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KSE Institute Russia Chartbook

Oil and Gas Budget Revenues Collapse; Internal Borrowing Soars to Finance Deficit

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Executive Summary

1. **Lower global oil prices weigh on exports, revenues.** The export price for Russian crude oil fell to $51/bbl in May (vs. 56/bbl in Apr. and $63/bbl in Q1) on the back of lower global prices. This was ~$5/bbl below the oil price in the revised budget. The persistent drop in prices drove down oil export earnings to $12.6 bln and O&G budget revenues to 513 bln rubles—both the lowest since early 2023. The recent escalation between Israel and Iran has led to a temporary reprieve, but oil prices are expected to return to lower levels.
2. **Budget revision indicates growing fiscal challenges.** Russia revised its budget numbers for 2025 at the earliest time in recent history, with O&G revenues projected 24% lower and the overall deficit more than 3 times bigger (3.8 tln vs. 1.2 tln rubles) than in the original budget. Over Jan.-May, the deficit reached 3.4 tln (89% of the target) as O&G revenues dropped 14% y-o-y, non-O&G revenues grew only 12%, and expenditures rose by 21%. Persistently low oil prices would likely make Russia miss its budget target for the year.
3. **Macroeconomic buffers are under pressure.** The NWF's liquid portion has declined by 71% since early-2022 as large amounts were used to finance the budget. At 2.8 tln, the remaining funds are smaller than the projected budget deficit for 2025. As a result, MinFin is largely relying on domestic debt issuance to finance the budget for now, issuing 1.7 tln rubles in OFZ in Jan.-May (+52% vs. Jan.-May 2024 and 36% of the full-year target of 4.8 tln). This is not without challenges as domestic banks are the only buyer left in the market.
4. **Inflation remains elevated despite high interest rates.** Headline inflation stood at 9.9% y-o-y in May, slightly below the previous month's reading. The CBR has not succeeded at reducing inflationary pressures even though interest rates remain high (at 20%) and are increasingly weighing on economic activity. A tight labor market, war-related fiscal stimulus, and a large expansion of credit to the private sector make it difficult to do so. The cost of higher interest rates to the economy have prompted the CBR to cut rates in recent weeks.
5. **Economic growth will slow this year and beyond.** With the Russian economy hitting serious capacity constraints in terms of labor and capital, and borrowing becoming more expensive, GDP growth is expected to slow down considerably in 2025 and beyond. This will create further pressure on the budget as non-O&G revenues will grow much slower than needed to offset rising war expenditures. It also means that companies will increasingly be unable to afford high wage increases—a dynamics that has already started in recent months.

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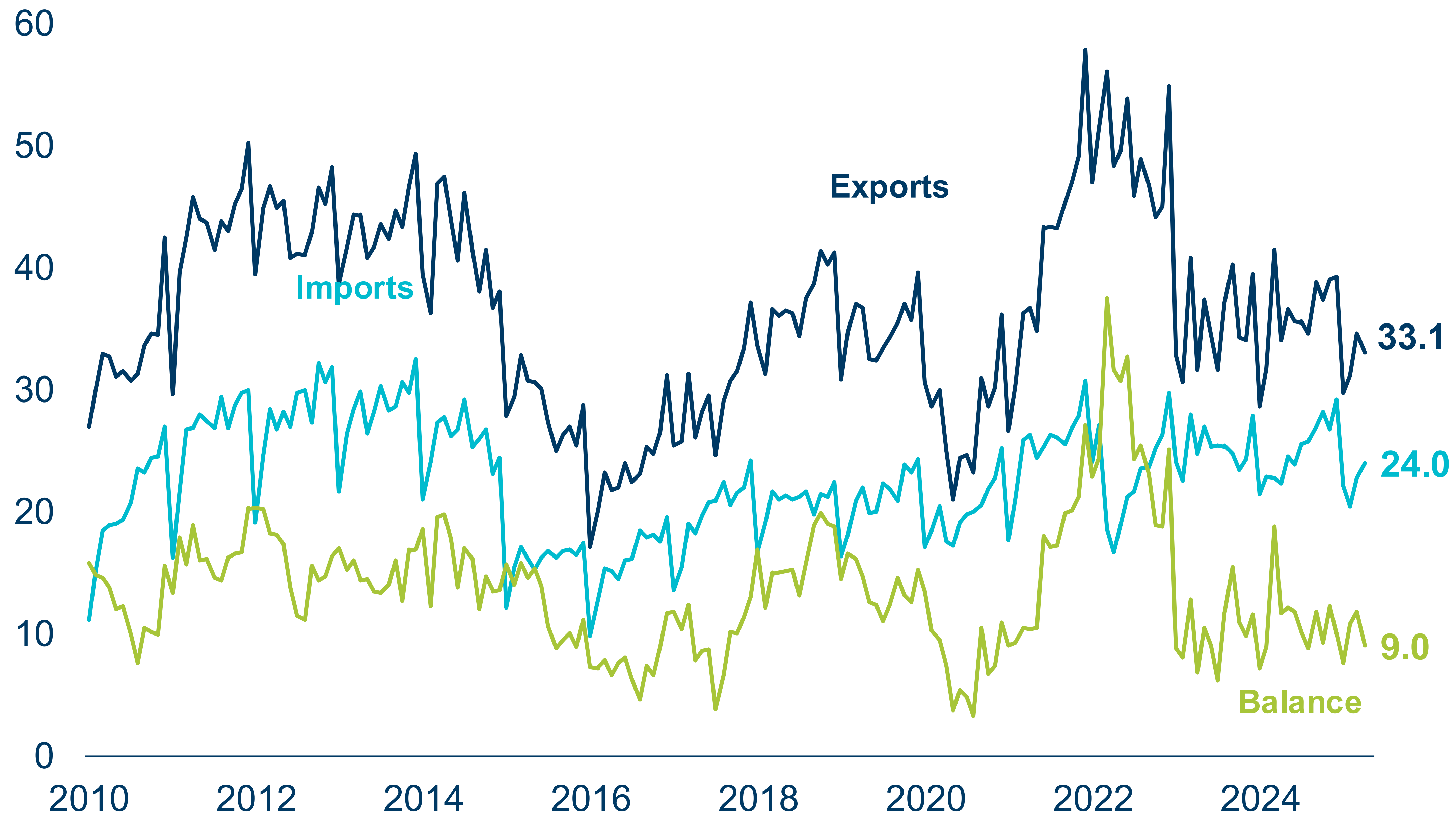
Goods trade remains somewhat suppressed, current account improved.

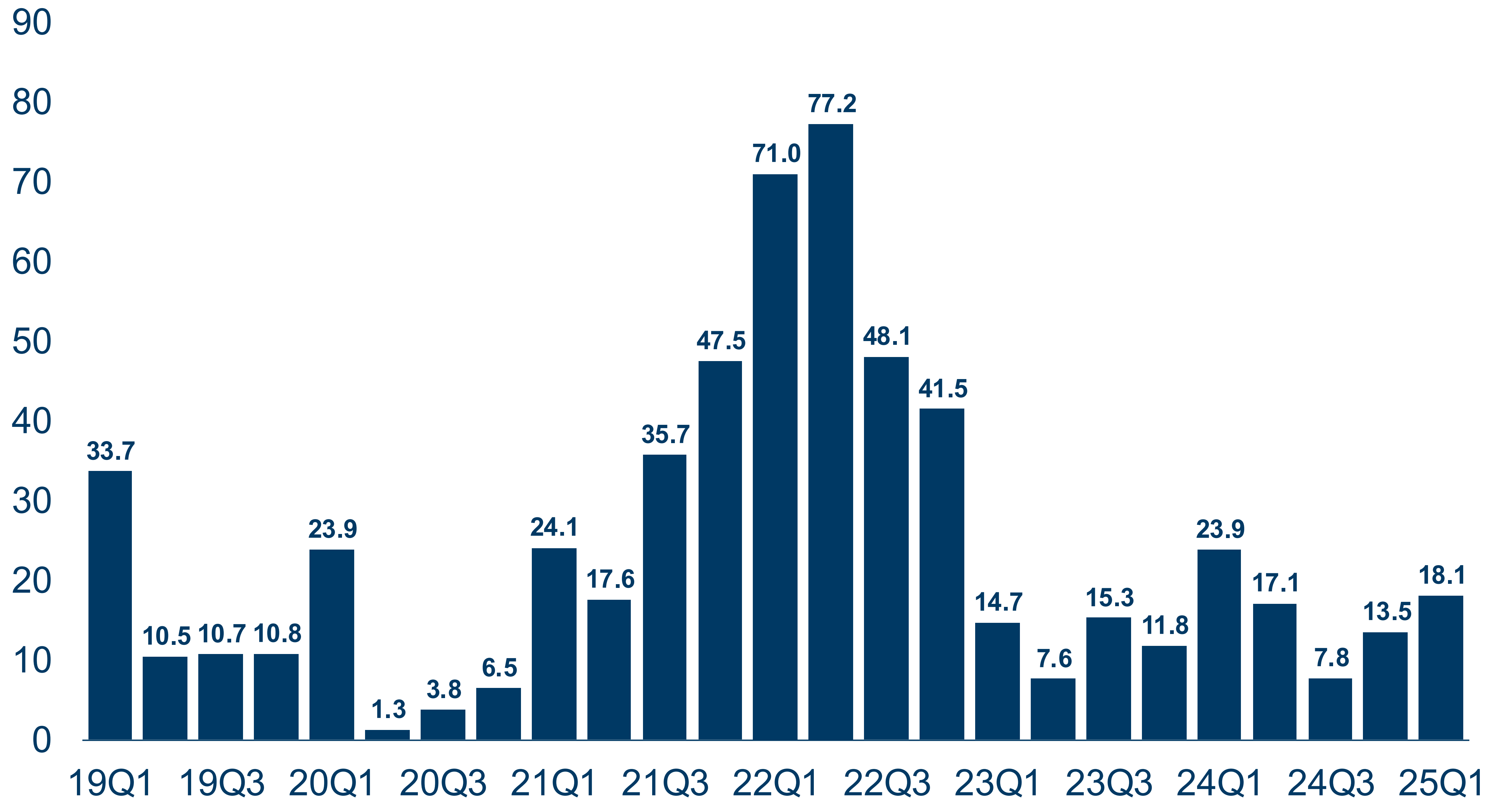
- Russia's exports and imports have only partially recovered from their marked drop in Jan.-Feb.
- As a result of these simultaneous developments, the trade surplus has remained broadly stable.
- Other factors—services, income, transfers—were responsible for the higher current account in Q1.

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

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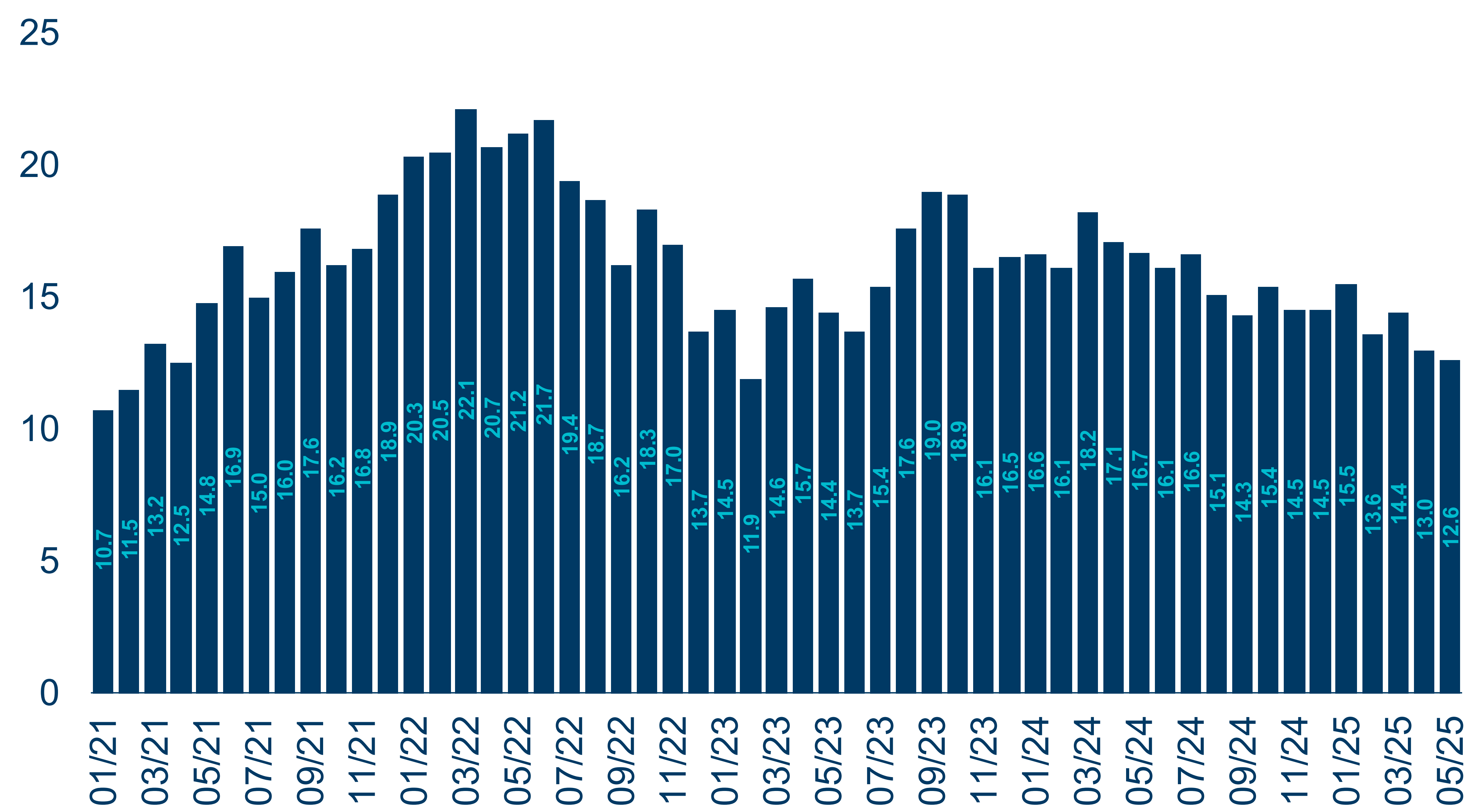
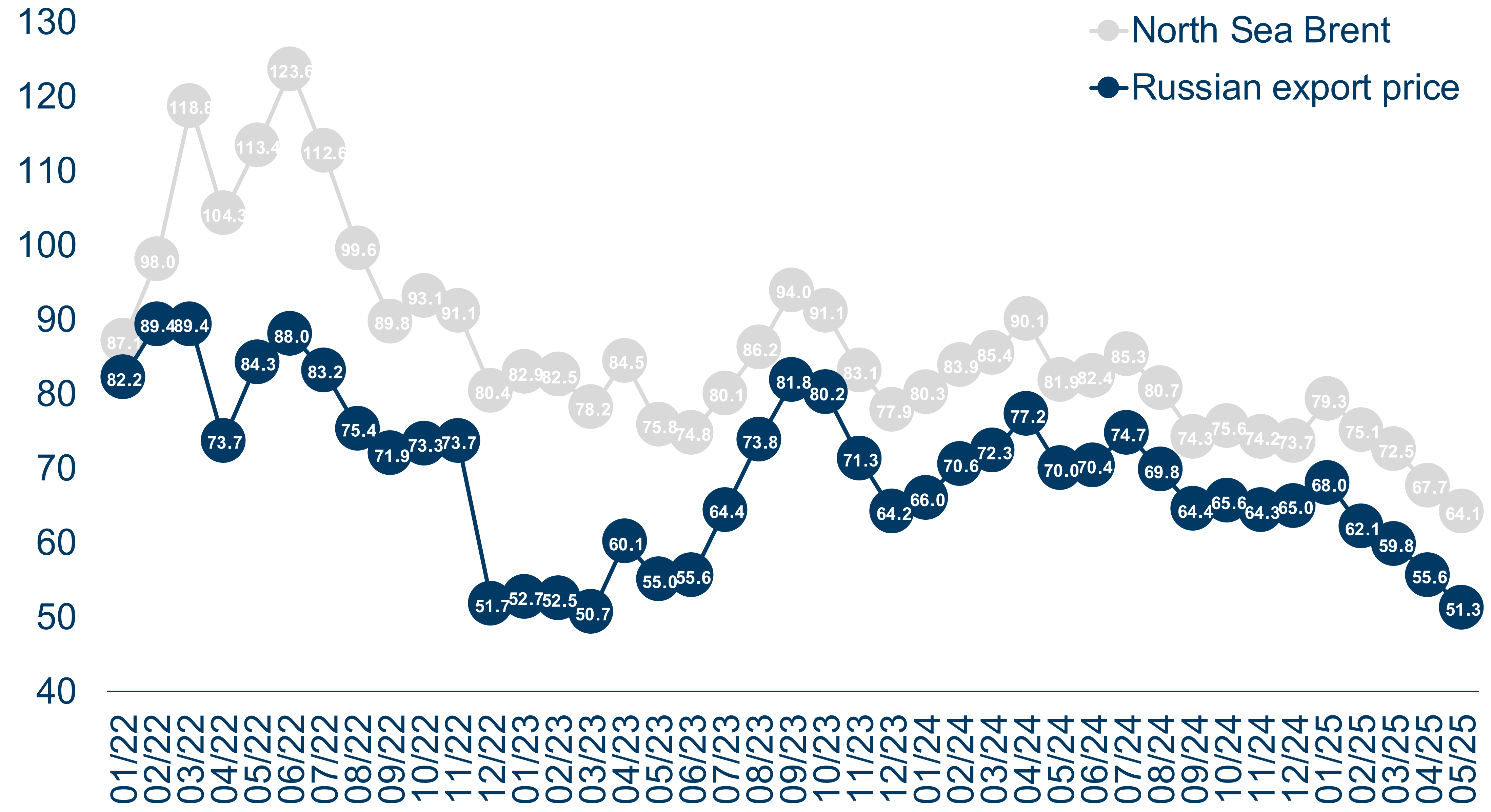
Lower oil prices increasingly weigh on export earnings.

- Oil exports earnings fell to $12.6 billion in May 2025—the 2nd lowest since the start of sanctions on Russian oil.
- This development is driven by lower prices for Russian oil, which have stood below the price cap for three months.
- The temporary increase due to the Israel-Iran conflict will provide some support to Russia's external accounts.

Oil export earnings, in U.S. dollar billion



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



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

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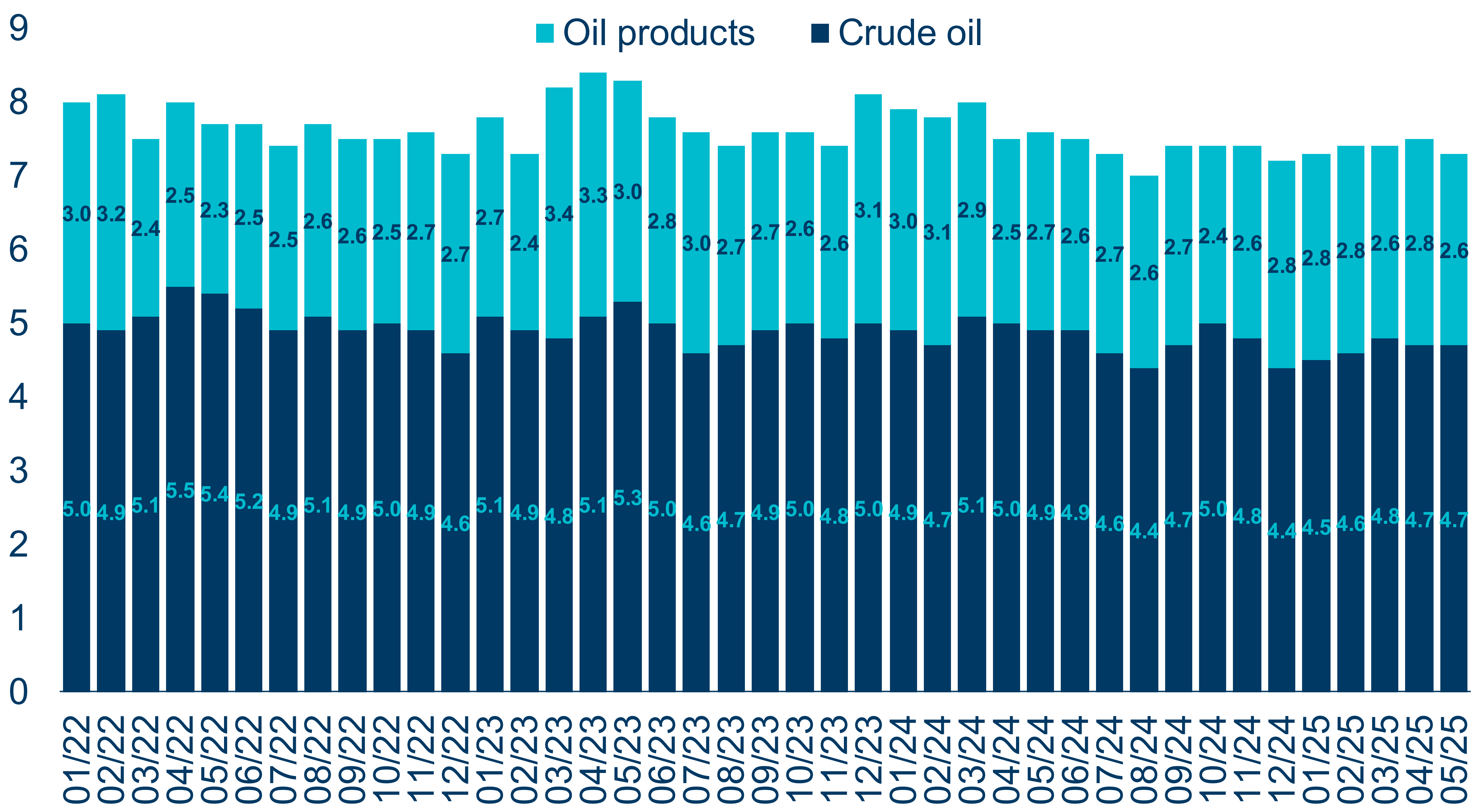
Supply of Russian oil remains stable.

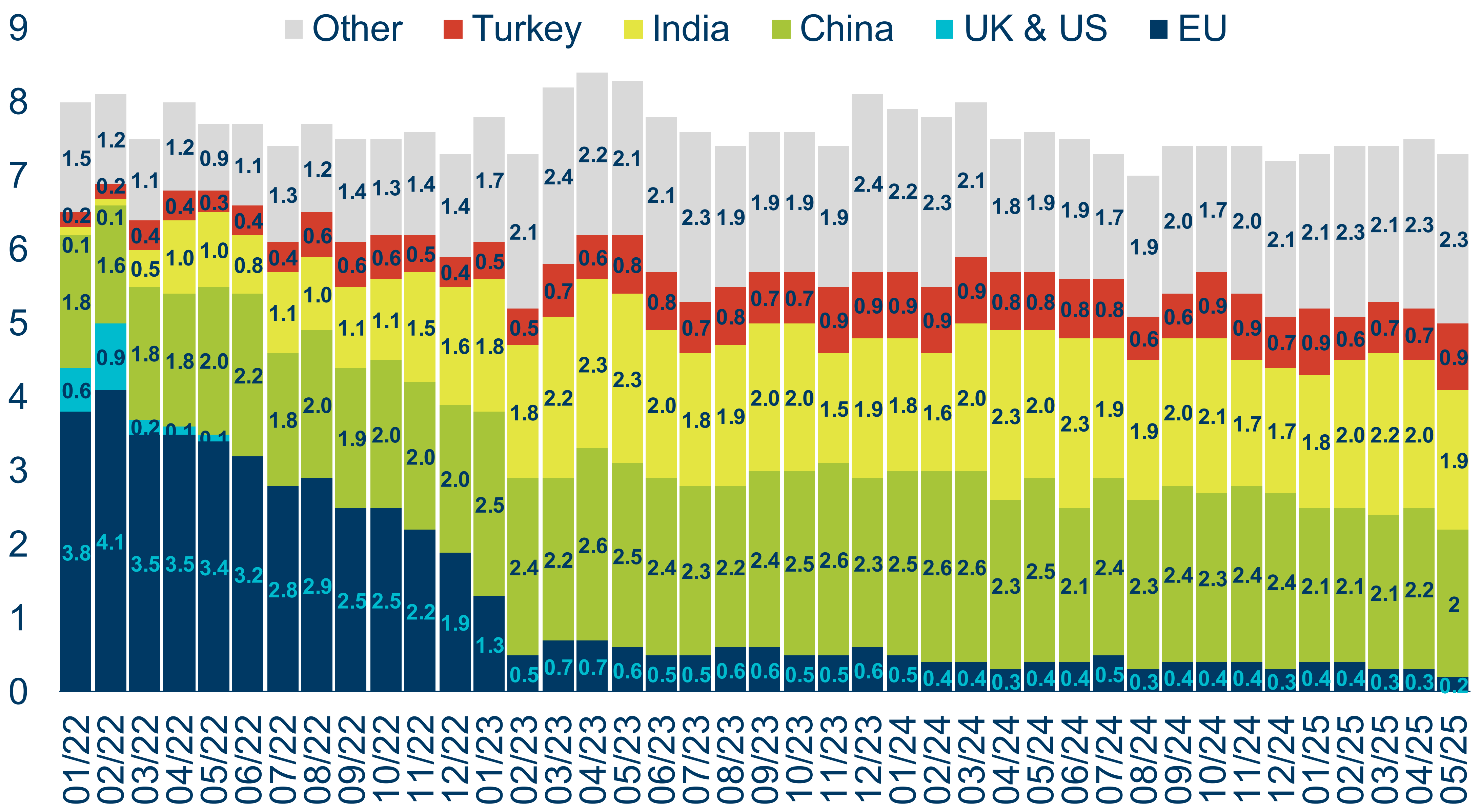
- Russian oil export volumes have been remarkably steady over the last 3 years.
- Overall, the G7+ oil price cap has succeeded at keeping Russian oil on the market.
- China, India, and Turkey are the most important buyers (~60-70% of oil exports).

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

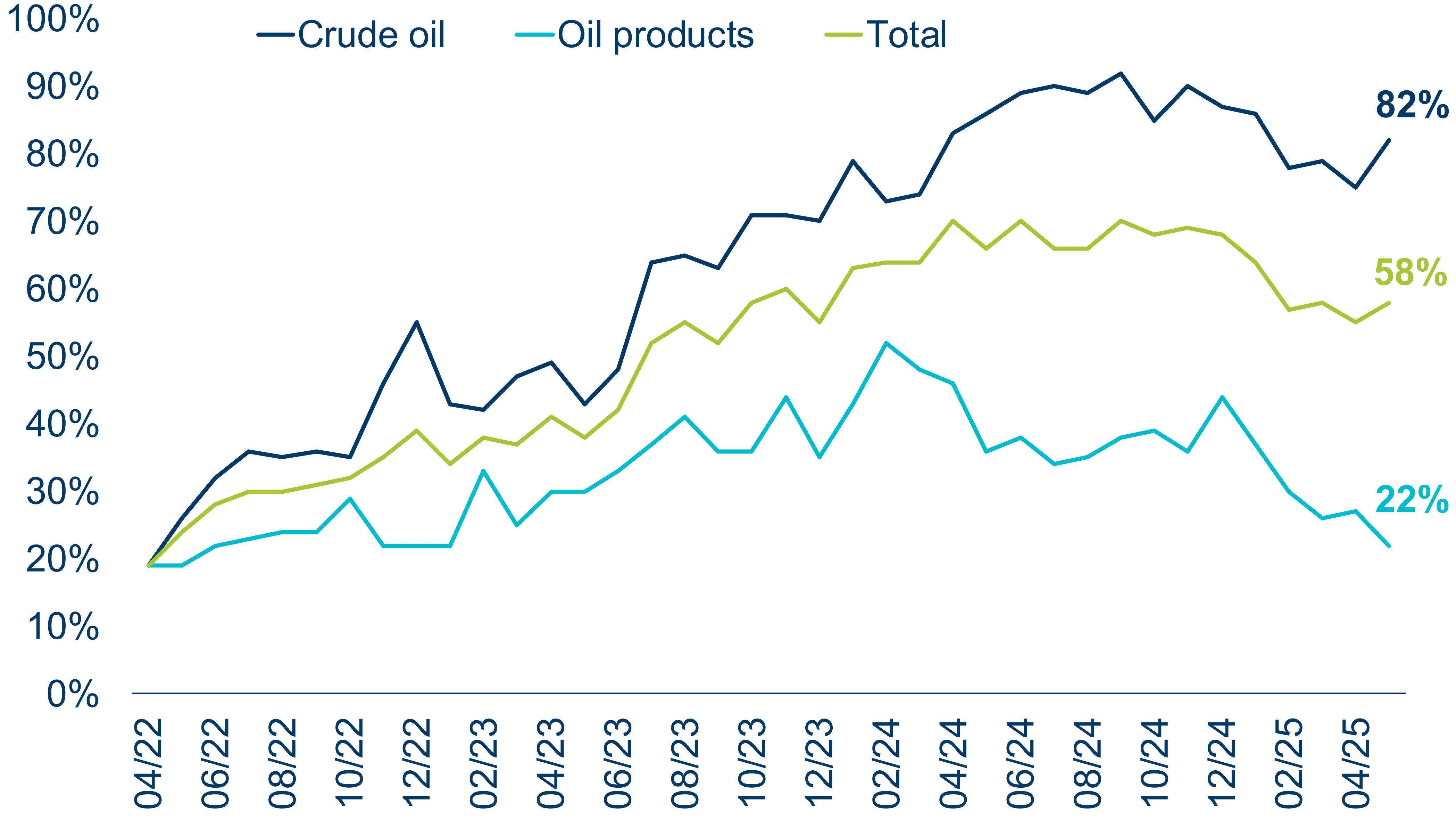


Source: International Energy Agency, KSE Institute

Shadow fleet share ticks up once more.

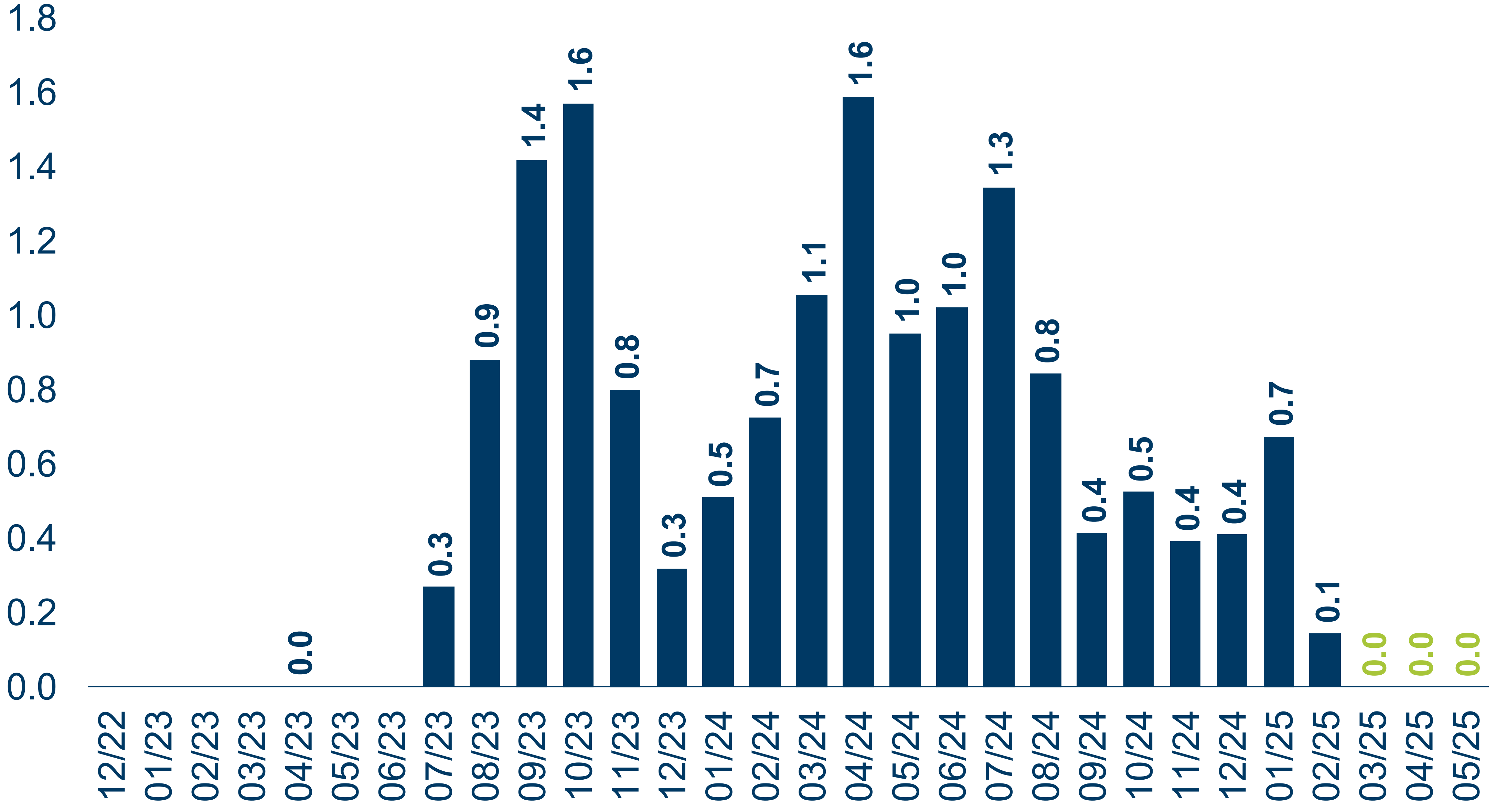
- In May 2025, 82% of Russian seaborne crude oil was transported without the involvement of G7+ services.
- The recent uptick shows that shadow tanker designations require constant enforcement across jurisdictions.
- With the average export price bellow $60/barrel, no extra earnings were generated for three 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.

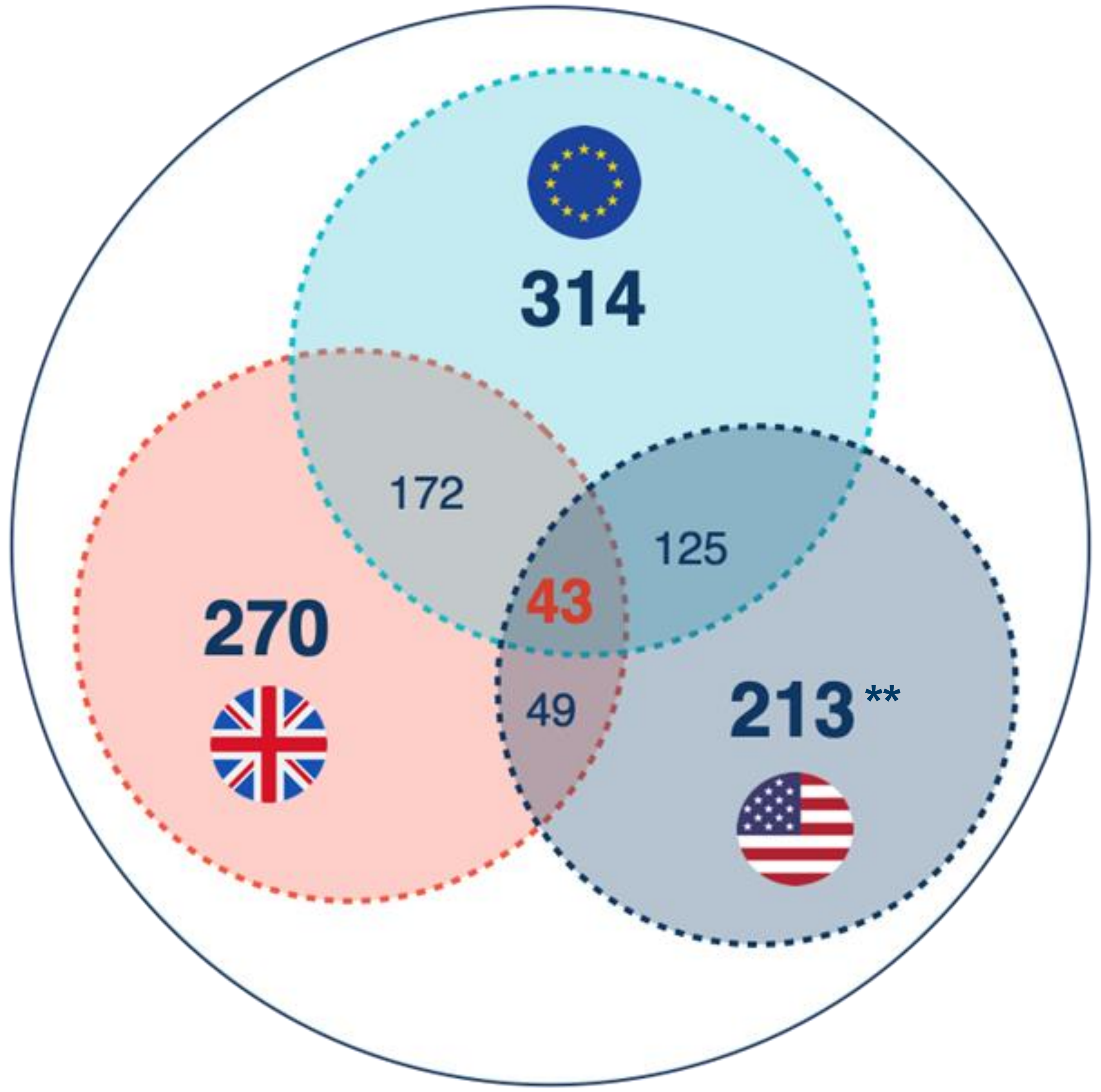
- In June, the UK, Canada, and— for the first time —Australia and New Zealand adopted tanker sanctions packages.
- This brings the total number of sanctioned shadow tankers to 496, with 43 listed by the EU, UK, and US.
- With listings reaching 60% of the shadow fleet, more effective enforcement will 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	314	49
	US	213	78
	UK	270	29
	CA	275	2
	AU	60	0
	NZ	25	0
By two governments	EU ∩ US	125	
	EU ∩ UK	172	
	EU ∩ CA	200	
	US ∩ UK	49	
	US ∩ CA	81	
	UK ∩ CA	228	
	AU ∩ EU	46	
	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. *AU, CA, and NZ not included
** 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.

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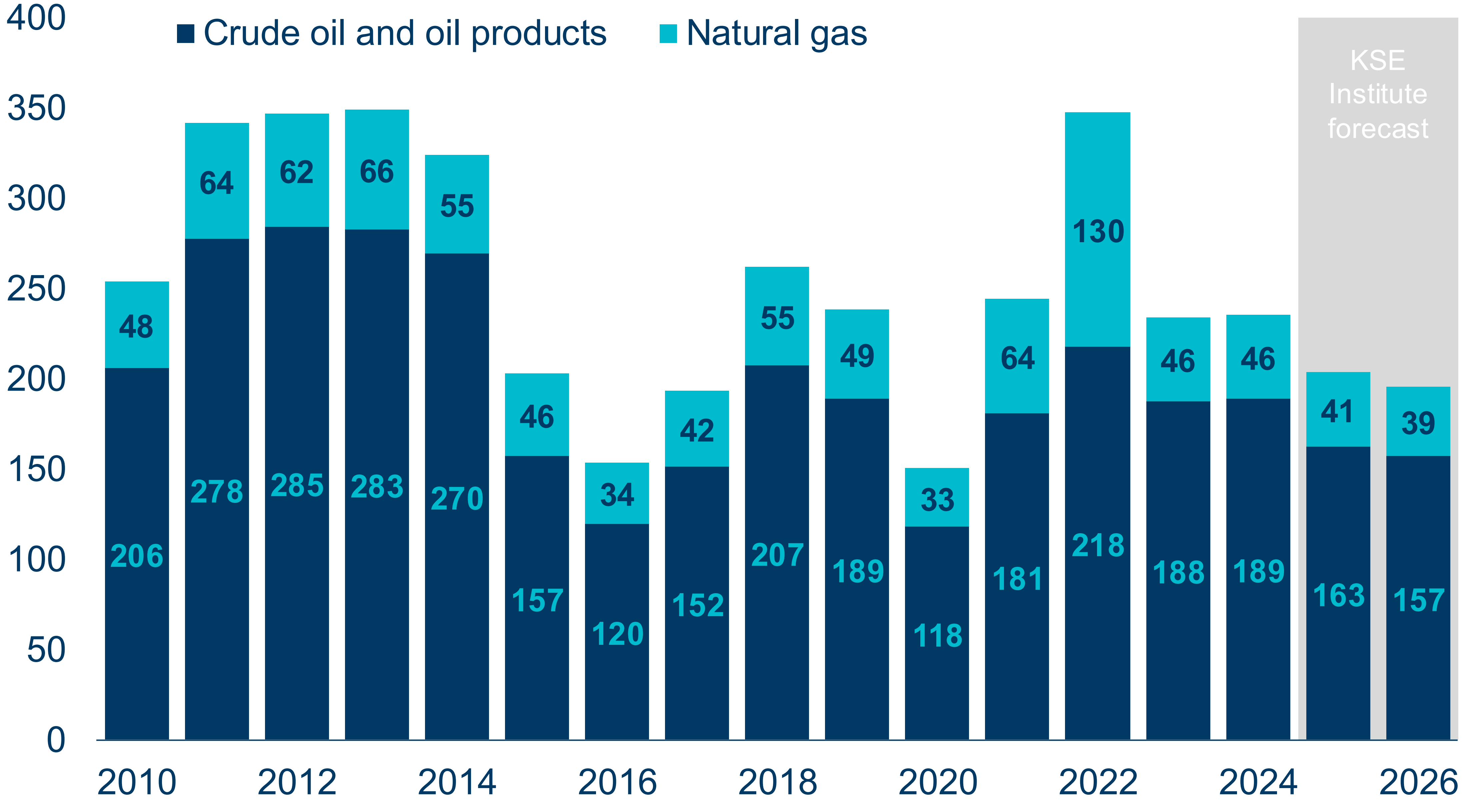
Current account surplus to decline moderately.

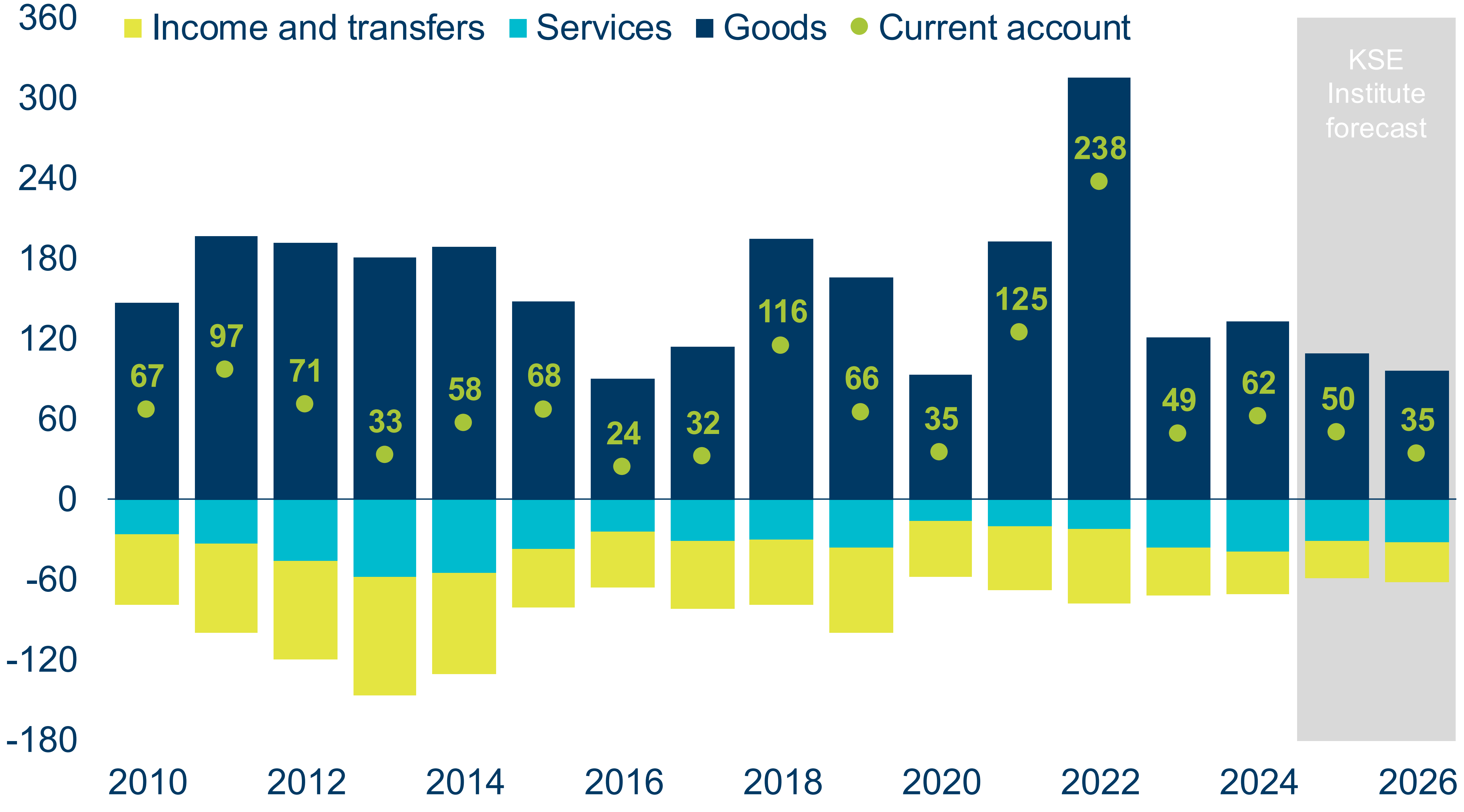
- We estimate oil and gas exports to have reached $235 billion in 2024, while the current account came in at +$62 billion.
- The current account surplus is projected to decrease to $52 billion in 2025 and $35 billion in 2026 as O&G exports weaken.
- At least for 2025, this leaves Russia in a relatively comfortable position and will limit depreciation pressure on the ruble.

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

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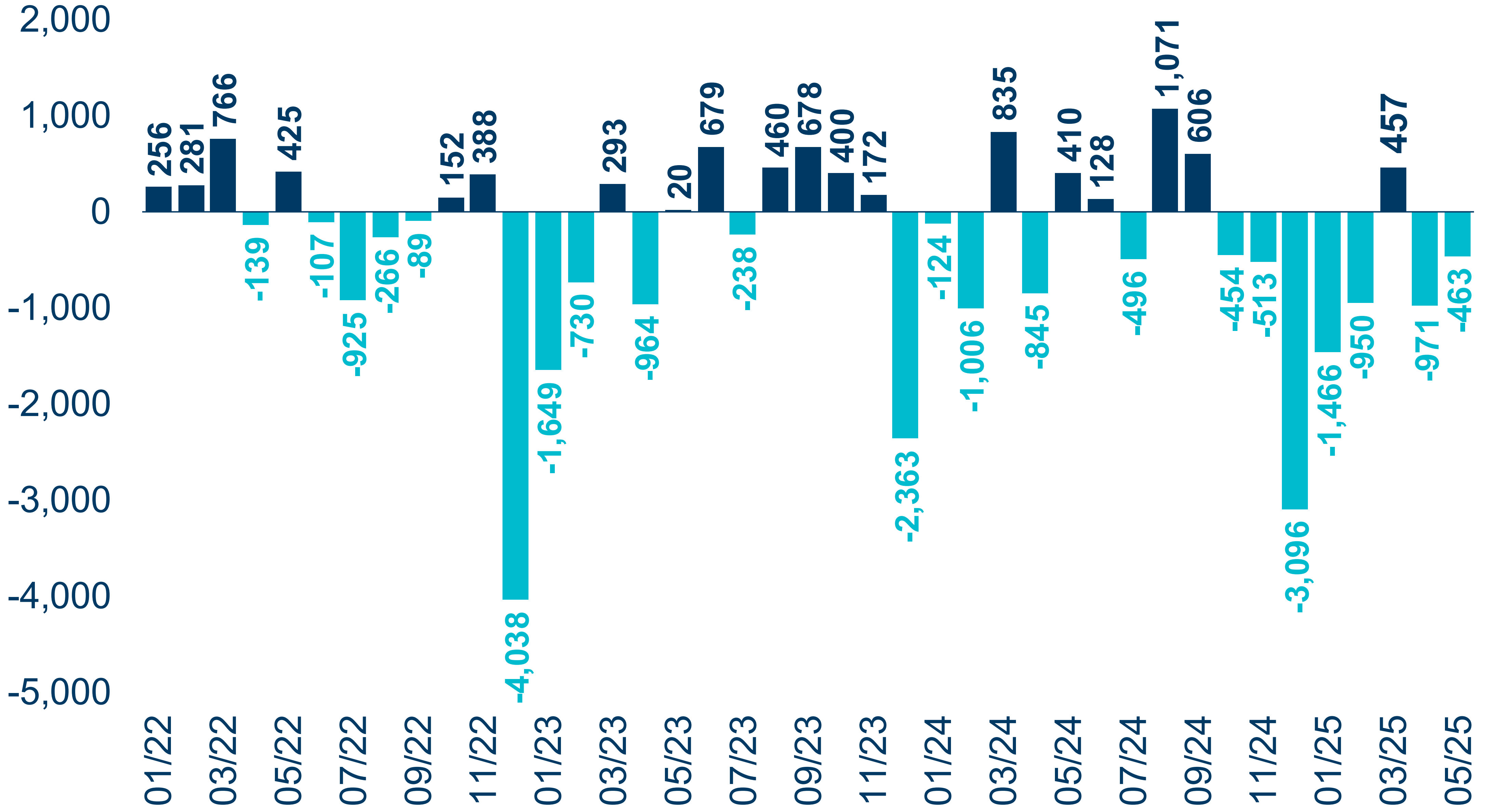
Budget deficit continues to grow.

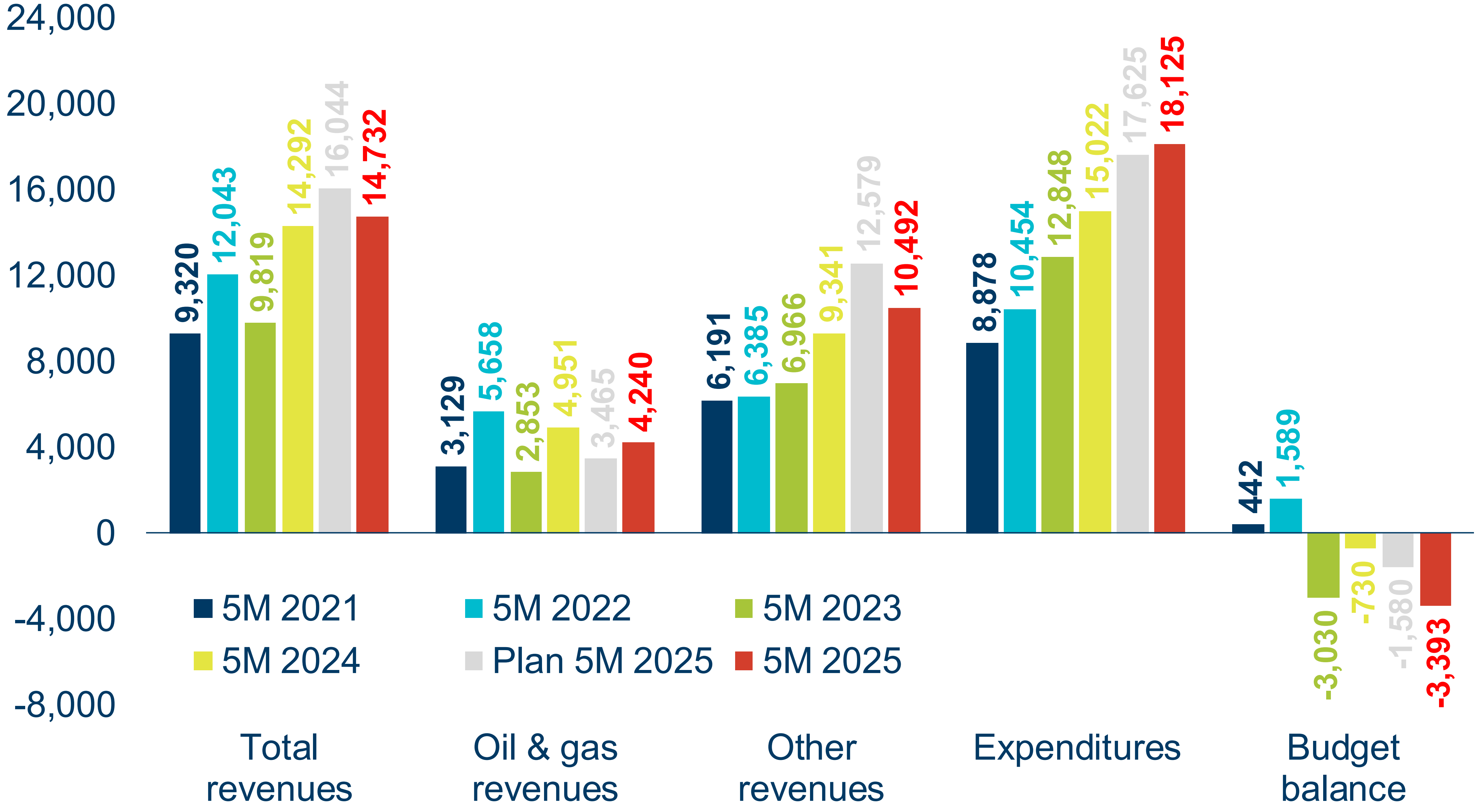
- The budget deficit was significantly larger than last year in Jan.-May at 3.4 trillion rubles (vs. 1.1 trillion in Jan.-May 2024).
- Oil and gas revenues were 14% weaker year-over-year, non-O&G revenues 12% stronger, and expenditures 21% higher.
- In May, significantly lower expenditures (-31% vs. Apr.) helped contain the deficit despite the weakest revenues in 1.5 years.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

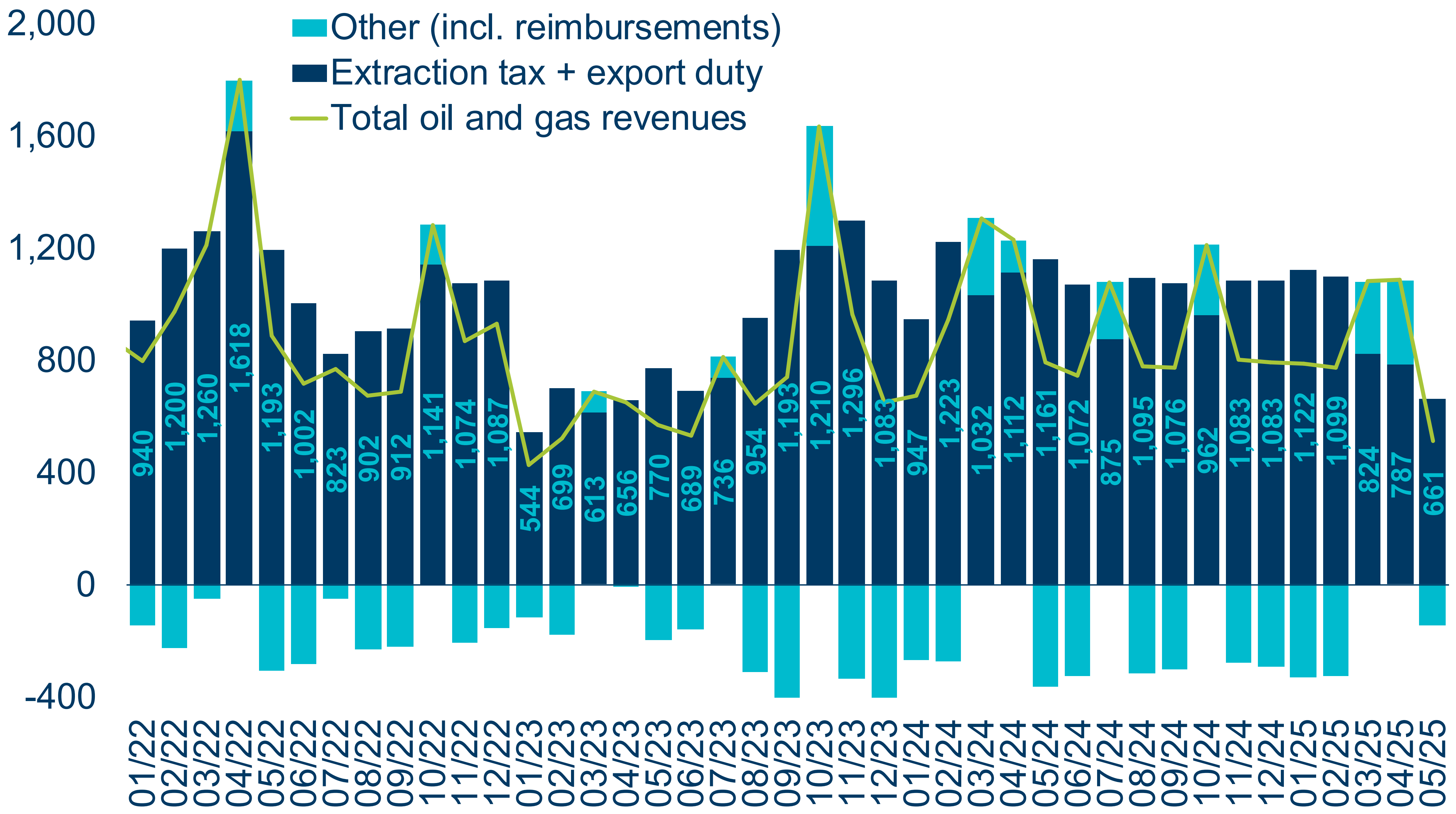


Source: Ministry of Finance, KSE Institute

Oil and gas revenues are falling.

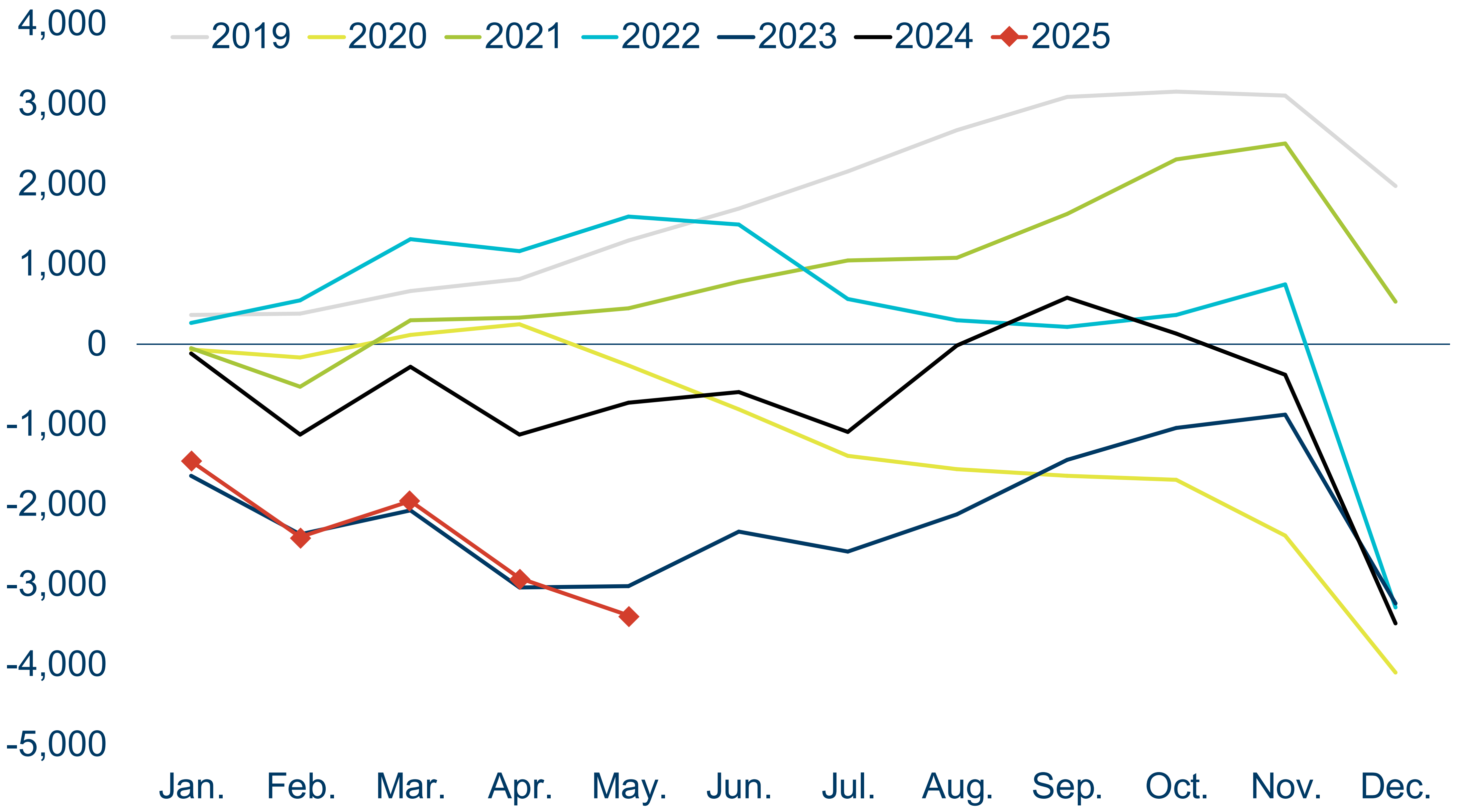
- Oil and gas revenues dropped sharply in May on the back of a further decline in oil export prices.
- Revenues from extraction taxes (and export duties) were the weakest since the first months of 2023.
- The Jan.-May deficit is the largest since the start of the war, even surpassing Jan.-May 2023 by 12%.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

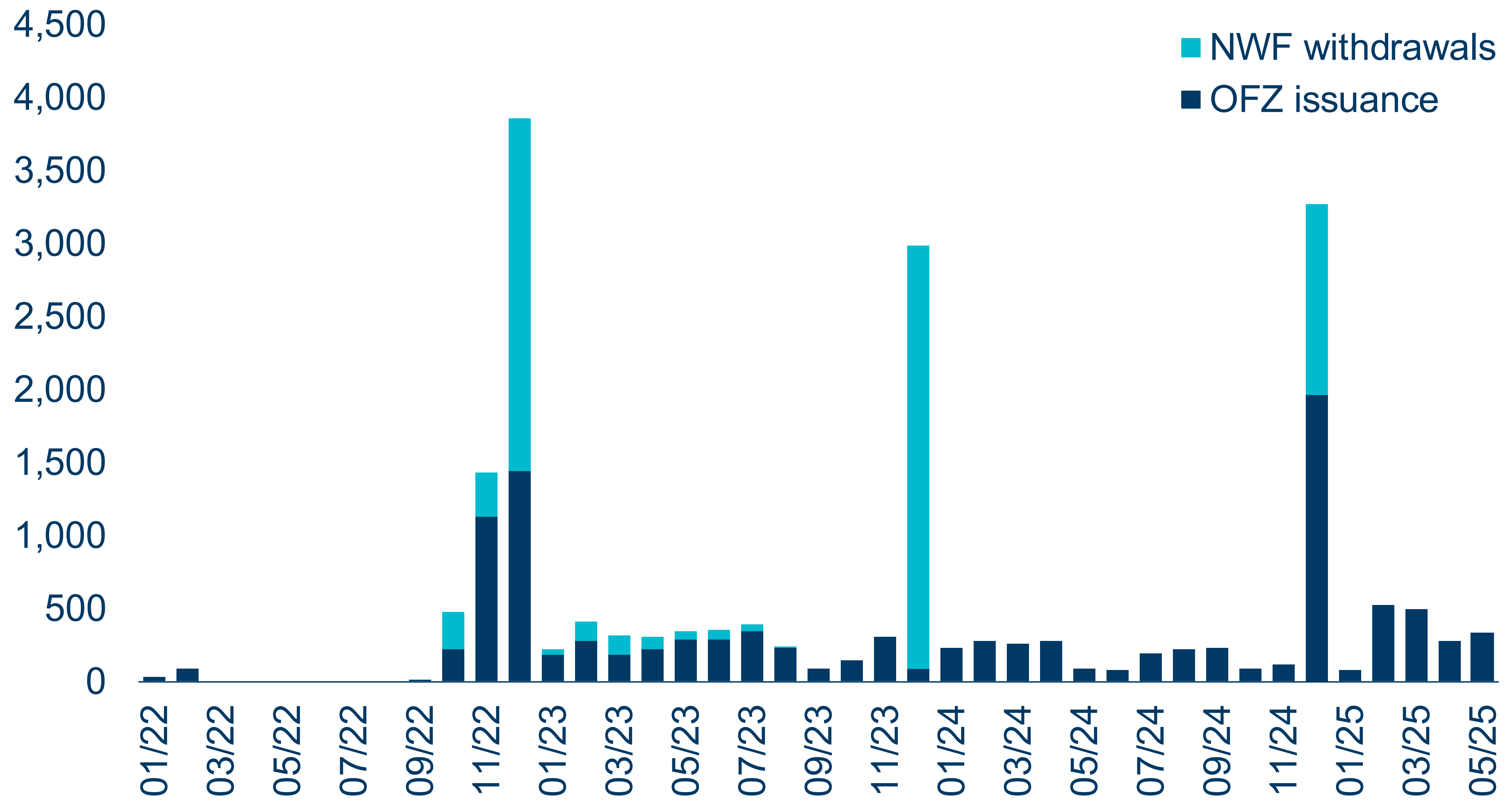


Source: Ministry of Finance, KSE Institute

Domestic debt issuance soared to finance larger deficit.

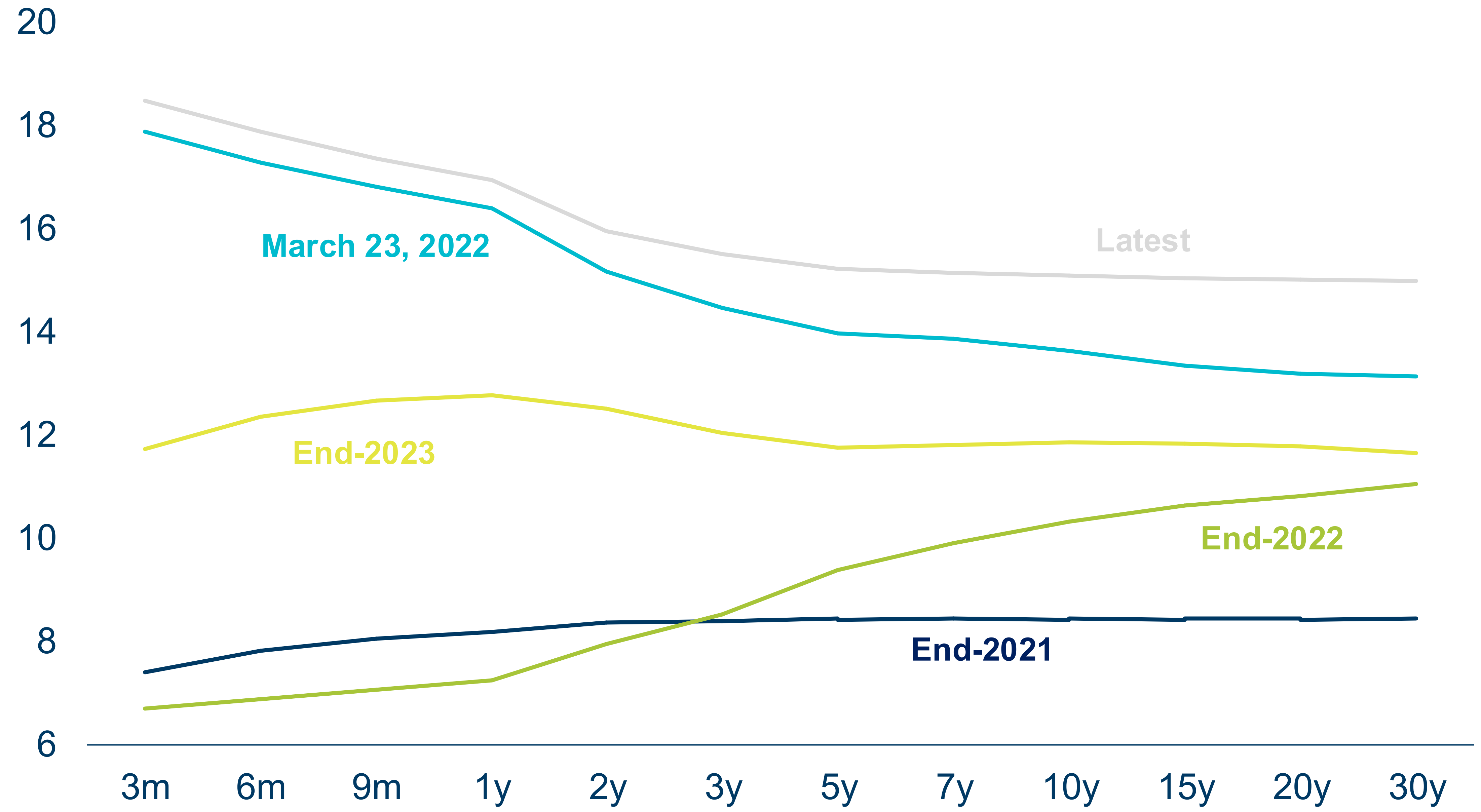
- Due to the large Jan.-May deficit, OFZ issuance has increased (+52% vs. Jan.-May 2024).
- Jan.-May issuance of 1.7 represents 36% of total planned issuance for this year (5.8 trillion).
- Funding costs (i.e., yields) are decreasing somewhat in line with the CBR's interest rate cut.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %



Source: Bank of Russia, KSE Institute

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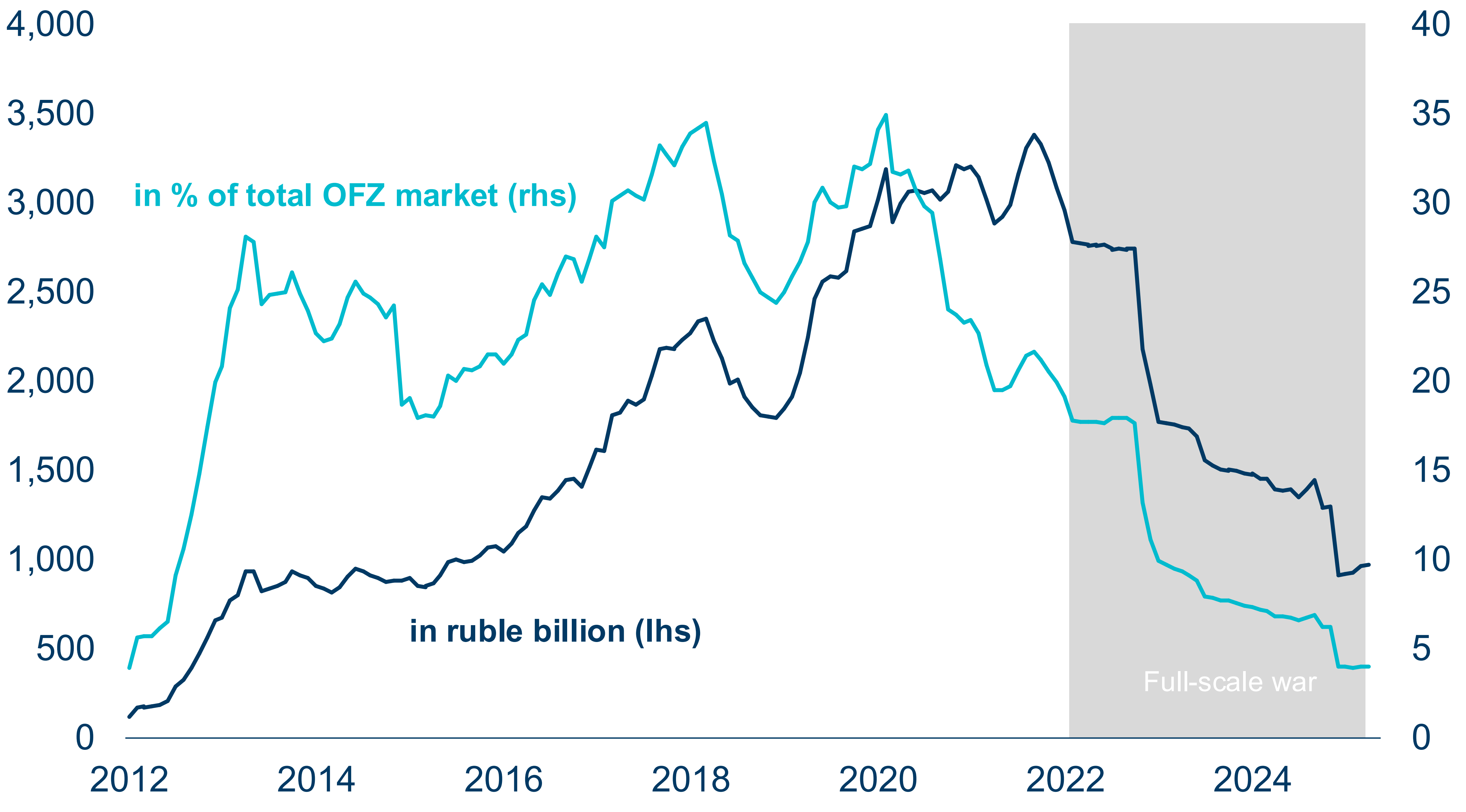
Domestic banks are the only remaining buyers of OFZs.

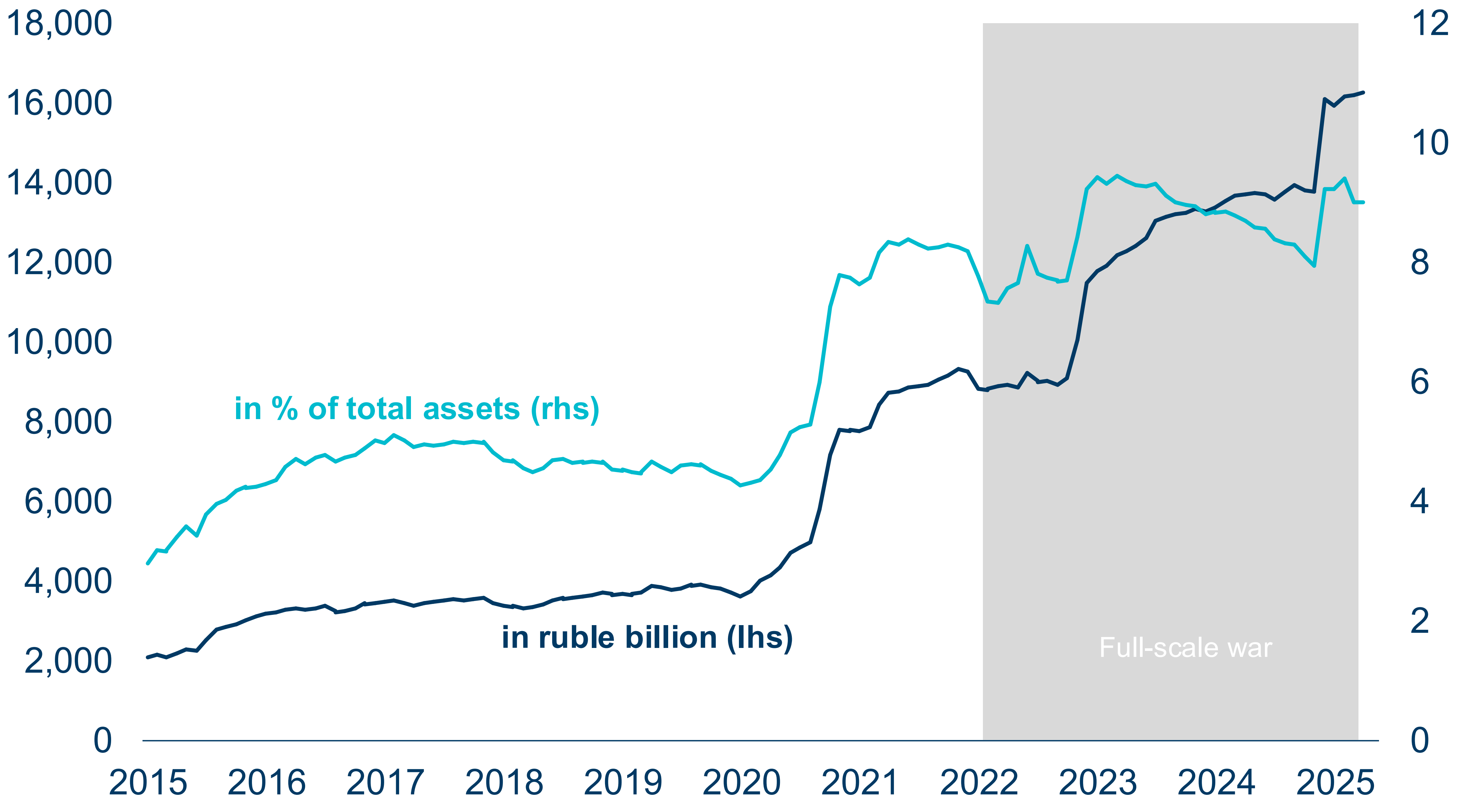
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2.0 trillion rubles (or 67%) since Jan. 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same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

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

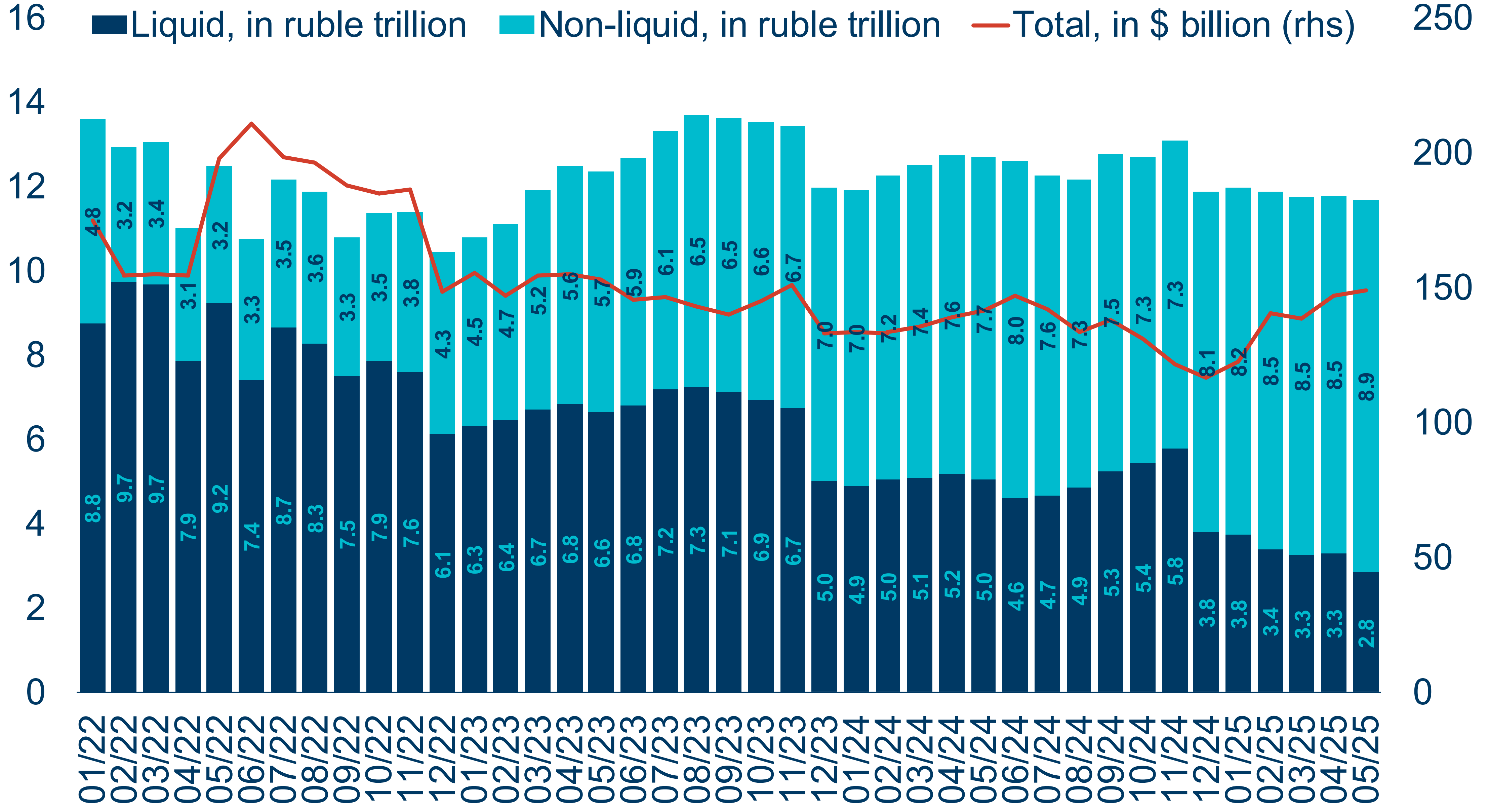


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

Liquid NWF assets have dropped below new full-year deficit plan.

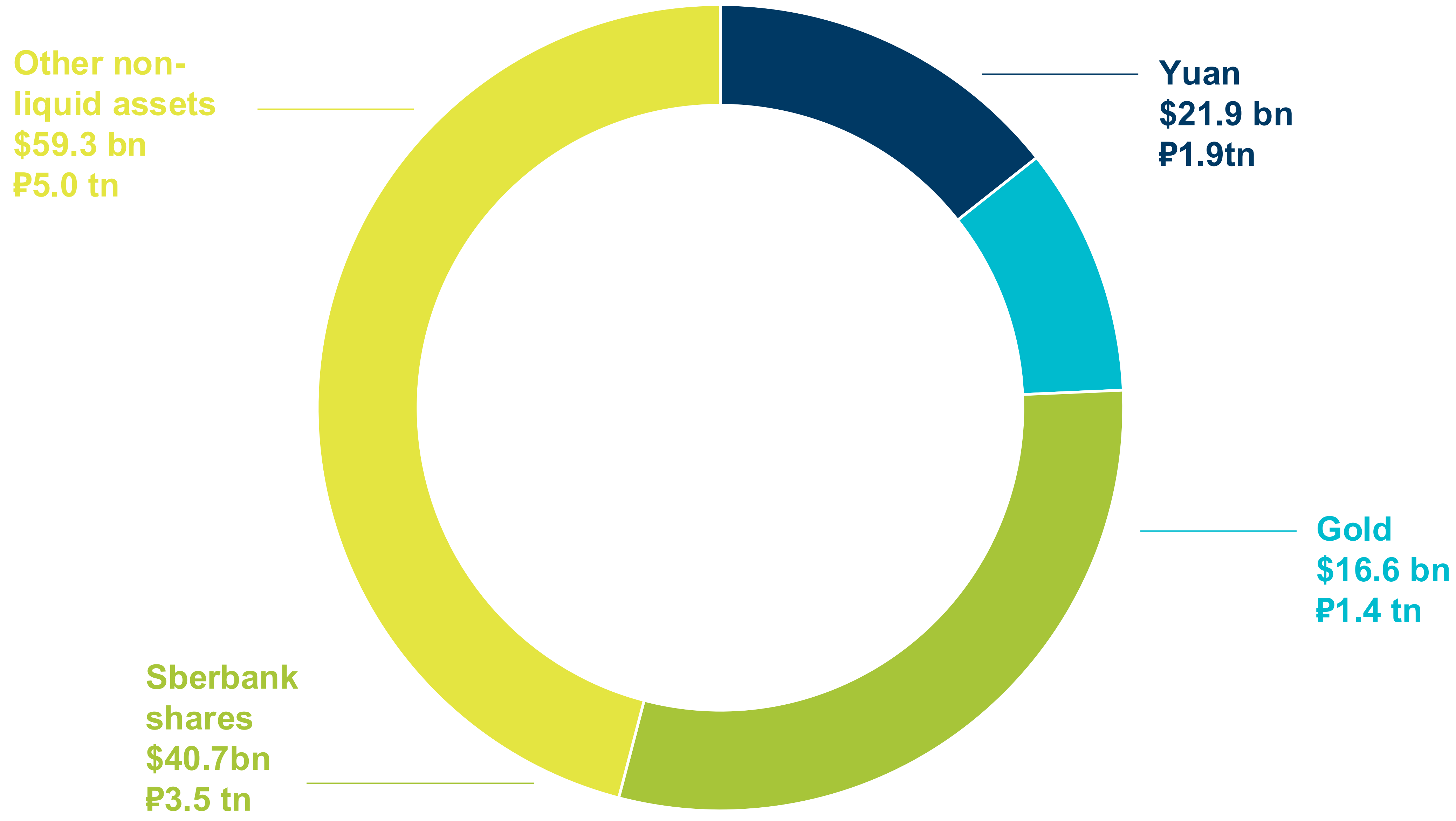
- Total assets of the National Welfare Fund stood at 11.7 trillion rubles ($149 billion, 5.5% of GDP) in May 2025.
- The liquid portion has declined by 71% since early-2022—with a 450 billion rubles decline from April to May.
- Remaining liquid assets (2.8 trillion) now stand significantly below the new full-year deficit target (3.8 trillion).

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*

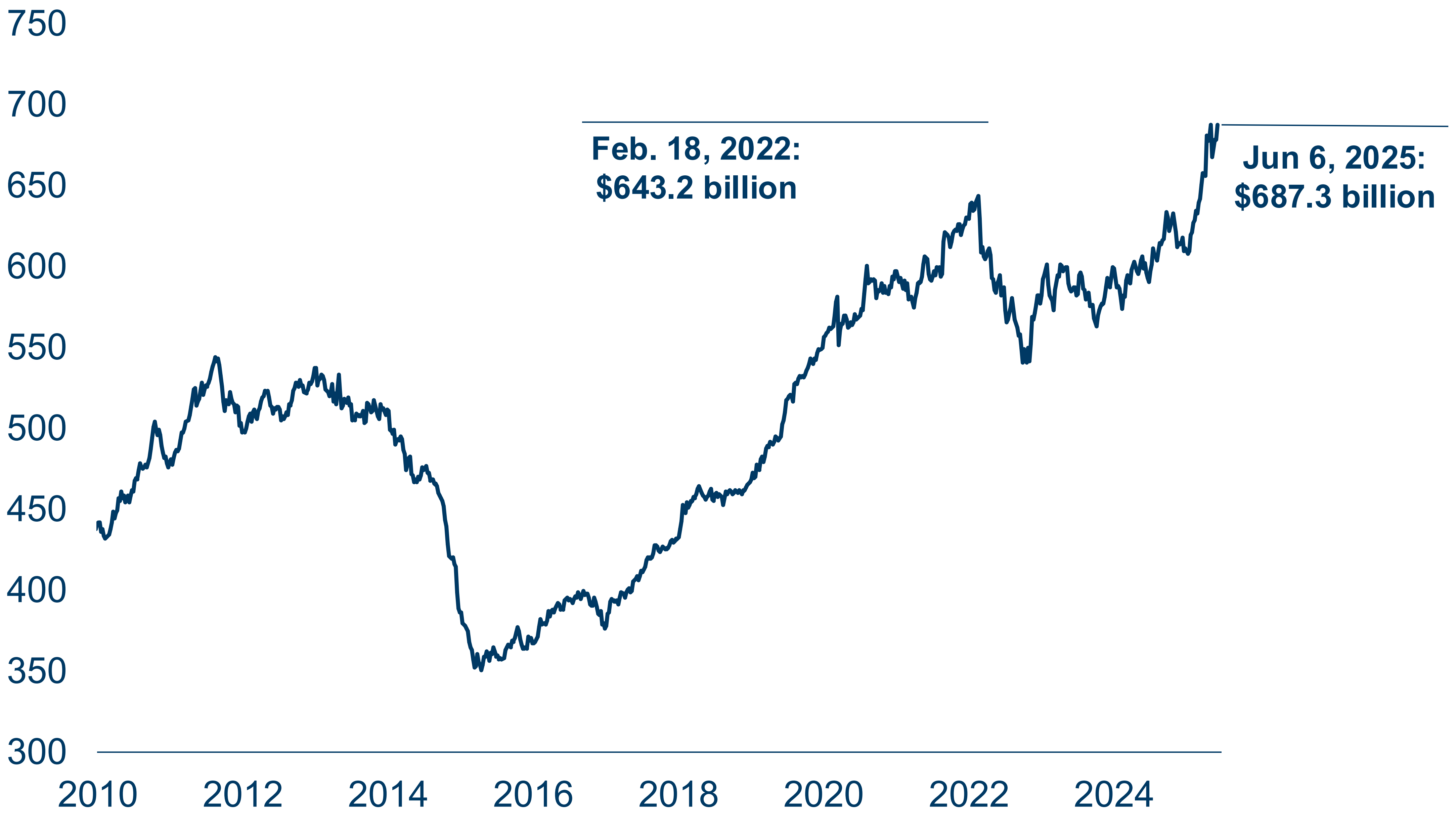


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

Large share of reserves remains immobilized.

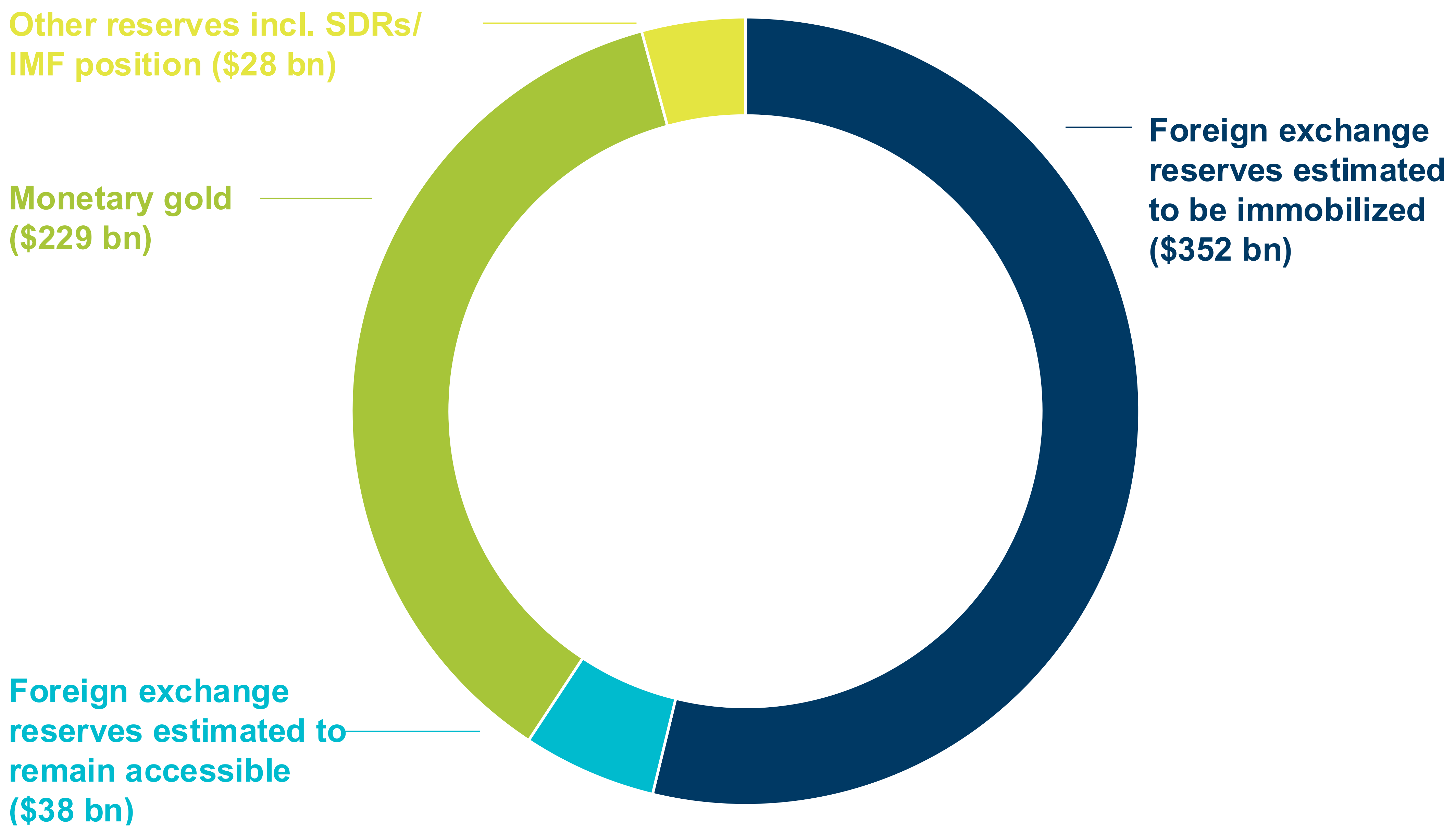
- Before the start of the full-scale invasion, Russia held $643 billion in international reserves—an all-time high.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves have a current value of ~$352 billion.
- This leaves Russia with $38 billion of foreign exchange, $229 billion of gold, and $28 billion of other assets.

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

Composition of reserves 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.

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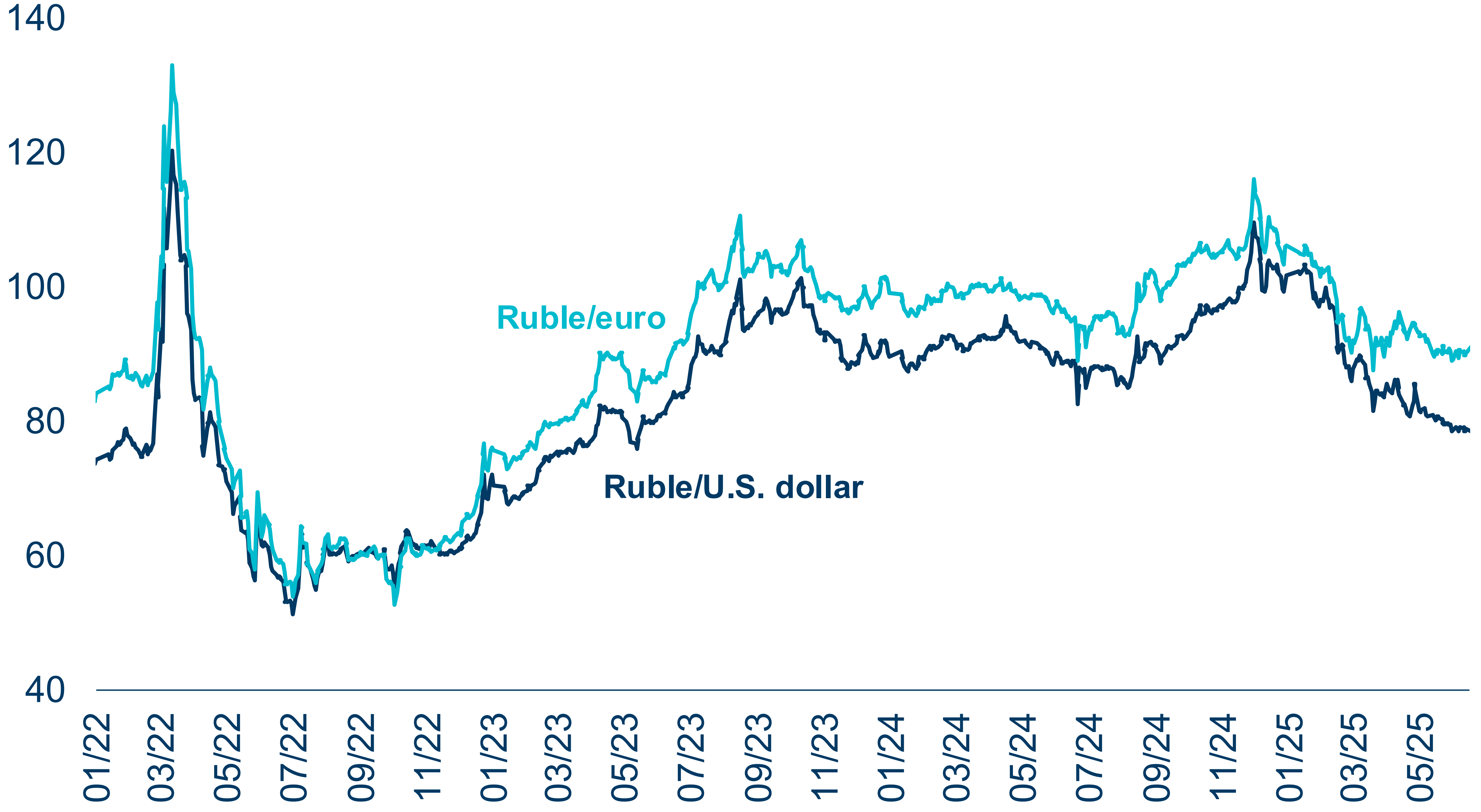
Ruble has strengthened considerably since early-2025.

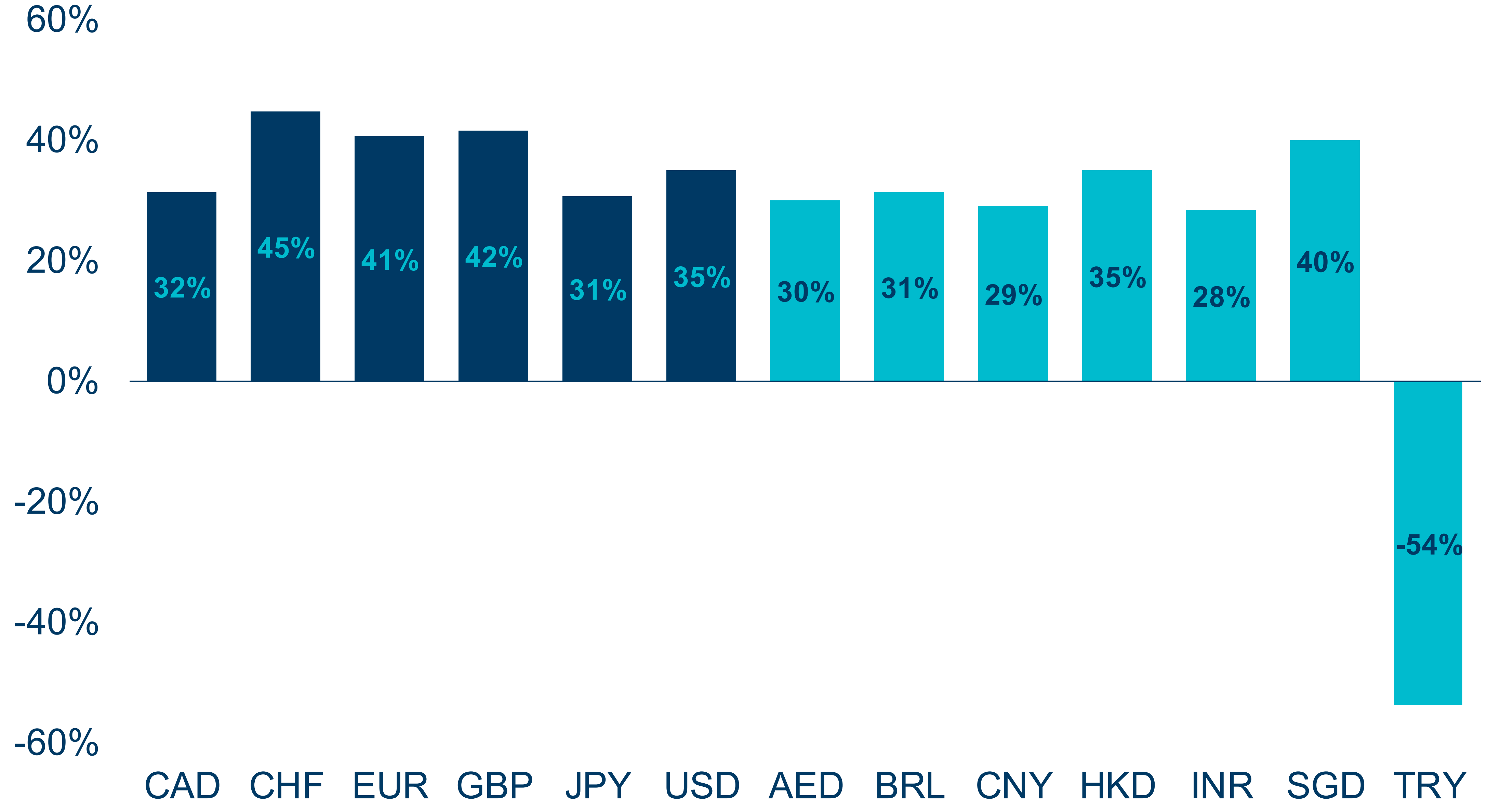
- The ruble has strengthened since the start of the year on the back of lower imports due to tight monetary policy.
- In addition, improved sentiment following U.S.-Russia rapprochement may have affected capital flow dynamics.
- Nevertheless, Russia's currency remains significantly weaker against almost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

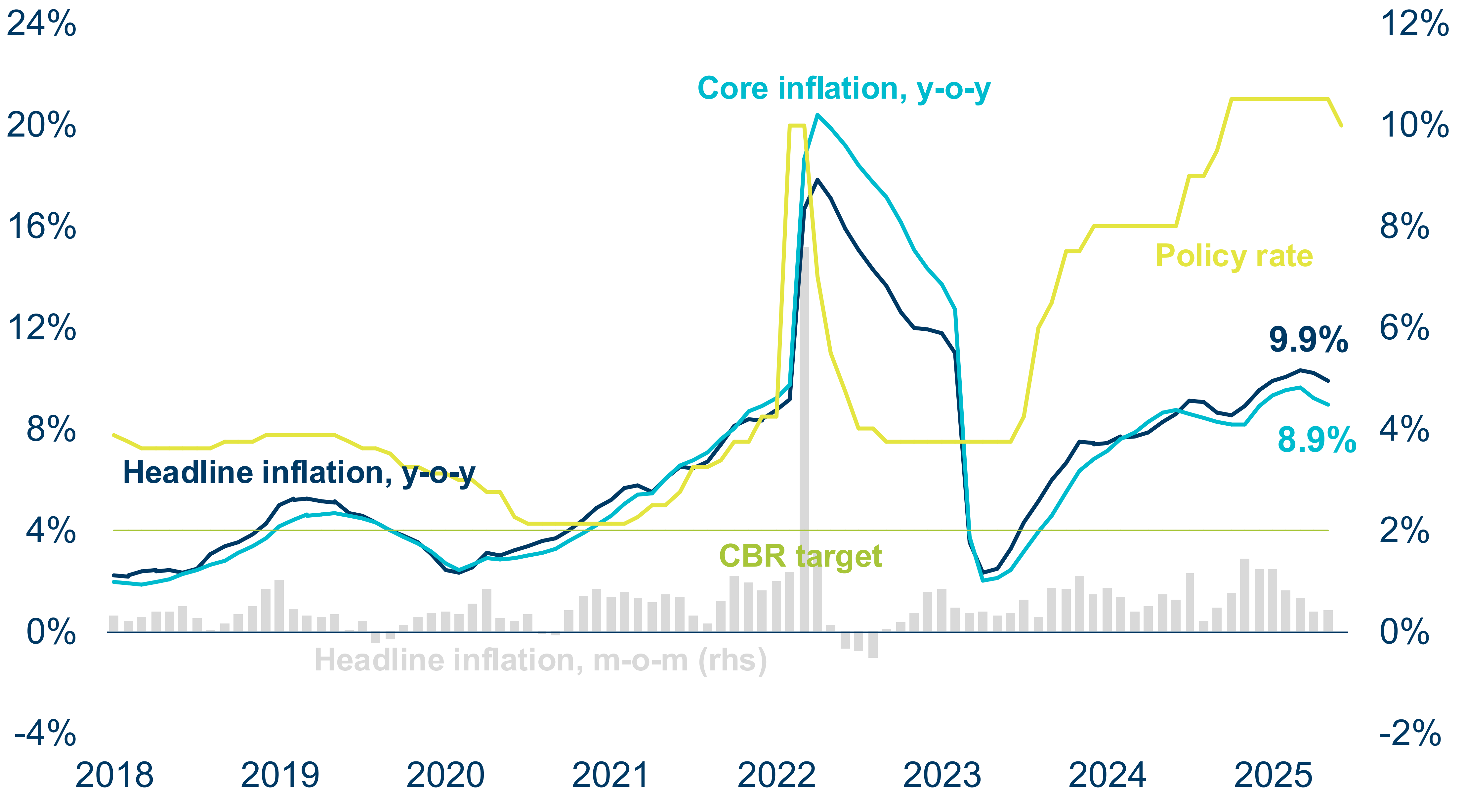


Source: Bank of Russia, KSE Institute

Rate cut despite no major progress in fight against high inflation.

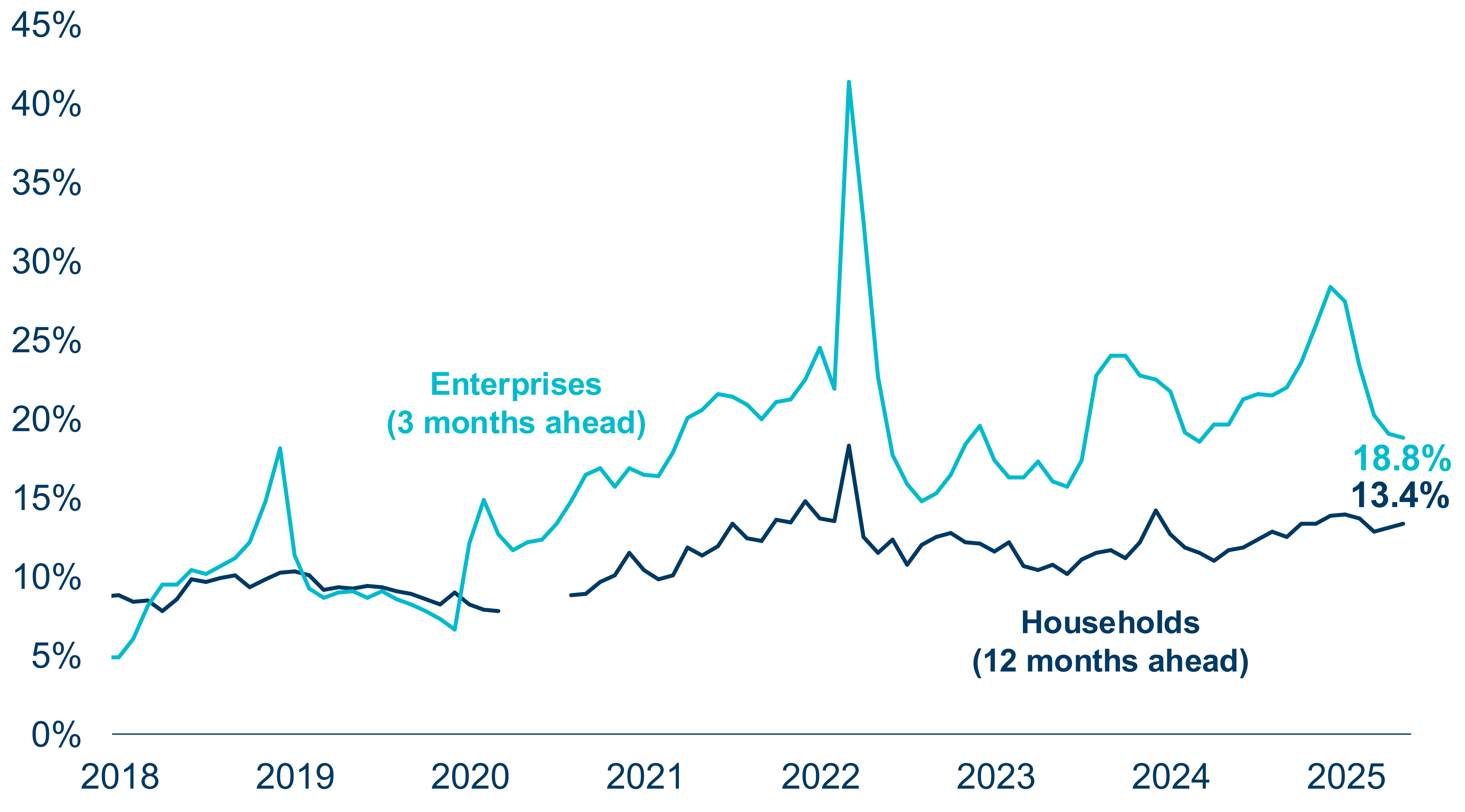
- Inflation remains high despite the stronger ruble, reaching 9.9% year-over-year in May (8.9% for core).
- Maintaining a tight monetary policy has not been enough to substantially reduce price pressures.
- Despite persistently high inflation, the CBR cut its policy rate for the first time since 2022 (by 100 bps).

Inflation and CBR policy rate, in %



Source: Bank of Russia, KSE Institute

Inflation expectations, in %

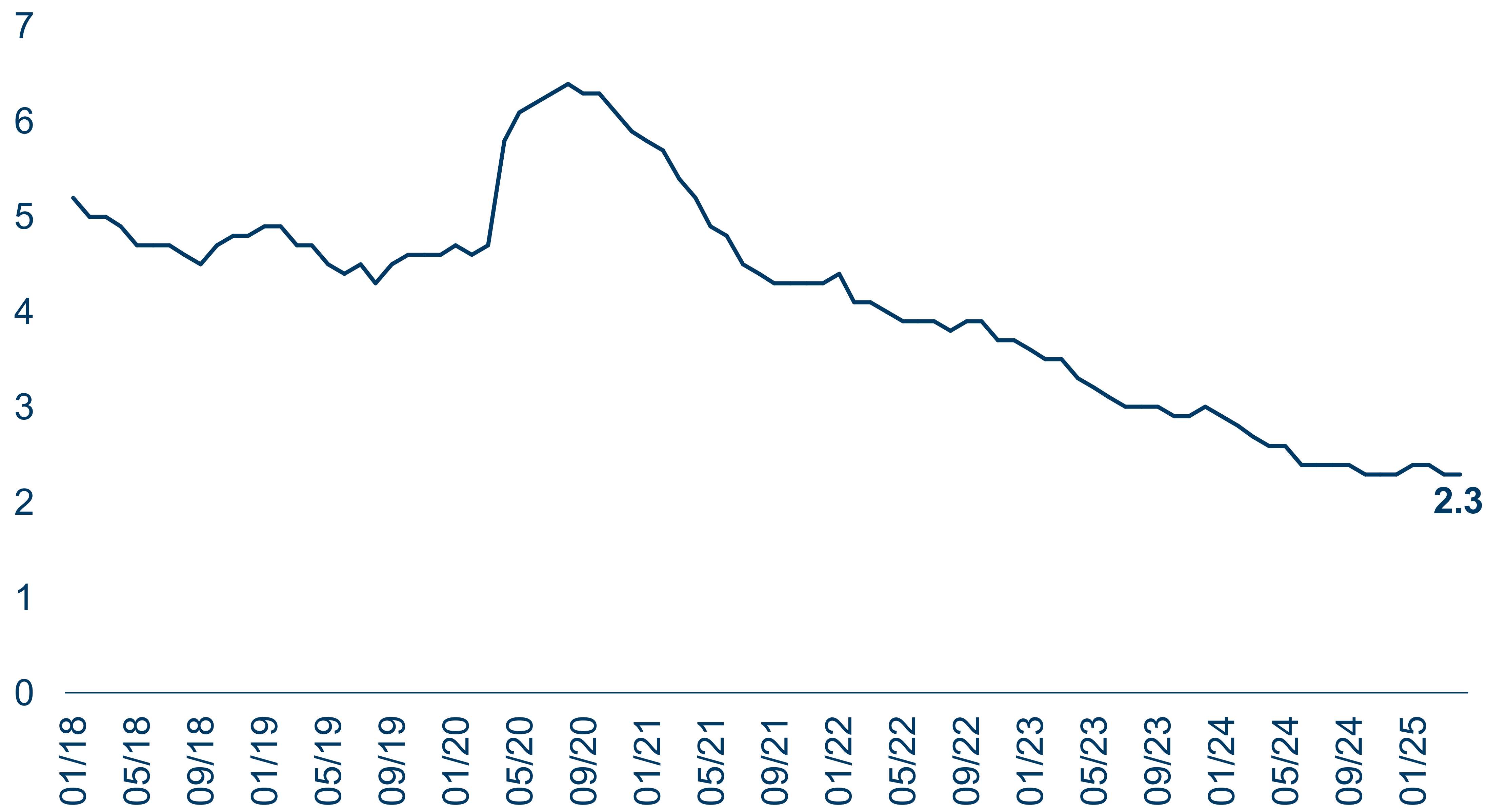


Source: Bank of Russia, KSE Institute

Wage growth is slowing despite still-tight labor market.

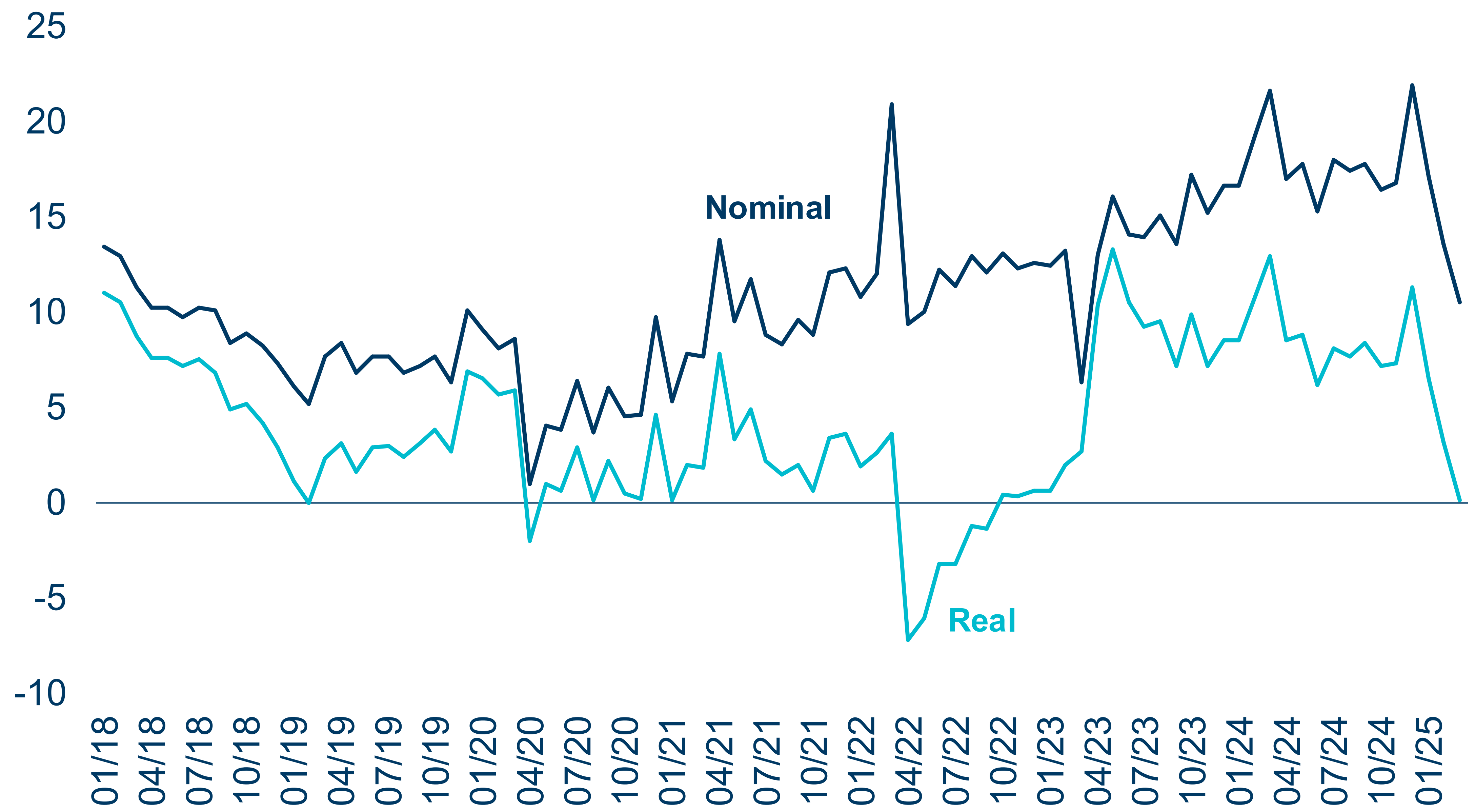
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from.
- However, wage growth is slowing amid tight monetary policy, which limits company’s ability to afford it.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year



Source: Rosstat

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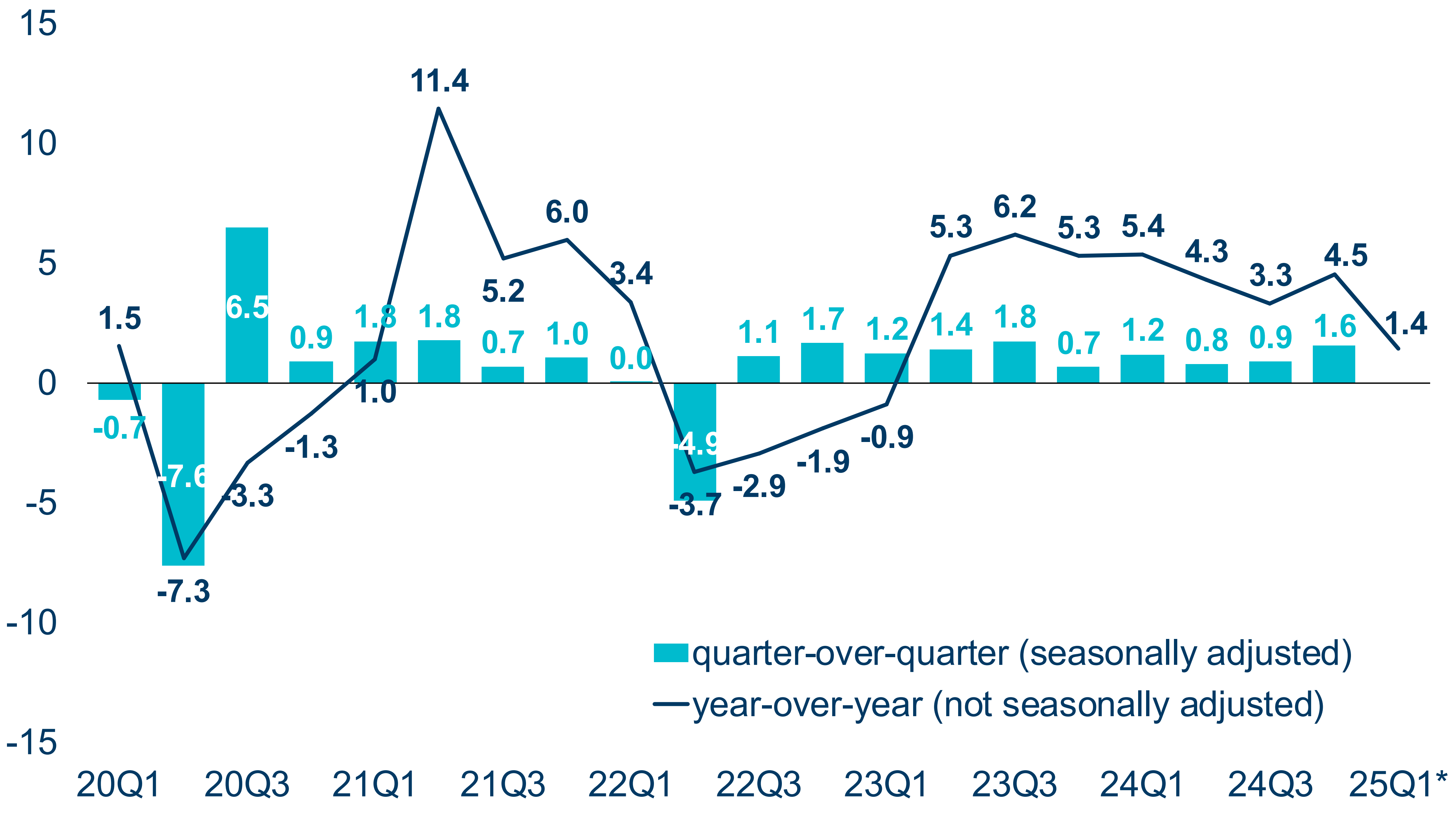
Economy slows; growth prospects seriously limited this year and beyond.

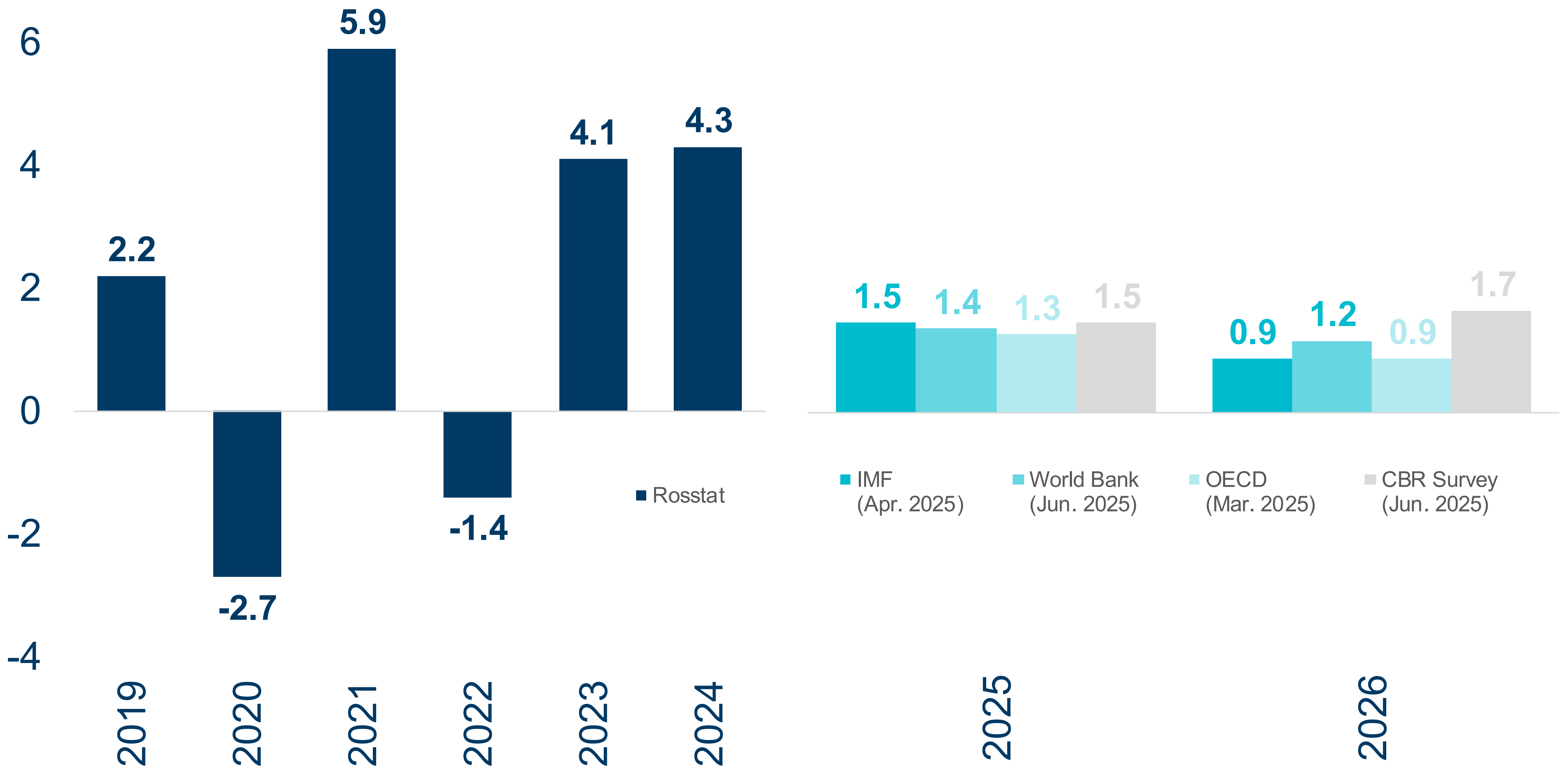
- After picking up in Q4 2024 to 4.5% year-over-year, real GDP growth slowed down to 1.4% in Q1 2025.
- Most institutions project that GDP growth will decline significantly in 2025 and slow down further in 2026.
- Key drivers: labor market constraints, missing (foreign) investment, significantly tighter monetary conditions.

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute
*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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- May 2024
- April 2024
- March 2024
- February 2024
- January 2024

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- October 2023
- September 2023
- July 2023
- May 2023
- April 2023
- March 2023
- February 2023

- December 2022