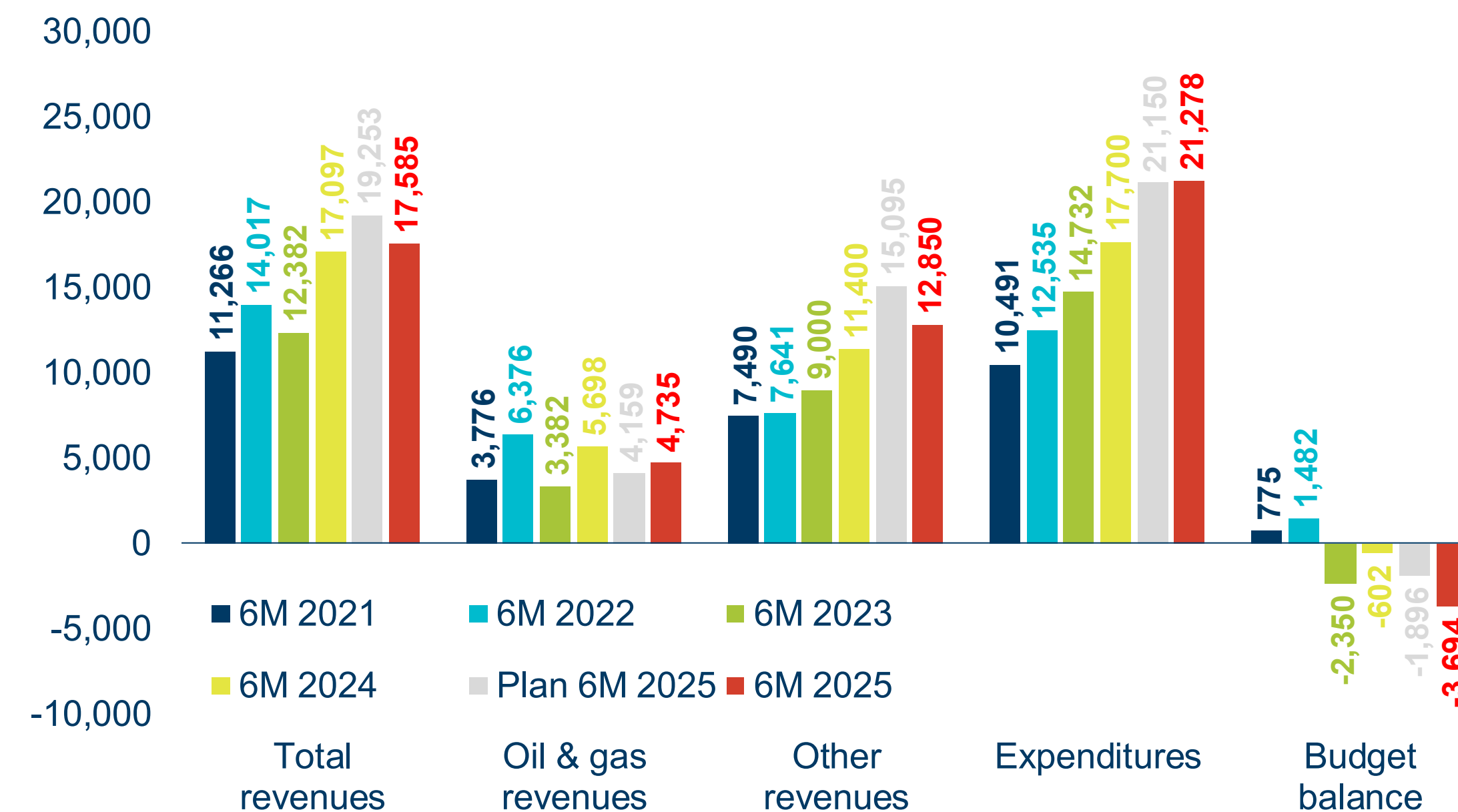
- The budget deficit was significantly larger than last year in Jan.-Jun. at 3.7 trillion rubles (vs. 600 billion in Jan.-Jun. 2024).
- Oil and gas revenues were 17% weaker year-over-year, non-O&G revenues 13% stronger, and expenditures 20% higher.
- Over H1 2025, Russia's budget deficit has reached 97% of the planned amount for the full-year after the budget review.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

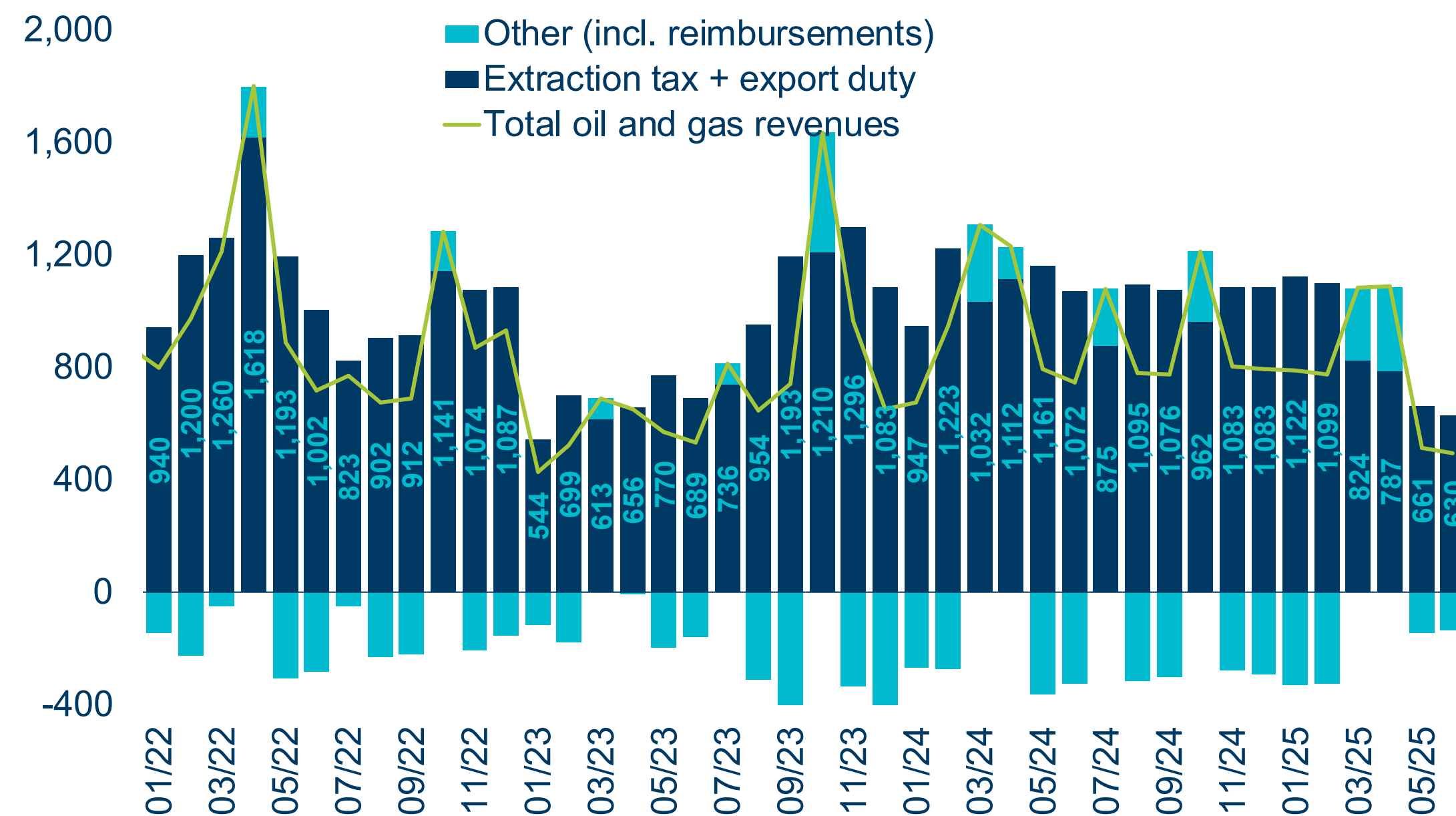


Source: Ministry of Finance, KSE Institute

Oil and gas revenues are falling.

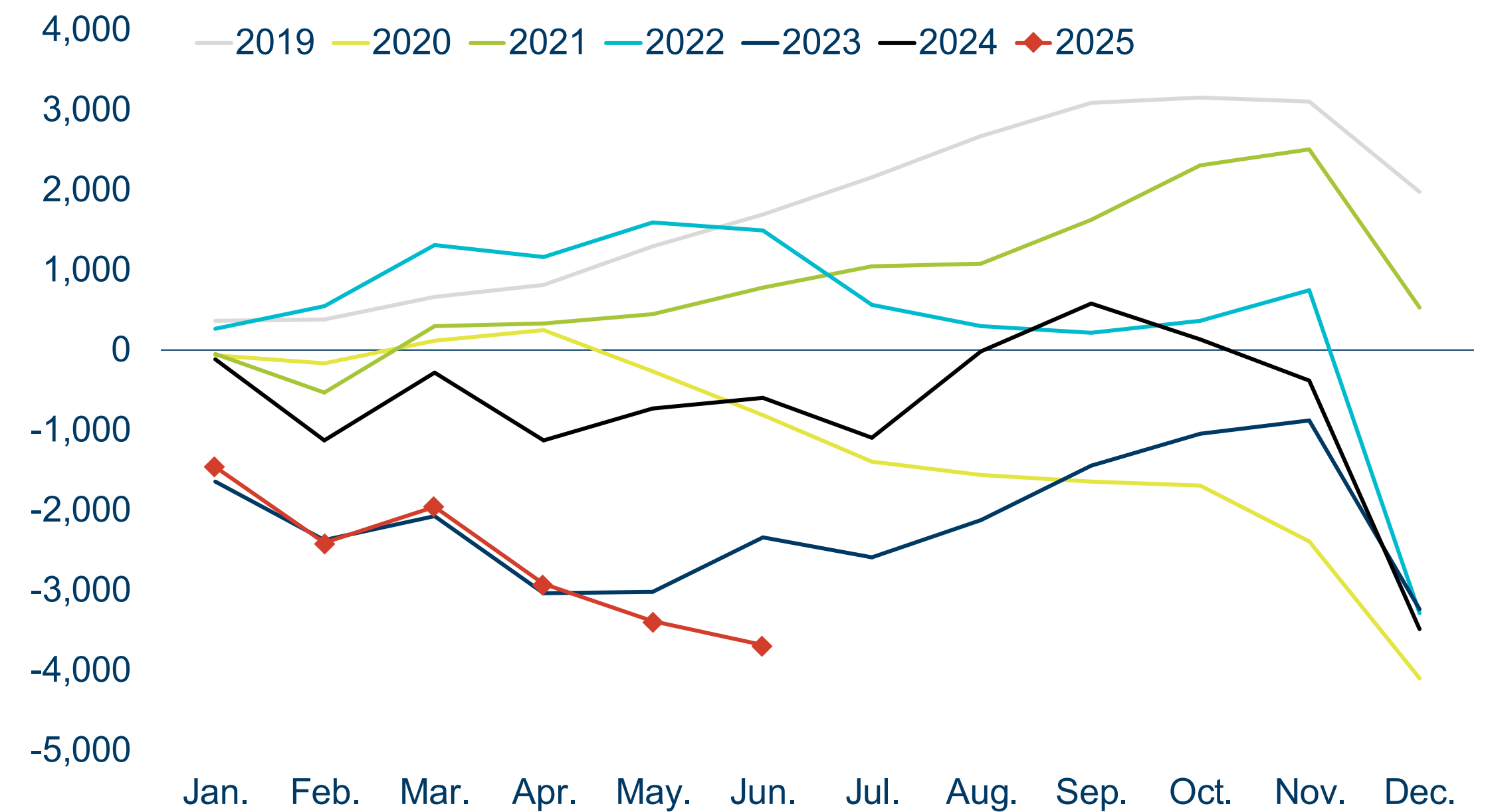
- Oil and gas revenues remained weak in Jun. 2025 on the back of persistently low oil export prices.
- Revenues from extraction taxes (and export duties) were the weakest since the first months of 2023.
- The Jan.-Jun. deficit is the largest since the start of the war, even surpassing Jan.-Jun. 2023 by 57%.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

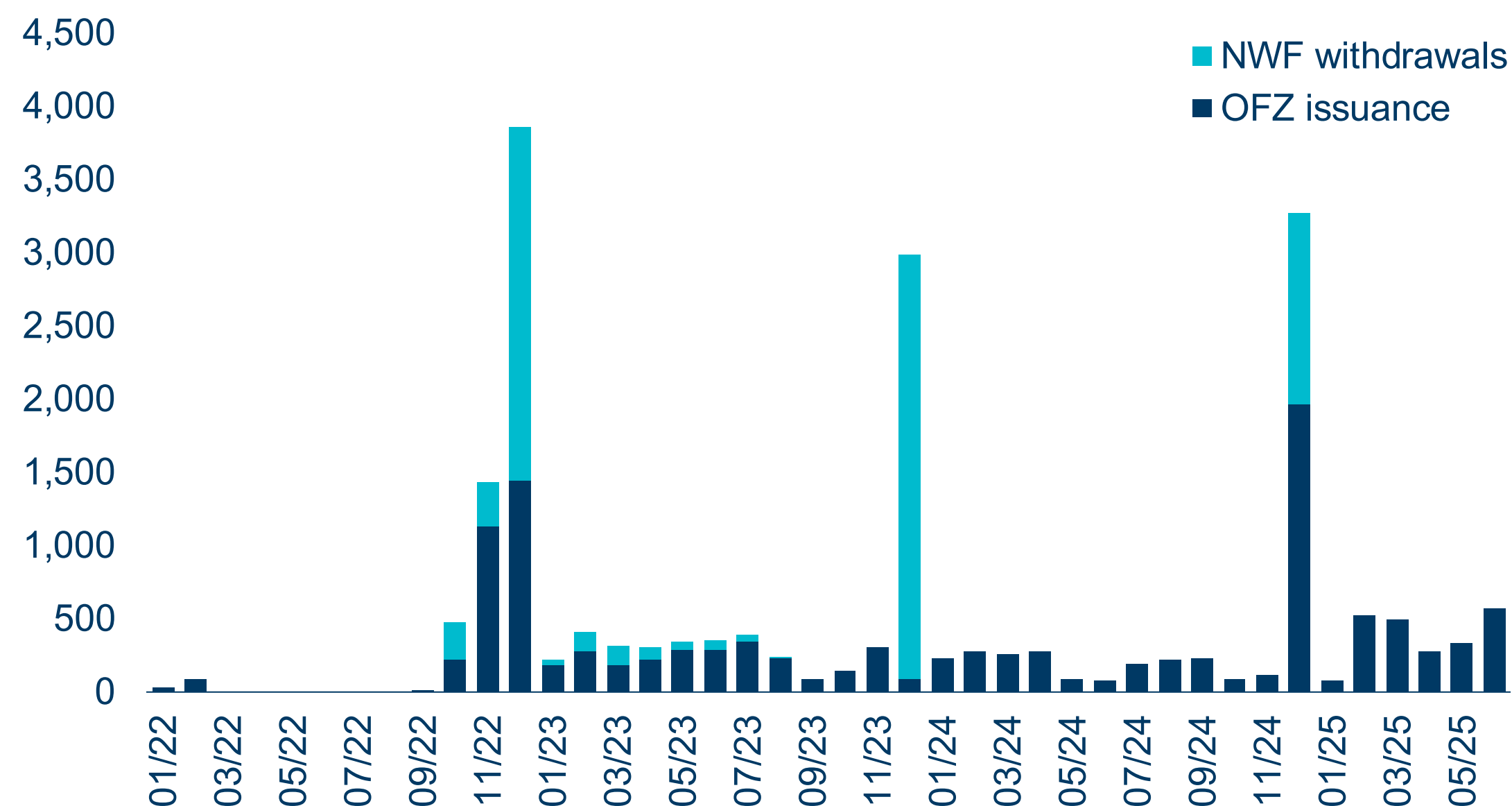


Source: Ministry of Finance, KSE Institute

Domestic debt issuance increased to finance larger deficit.

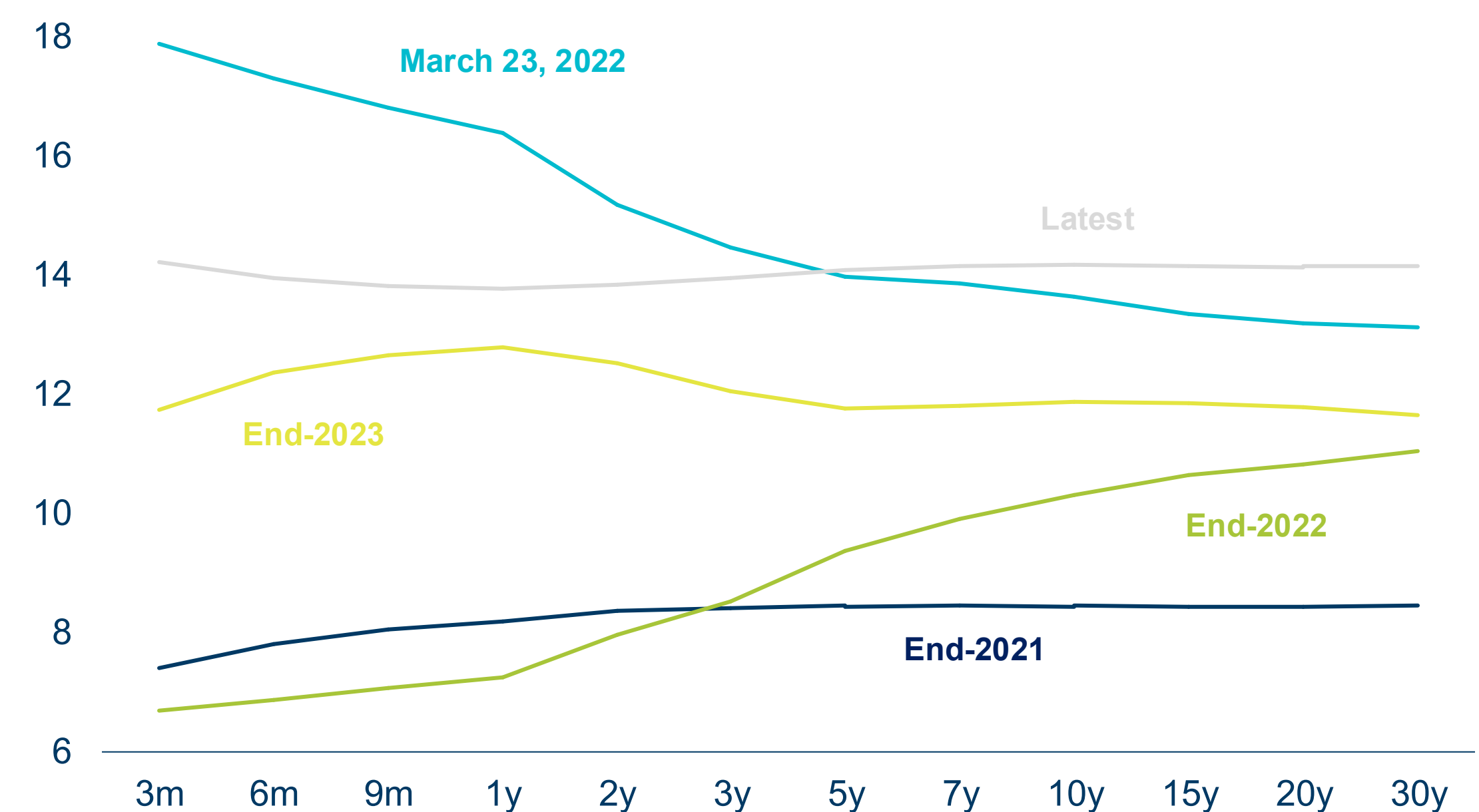
- Due to the larger deficit, OFZ issuance in Jan.-Jun. was 90% higher than in Jan.-Jun. 2024.
- Total issuance in H1 2025 reached 2.3 trillion rubles—48% of the planned issuance for the year.
- Falling yields indicate robust interest in OFZ issuance and expectations of further rate cuts.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %

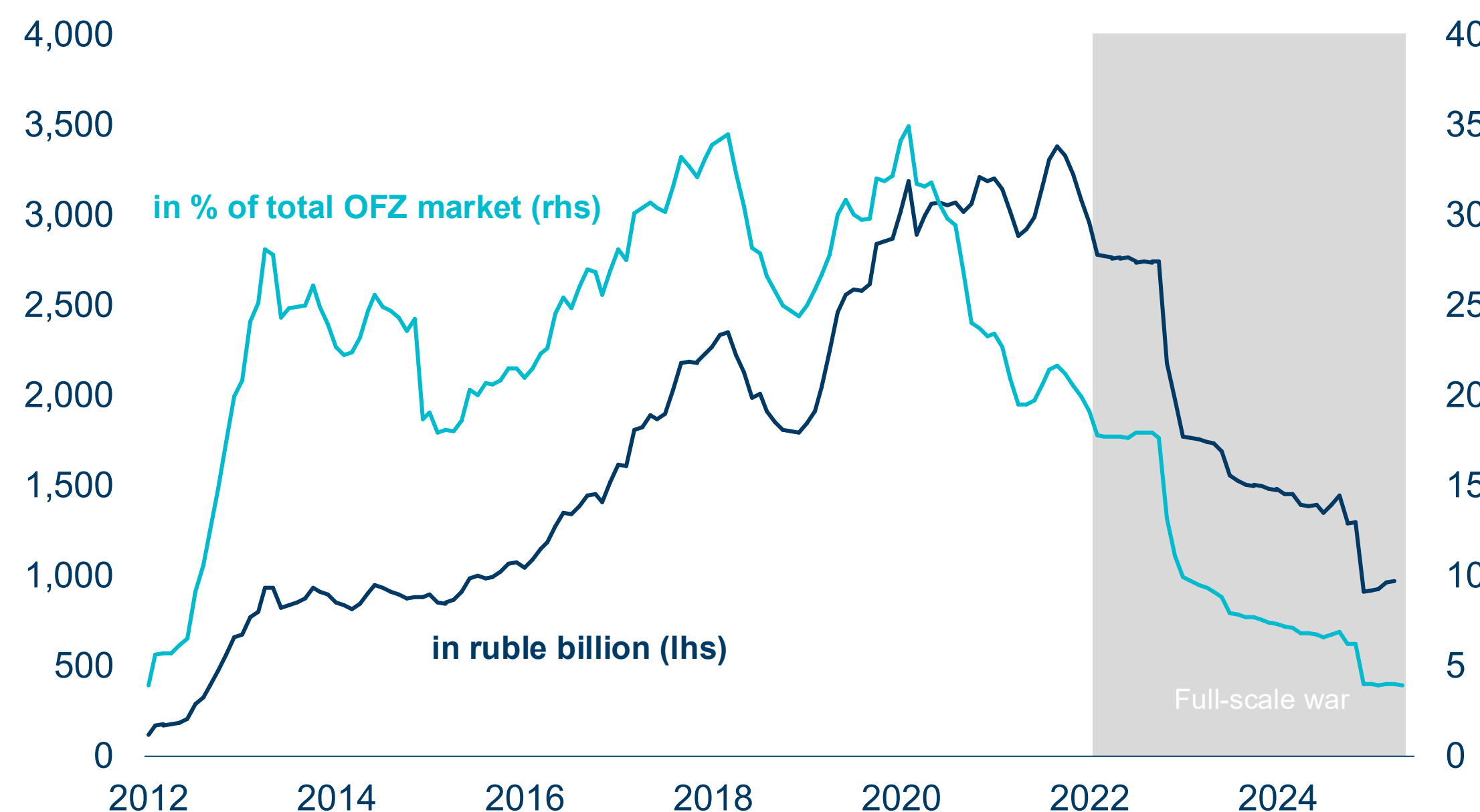


Source: Bank of Russia, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

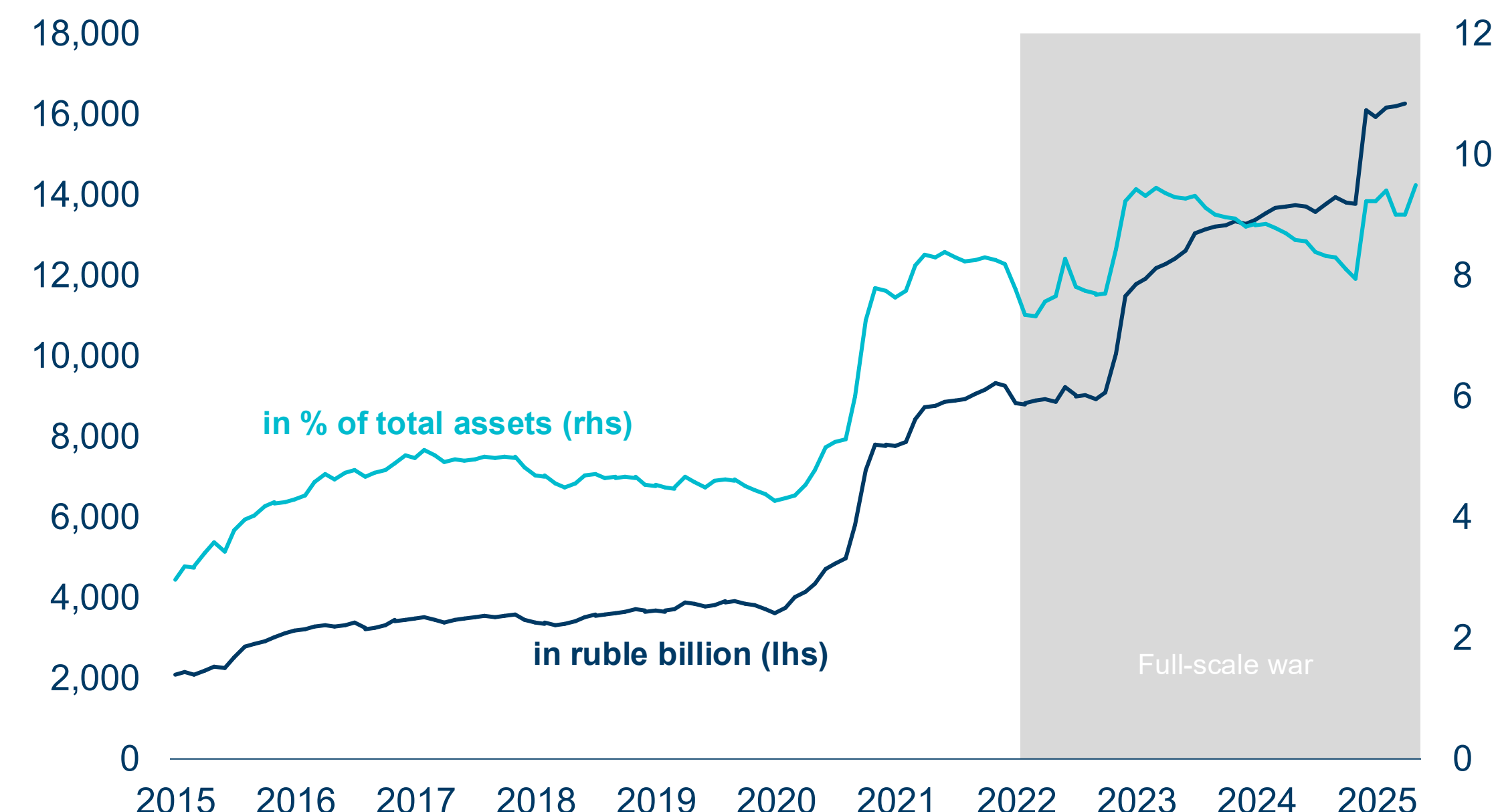
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2.0 trillion rubles (or 67%) since Jan. 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

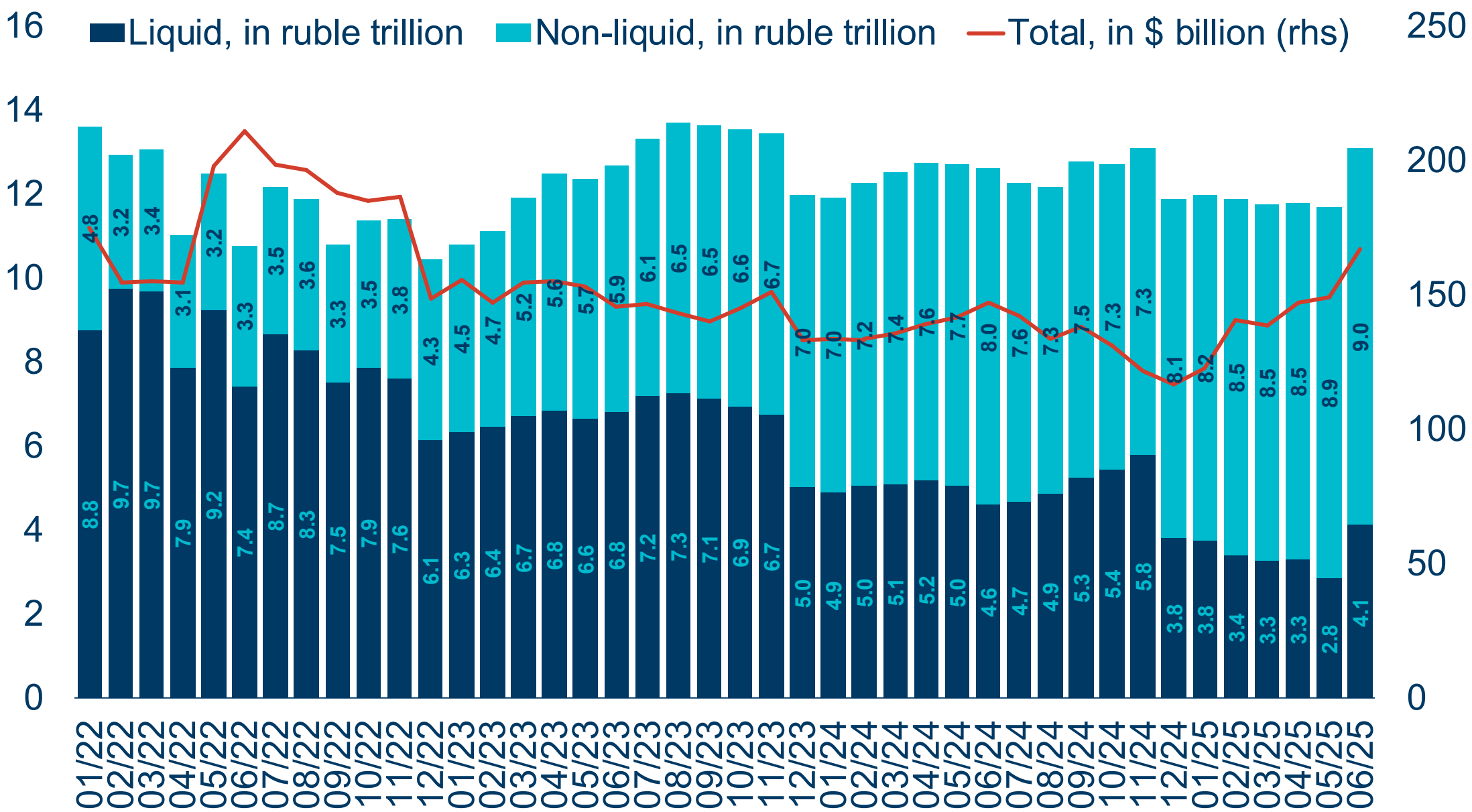


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

NWF increases due to fiscal rule.

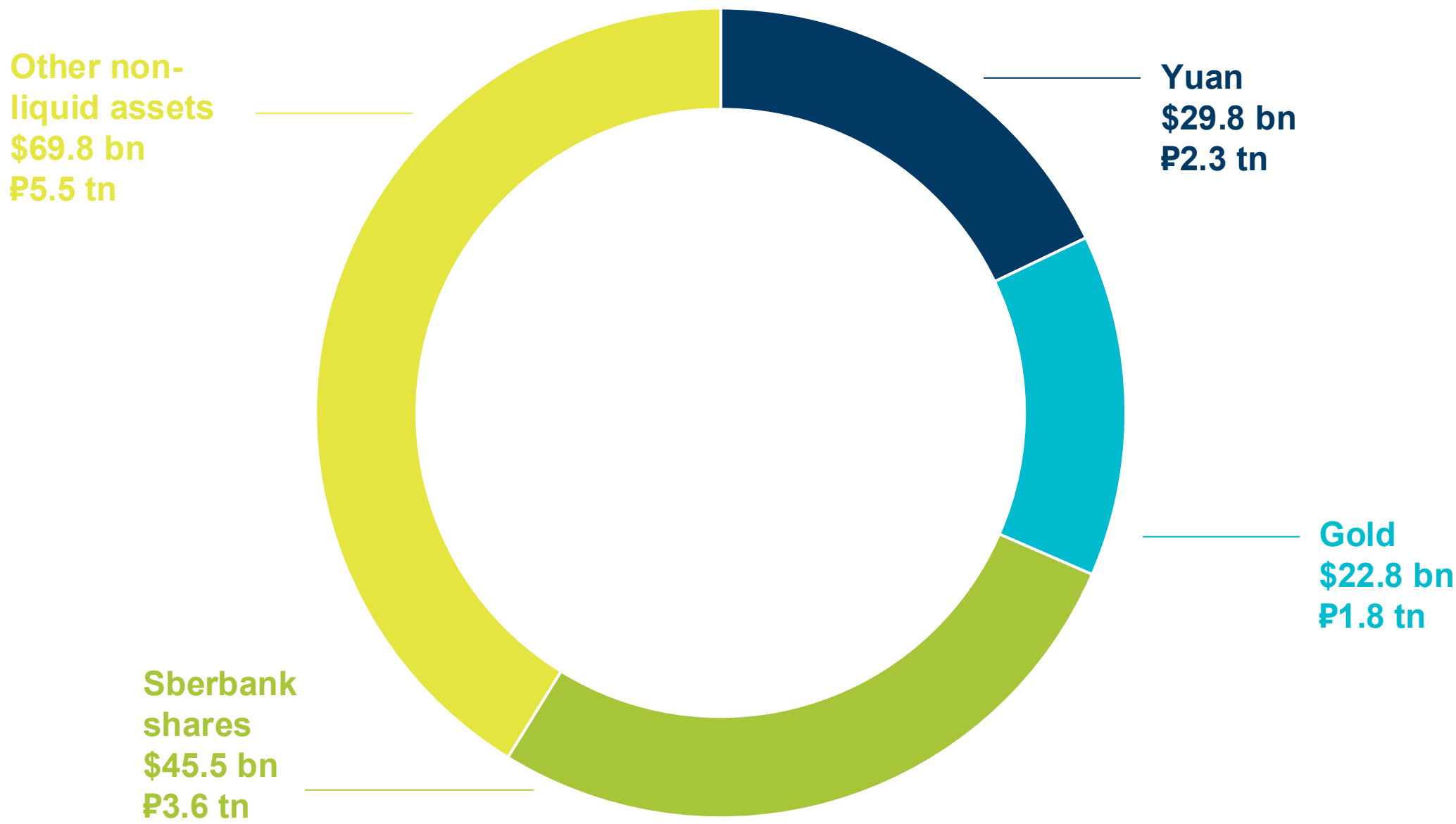
- Total assets of the National Welfare Fund stood at 13.1 trillion rubles (\$167 billion, 5.9% of GDP) in May 2025.
- The 1.4 trillion increase is the result of the transfer of purchases (of Yuan and gold) made under the fiscal rule.
- Liquid assets (of 4.1 trillion) are only 12% larger than the budget deficit over the first six months of the year.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of April 1, 2025*

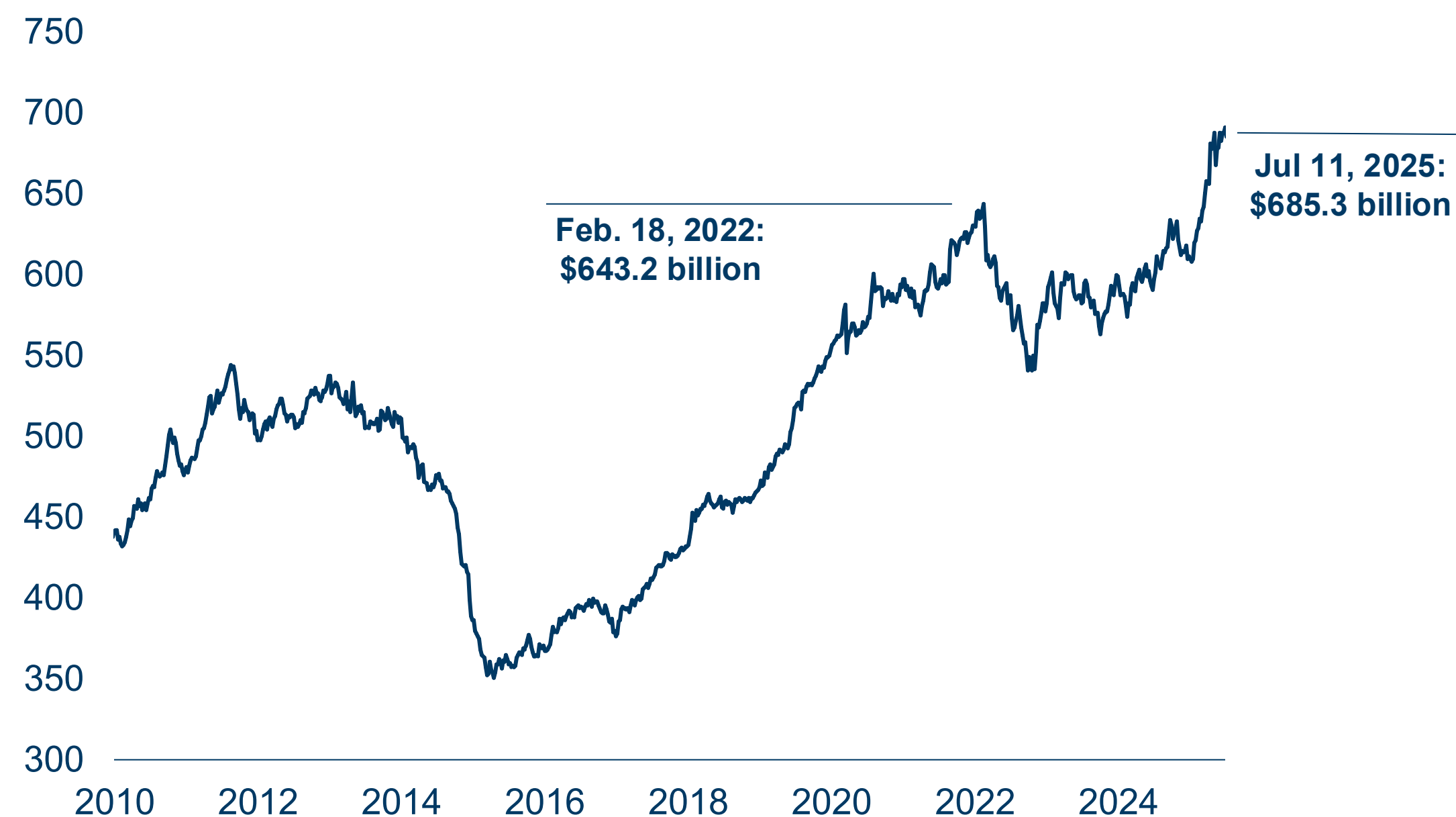


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

Large share of reserves remains immobilized.

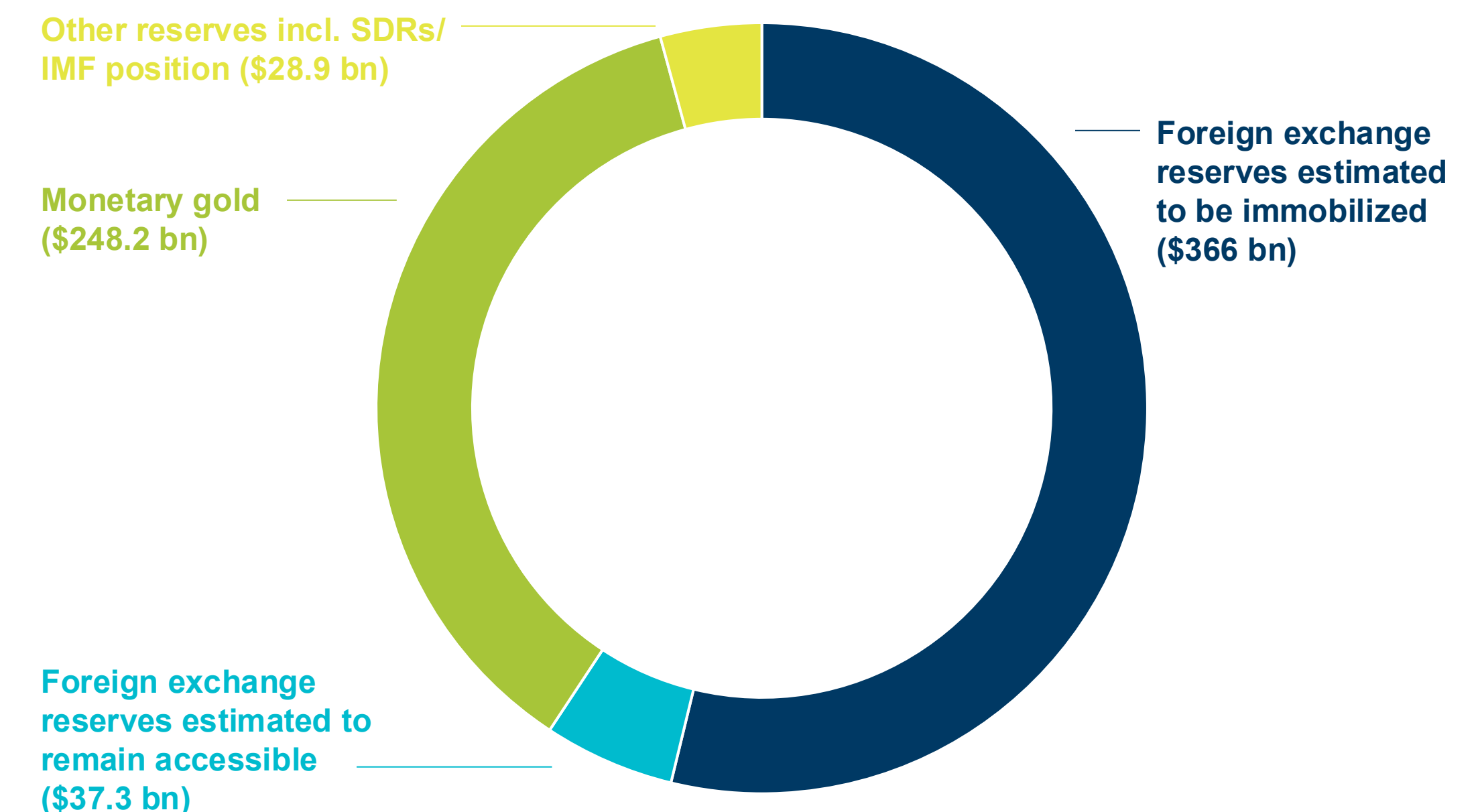
- Russia's total international reserves stand at \$685 billion vs. \$643 billion before the start of the full-scale war.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves have a current value of ~\$366 billion.
- This leaves Russia with \$37 billion of foreign exchange, \$248 billion of gold, and \$29 billion of other assets.

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

Composition of reserves as of end-March, in U.S. dollar billion*

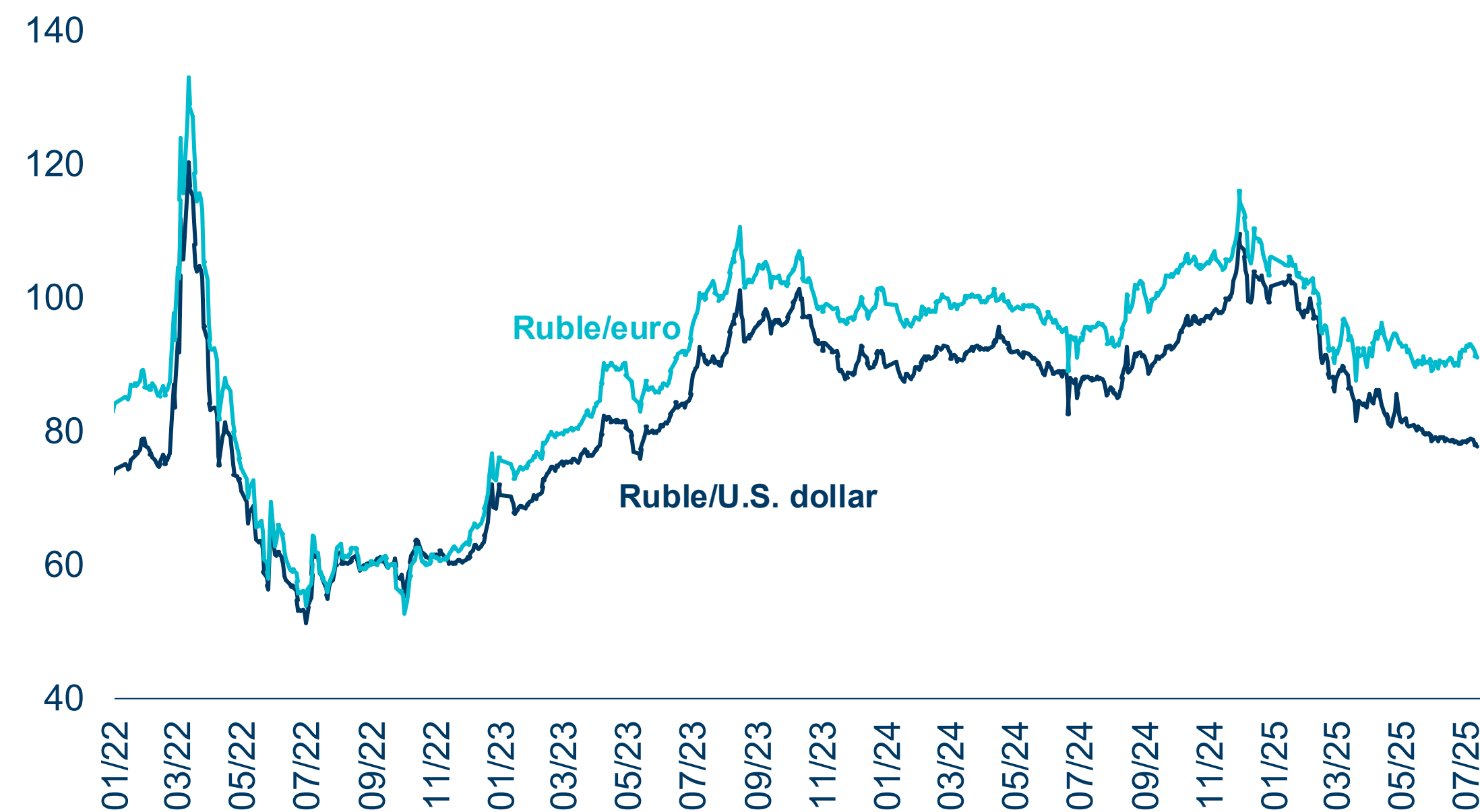


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

Ruble has strengthened considerably since early-2025.

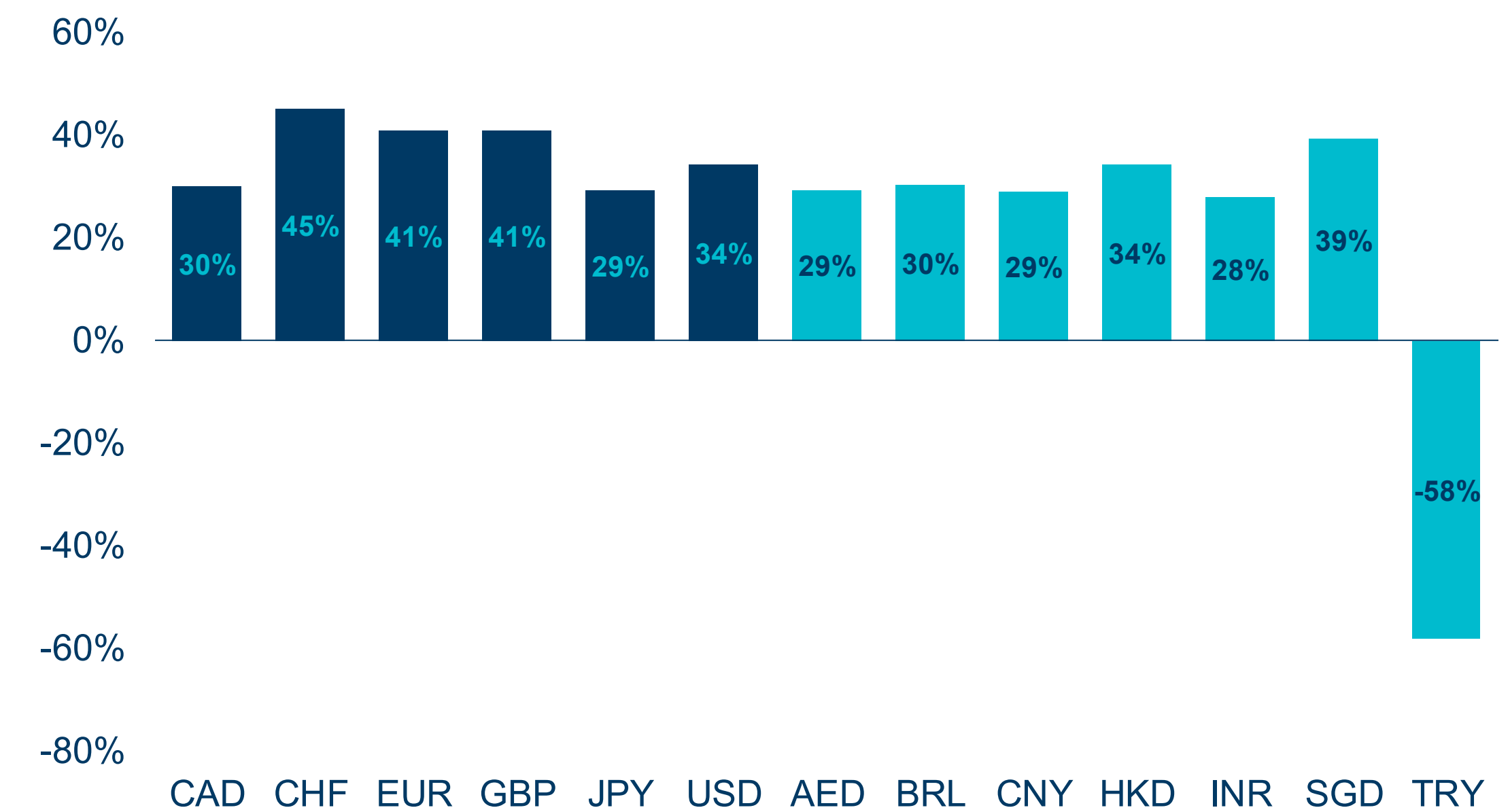
- The ruble has strengthened since the start of the year on the back of lower imports due to tight monetary policy.
- In addition, improved sentiment following U.S.-Russia rapprochement may have affected capital flow dynamics.
- Nevertheless, Russia's currency remains significantly weaker against almost all important currencies vs. mid-2022.

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 %

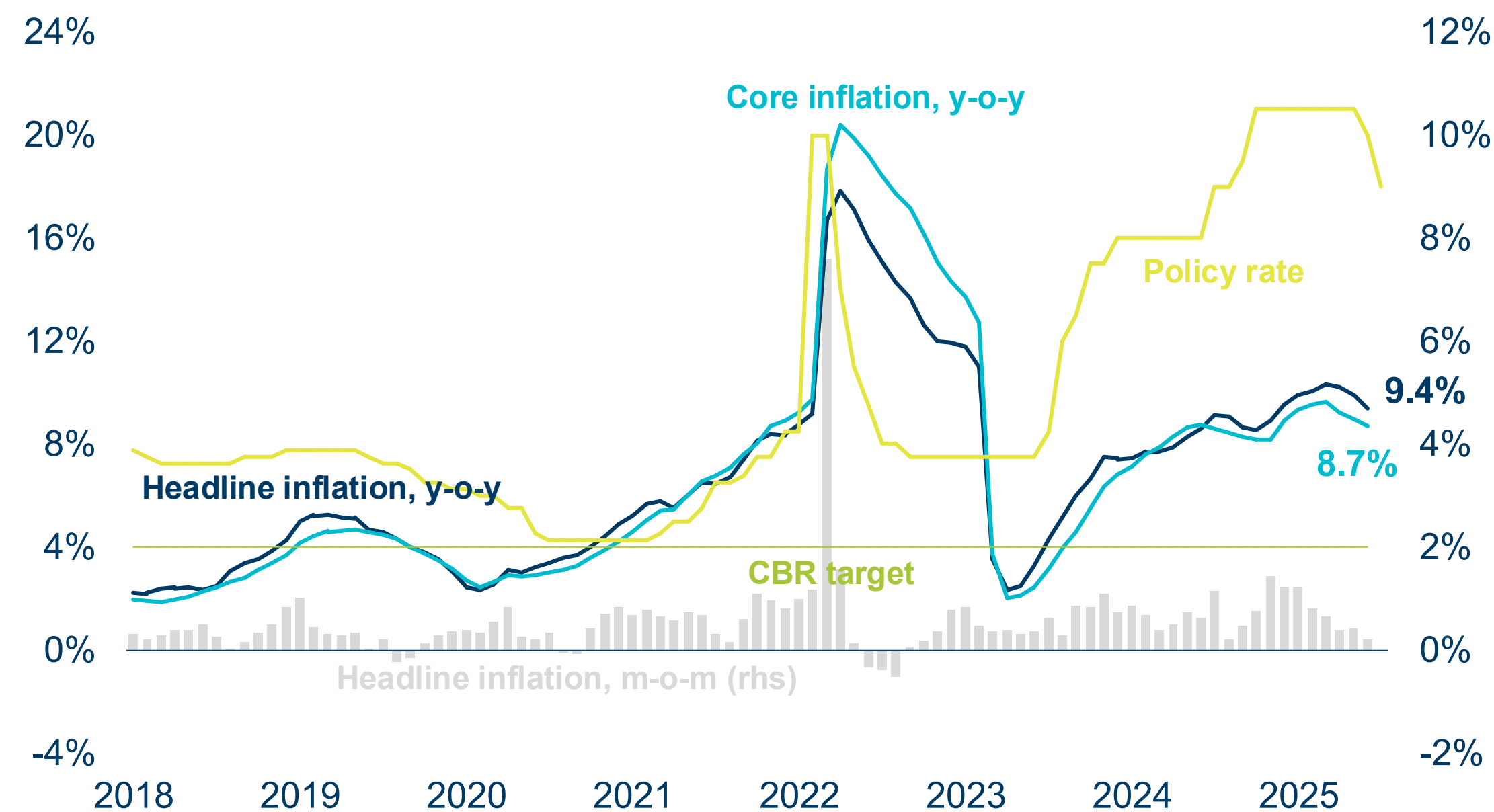


Source: Bank of Russia, KSE Institute

Inflation finally declining, interest rate cut on the horizon.

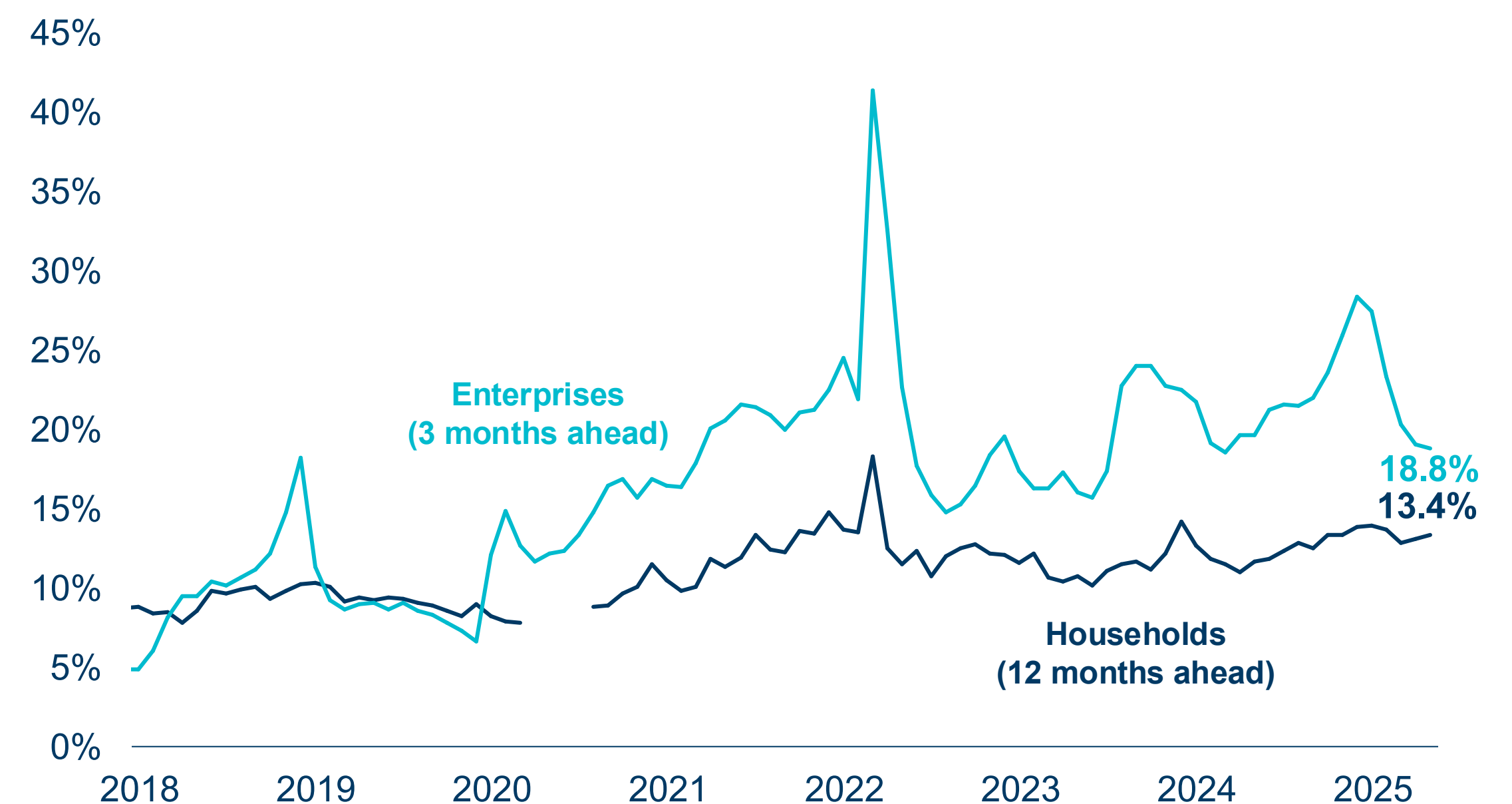
- Inflation continues to moderate somewhat, falling to 9.4% year-over-year in June (8.7% for core inflation).
- The CBR's tight monetary policy is finally showing results, albeit at the high cost of slowing the economy.
- Russia's central bank decreased its key policy rate further at its July MPC meeting (by 200 bps to 18%).

Inflation and CBR policy rate, in %



Source: Bank of Russia, KSE Institute

Inflation expectations, in %

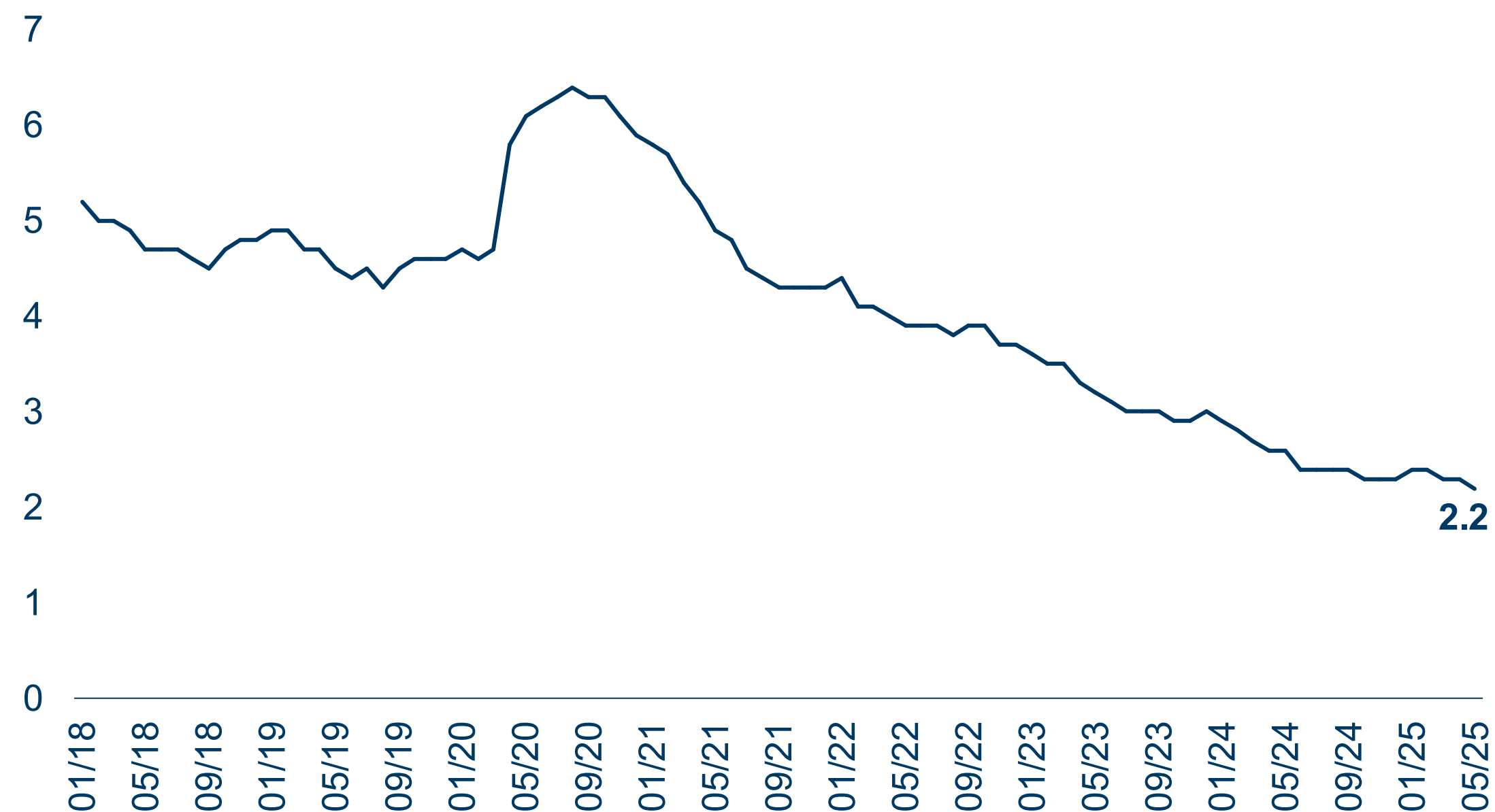


Source: Bank of Russia, KSE Institute

Russia's economy has little room to grow.

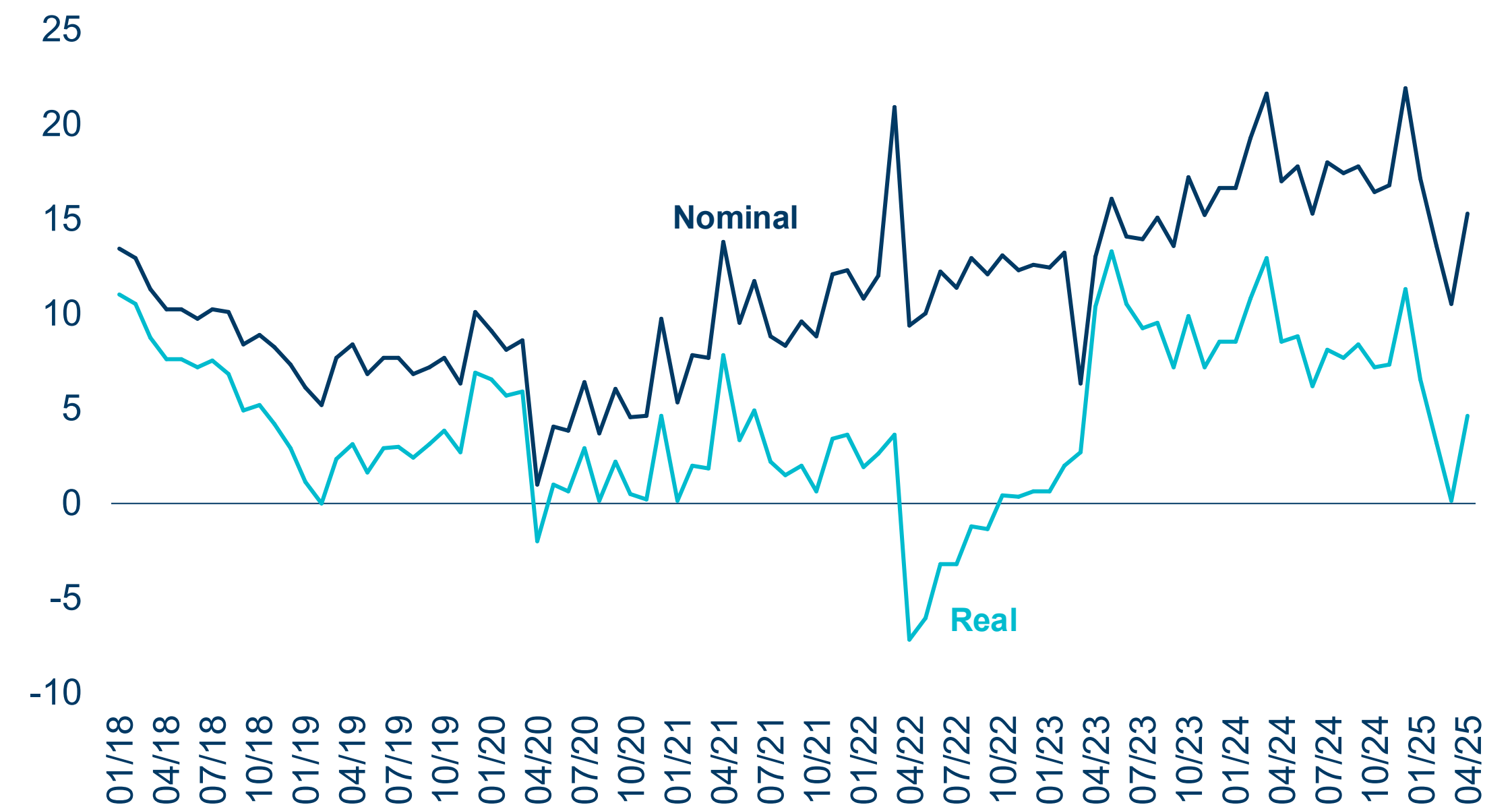
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from.
- Wage growth slowed in recent months amid tight monetary policy but bounced back noticeably in May.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

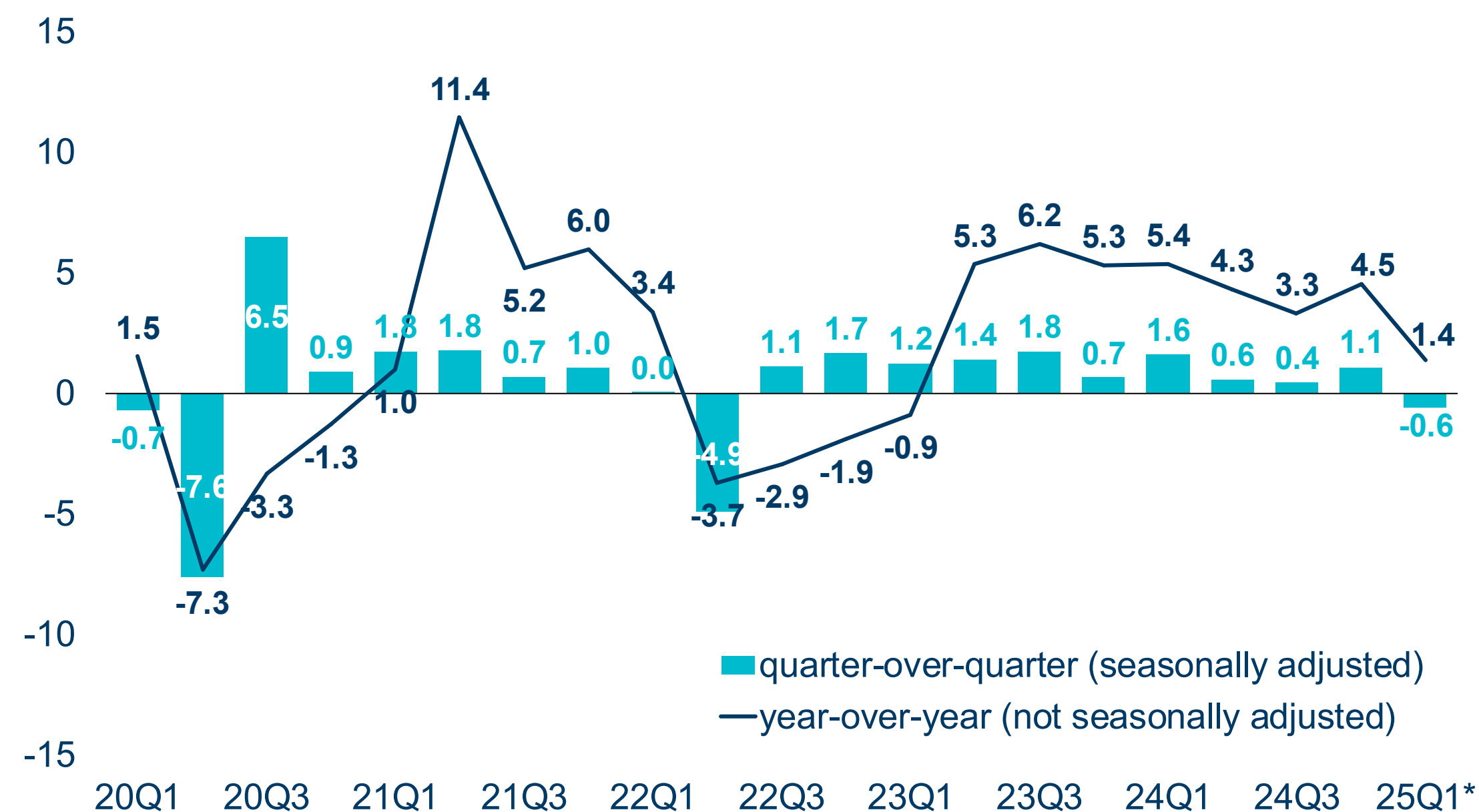


Source: Rosstat

Economy shrinks in Q1; growth prospects seriously.

- After picking up in Q4 2024 to 4.5% year-over-year, real GDP growth slowed down to 1.4% in Q1 2025.
- Quarter-over-quarter, this actually represents a drop (of 0.6%)—the first real GDP decline since Q2 2022.
- Most institutions project that GDP growth will decline significantly in 2025 and slow down further in 2026.

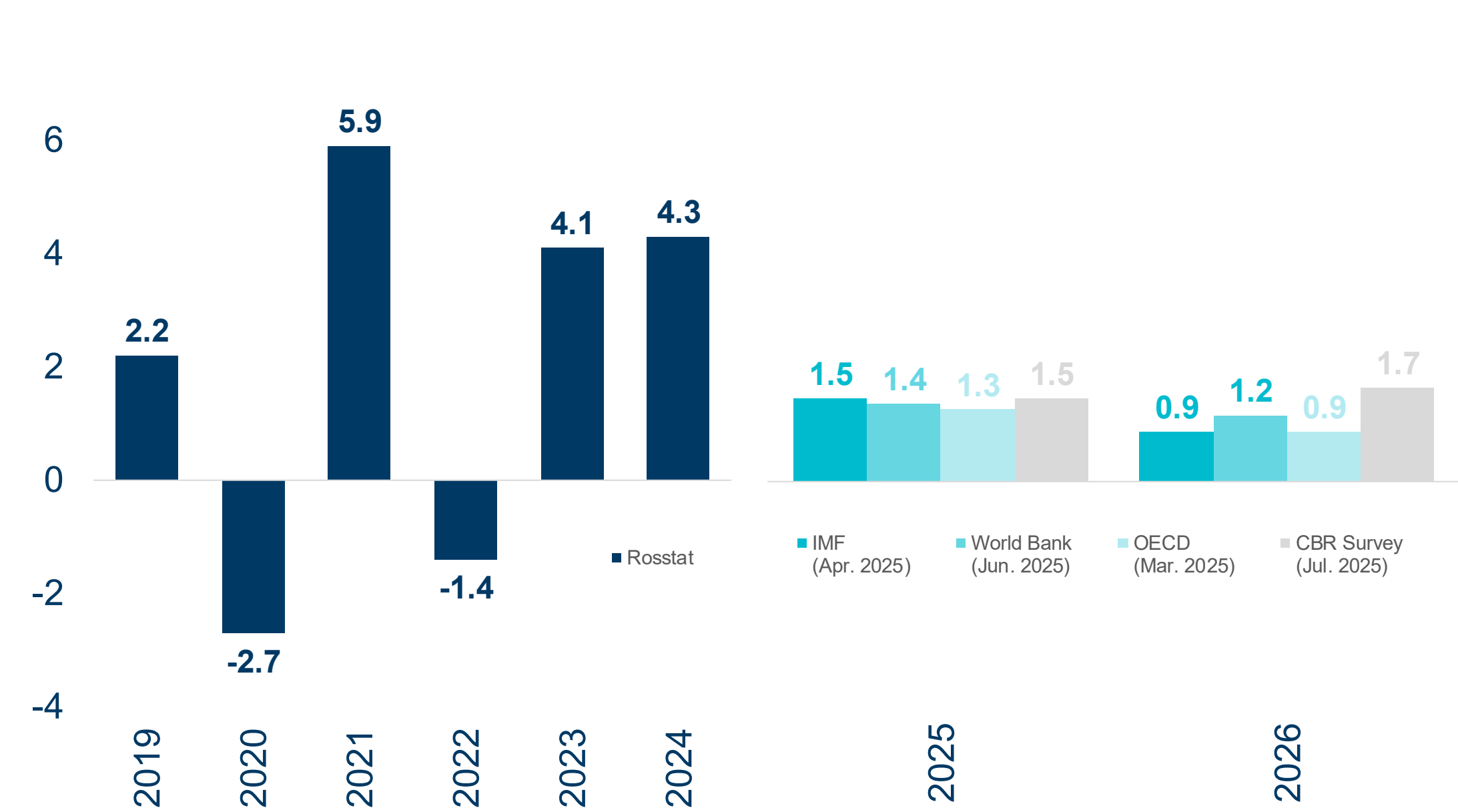
Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute

*Rosstat first estimate

Russian real GDP and forecast, in % year-over-year



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

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