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KSE Institute Russia Chartbook

Rosneft-Lukoil Sanctions Bite; Budget Deficit Will Soar in December

December 2025

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Executive Summary

1. **New US sanctions on Rosneft/Lukoil started to bite.** Russia's oil export earnings dropped to $11.0 billion in Nov. (from $12.9 billion in Oct.) as the average export price plunged to $47.1/bbl. Notably, this occurred despite relatively stable global prices ($63.6/bbl in Nov. vs. $64.6/bbl in Oct.). Total export volumes also contracted significantly—to 6.8 mb/d in Nov. vs. 7.3 mb/d in Oct.—as key buyers like China, India, and Turkey reduced purchases by an average of 30%. In addition, the amount of Russian "oil on the water"—shipments that left Russia but have not found a buyer—rose noticeably as well, which means that export volumes could fall further going forward. While these dynamics may be a temporary result of supply chain readjustments, they could become structural if sanctions pressure persists.
2. **Budget remains a key challenge as year-end spending looms.** Over Jan.-Nov., Russia's federal budget recorded a deficit of 4.3 trillion rubles—a moderate increase from the Jan.-Oct. figure (4.0 trillion). Underlying dynamics remain unfavorable: O&G revenues over Jan.-Nov. dropped 22% y-o-y, non-O&G revenues grew by only 11%, and expenditures rose by 13%. Based on this performance and historical patterns of heavy spending in December, it is highly likely that Russia will breach the revised deficit target of 5.7 trillion rubles. Should Dec. spending turn out like last year, the full-year deficit would reach 7.8 trillion. With Russian oil export prices dropping sharply following new sanctions, O&G revenues will likely also weaken further in Dec., adding further to downside risks.
3. **Domestic borrowing becomes the primary financing channel.** With other options constrained, domestic borrowing has taken center stage. In Nov. alone, the Ministry of Finance borrowed 2.0 trillion rubles—the highest number by far since the start of the full-scale invasion. Consequently, OFZ issuance in Jan.-Nov. was 225% higher than in Jan.-Nov. 2024. This massive surge in debt is expected to be inflationary—particularly if supported by CBR repo operations to create sufficient demand from Russian banks—further complicating efforts to stabilize prices. For the moment, the CBR's persistently tight monetary policy has brought inflation down to 6.7% y-o-y in Nov. (from 7.7% in Oct.). The recent rate cut to 16% appears largely symbolic and is unlikely to significantly stimulate business activity.
4. **Economic activity has nearly stalled.** The economy is teetering on the edge of stagnation, with growth slowing to just 0.1% q-o-q in Q3 (vs. 0.3% in Q2). Y-o-y growth has slowed in parallel to 0.6% in Q3 vs. 1.1% in Q2 and 1.4% in Q1). Consequently, most forecasters have significantly downgraded their outlooks, now projecting full-year growth of less than 1% in 2025 and around 1% in 2026. The fundamental constraints of the Russian economy are, thus, finally taking their toll after the manufactured war boom in 2023-24.

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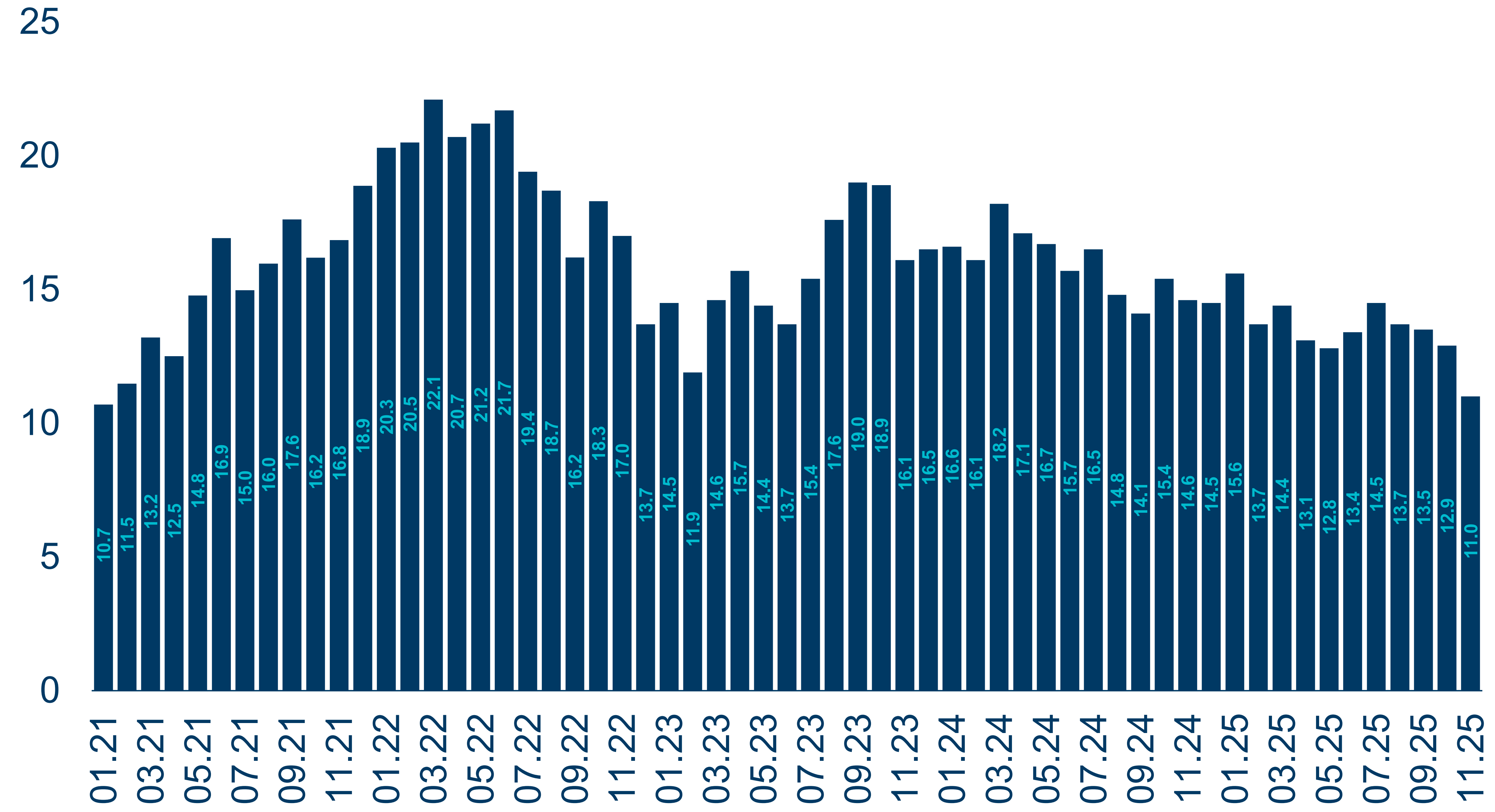
Sanctions trigger sharp drop in oil export prices and revenues.

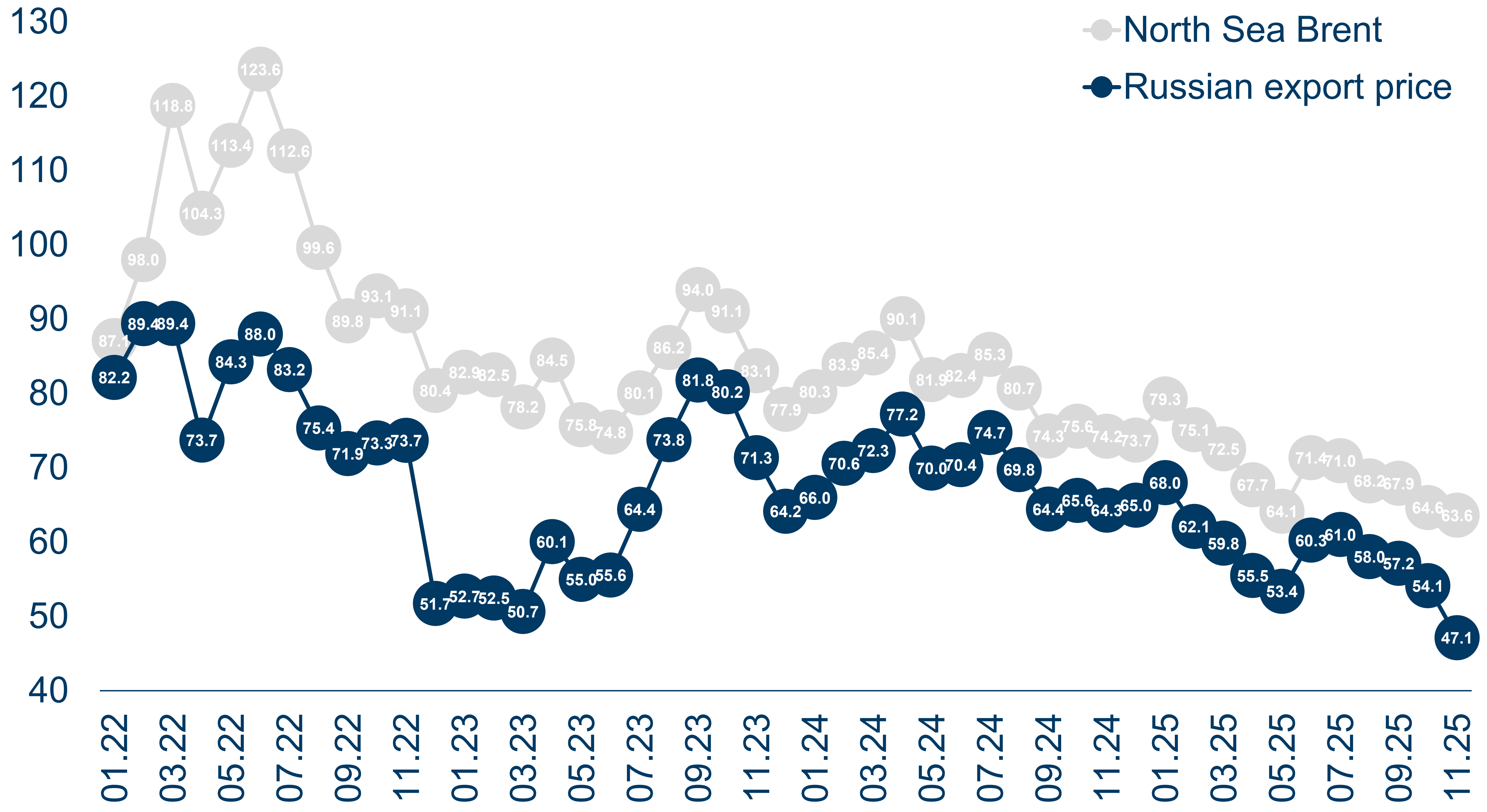
- Oil export earnings fell to their lowest level since the full-scale invasion in Nov. (at $11.0 billion).
- Russian export prices collapsed to $47.1/bbl—close to the new price cap—despite stable global prices.
- This sharp drop is likely a direct consequence of the new US sanctions on Rosneft and Lukoil.

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*

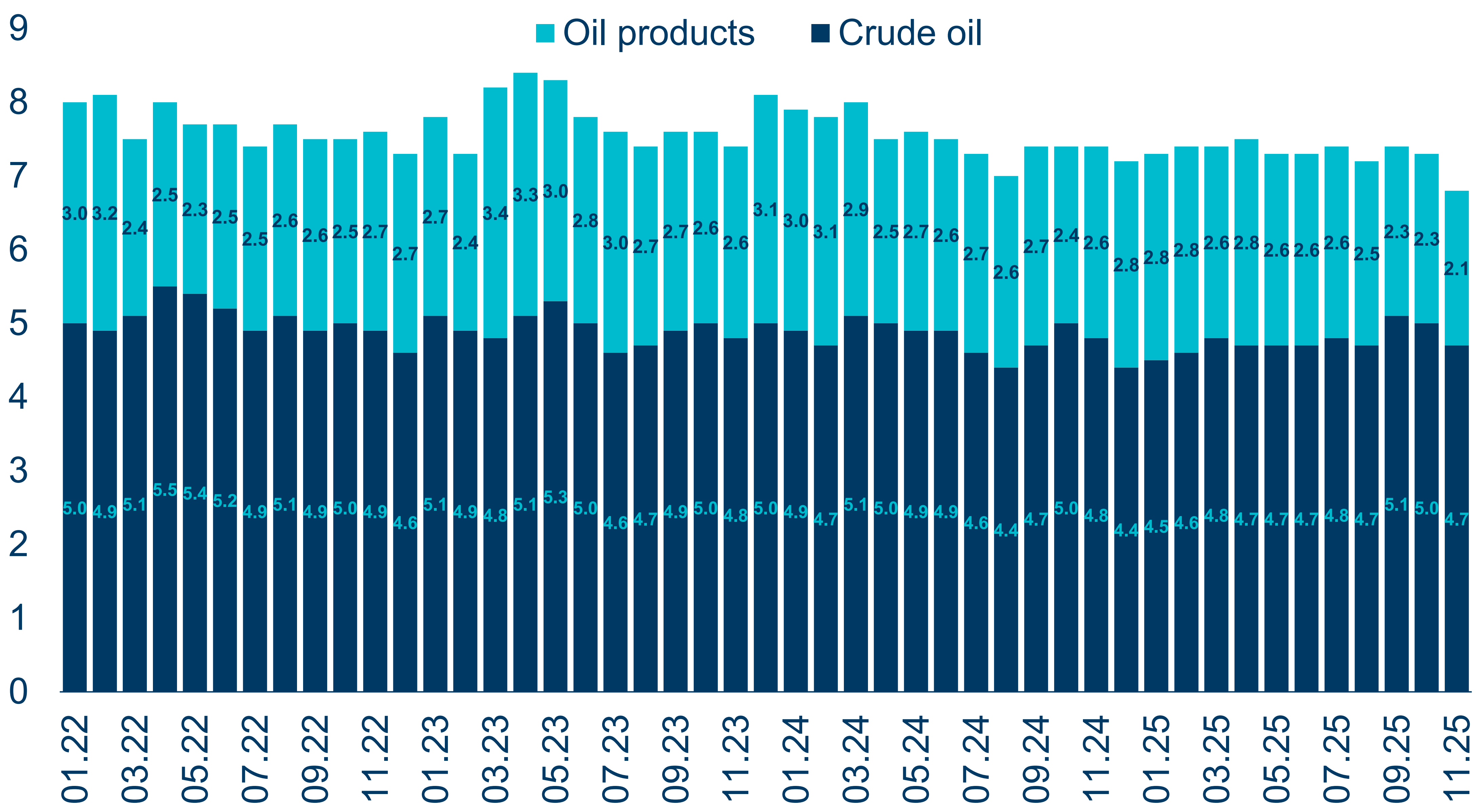


Source: International Energy Agency, KSE Institute

Oil export volumes decline as new sanctions disrupt trade flows.

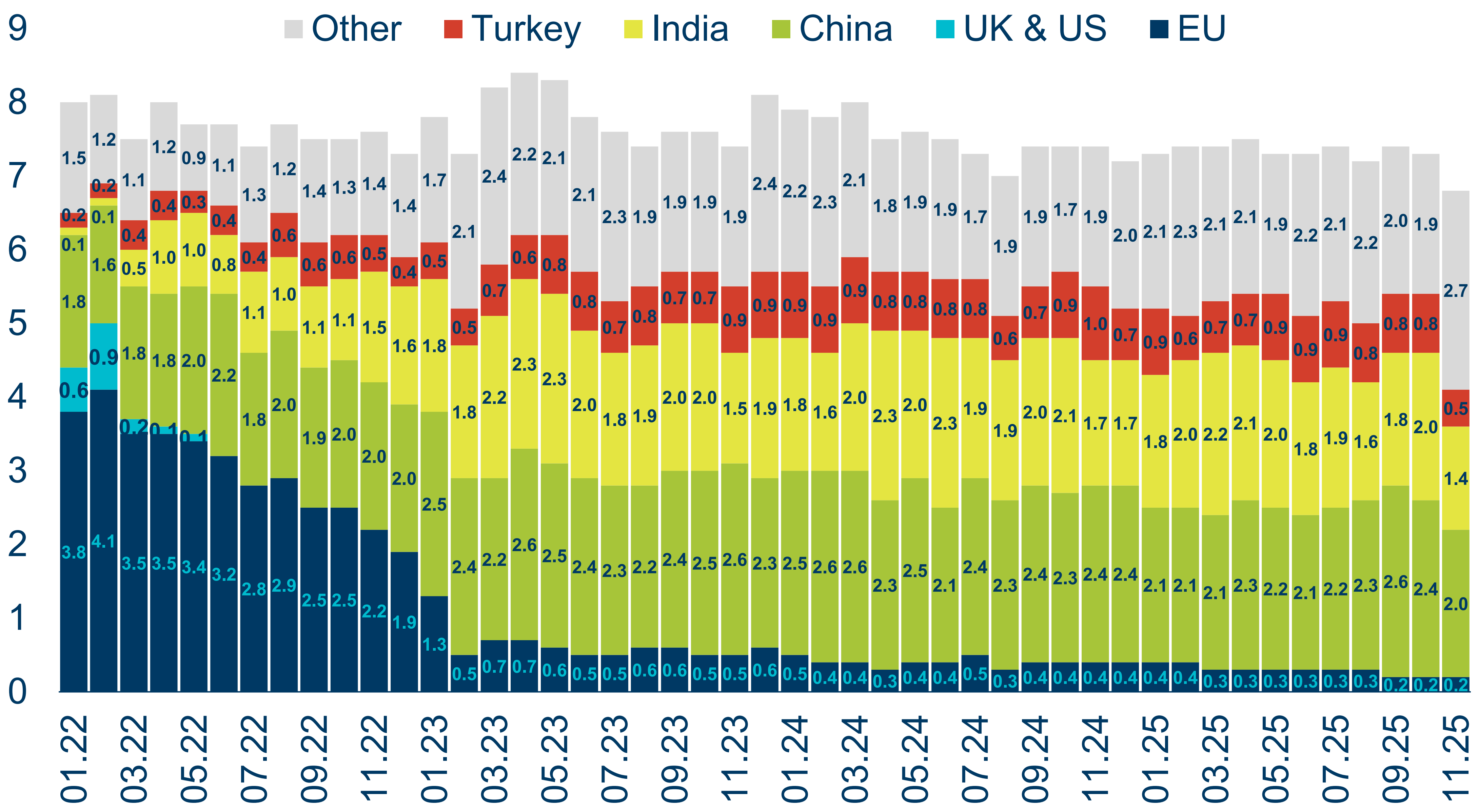
- Russian oil export volumes fell noticeably in Nov. to ~6.8 mb/d (vs. ~7.3 mb/d in Oct.)
- Key buyers such as China, India, and Turkey reduced purchases, each by an average of 30%.
- Exports to other destinations surged, likely indicating a large volume of oil “on the water”.

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

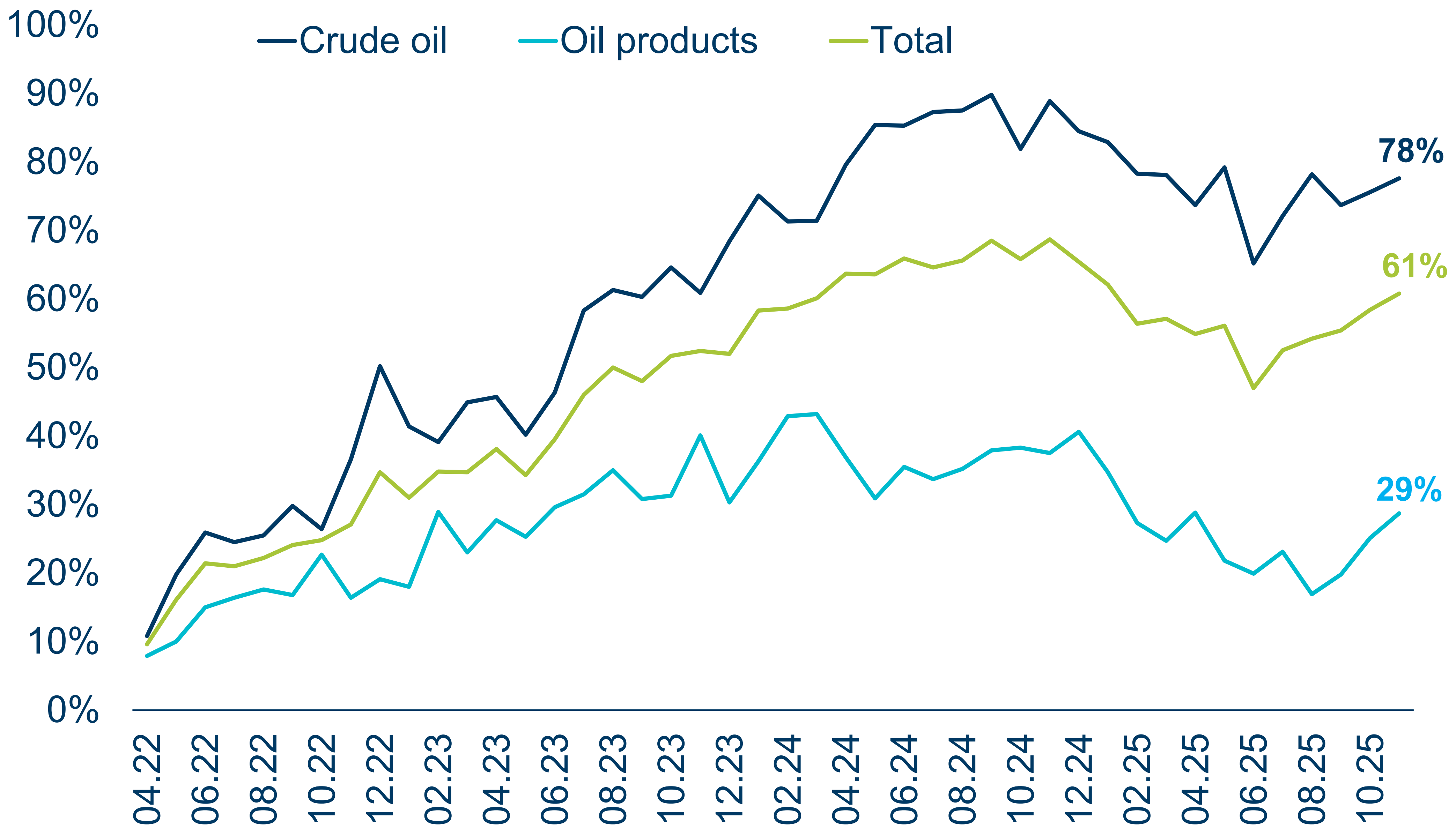


Source: International Energy Agency, KSE Institute

Stepped-up shadow tanker sanctions require tighter enforcement.

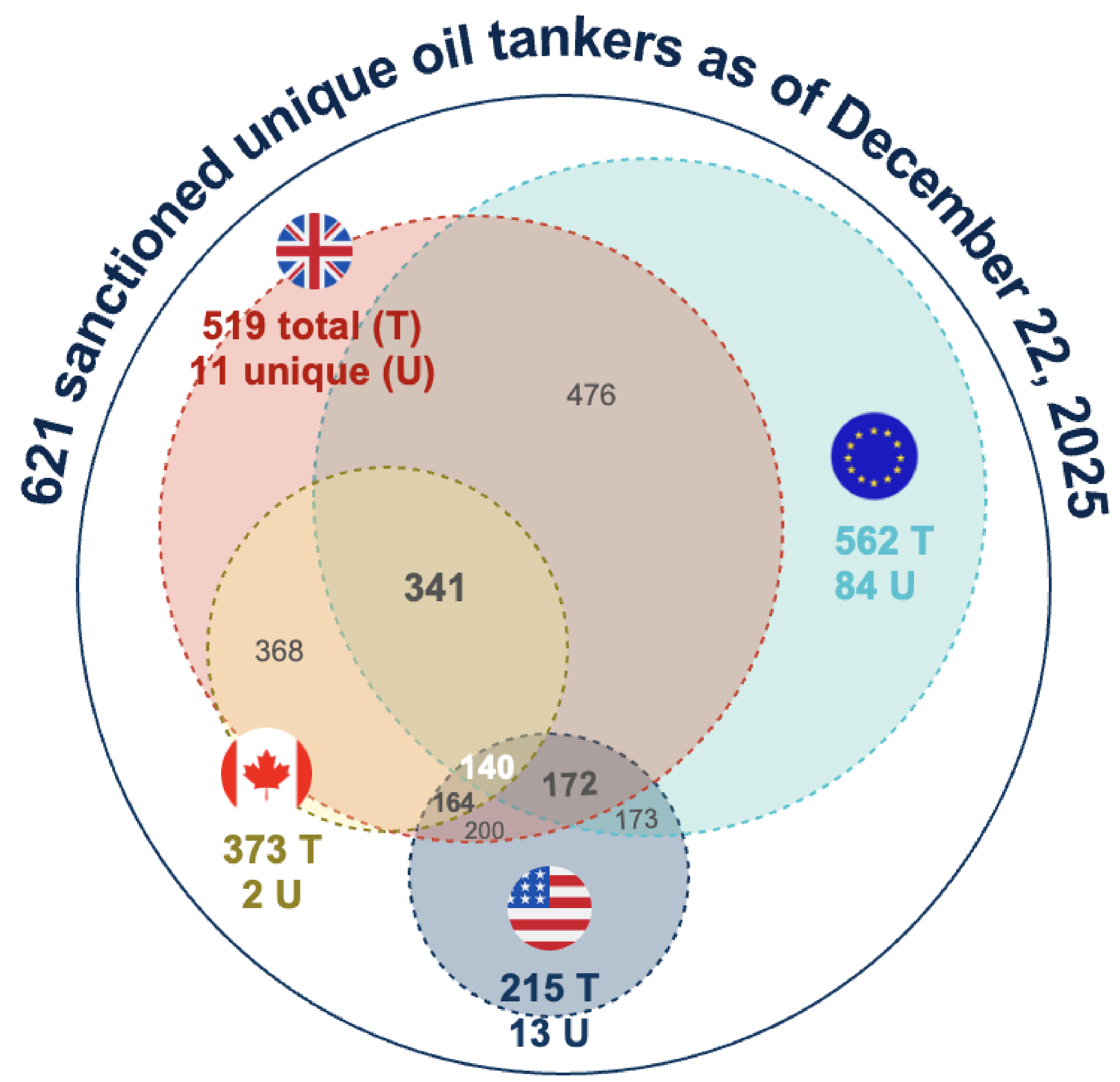
- The total number of sanctioned shadow tankers has reached 621, with 172 listed by the EU, UK, and US.
- With listings reaching ~70% of the shadow fleet, more effective enforcement will need to be in the focus.
- The shadow fleet's share in Russian oil exports rose in November, largely driven by oil products exports.

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction*



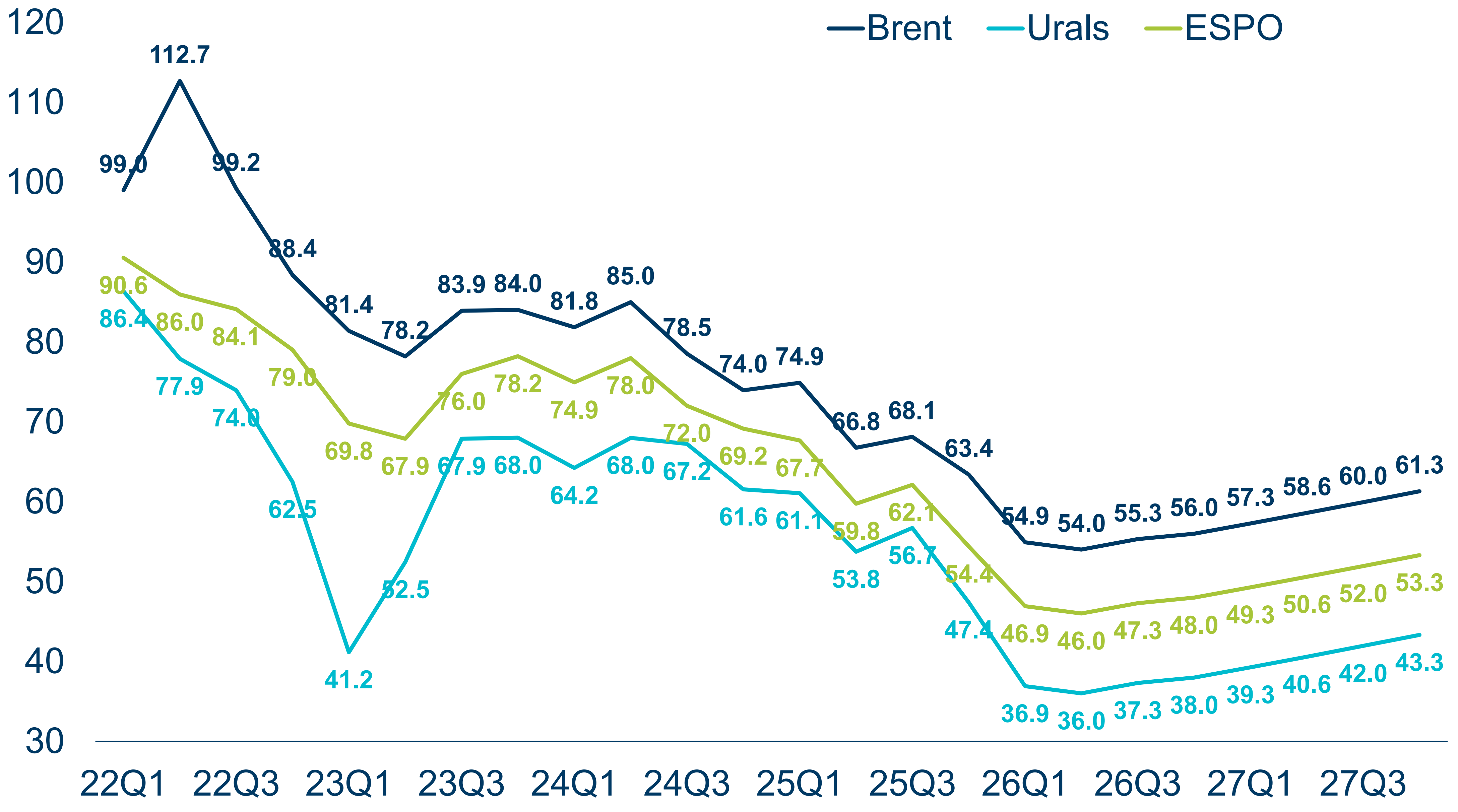
Source: European Commission, OFAC, OFSI, KSE Institute.

The numbers inside the circles show overlaps between jurisdictions, and do not add up to the total. Australia (196 vessels) and New Zealand (107 vessels) are not included: lists are almost fully aligned with the EU, UK and Canada. Ukraine listing is not included. Total (T) - total number of sanctioned shadow oil tankers by jurisdiction. Unique (U)– stands for the number of vessels sanctioned by jurisdiction solely.

Challenging outlook for Russian oil and gas exports.

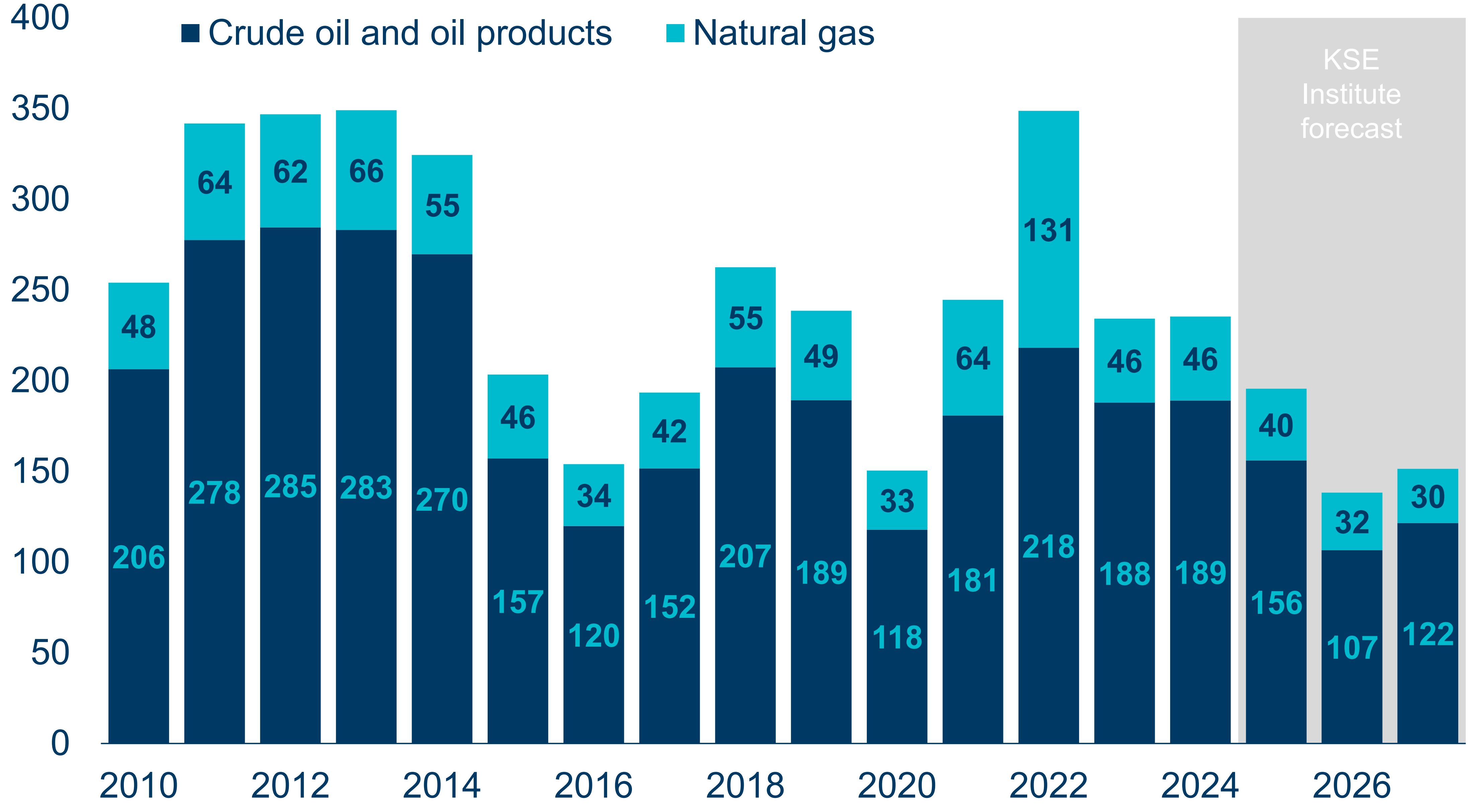
- Due to the significant supply glut in the oil market, Brent prices are expected to be around $55/bbl for most of 2026.
- Neither US sanctions on Rosneft and Lukoil nor Ukrainian attacks have not had any noticeable impact on the market.
- At the same time, a wider discount on Russian crude oil will likely bring Urals to the mid-30s and ESPO to the mid-40s.

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



Source: Bank of Russia, KSE Institute *scenario based on current sanctions

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



Source: Bank of Russia, KSE Institute

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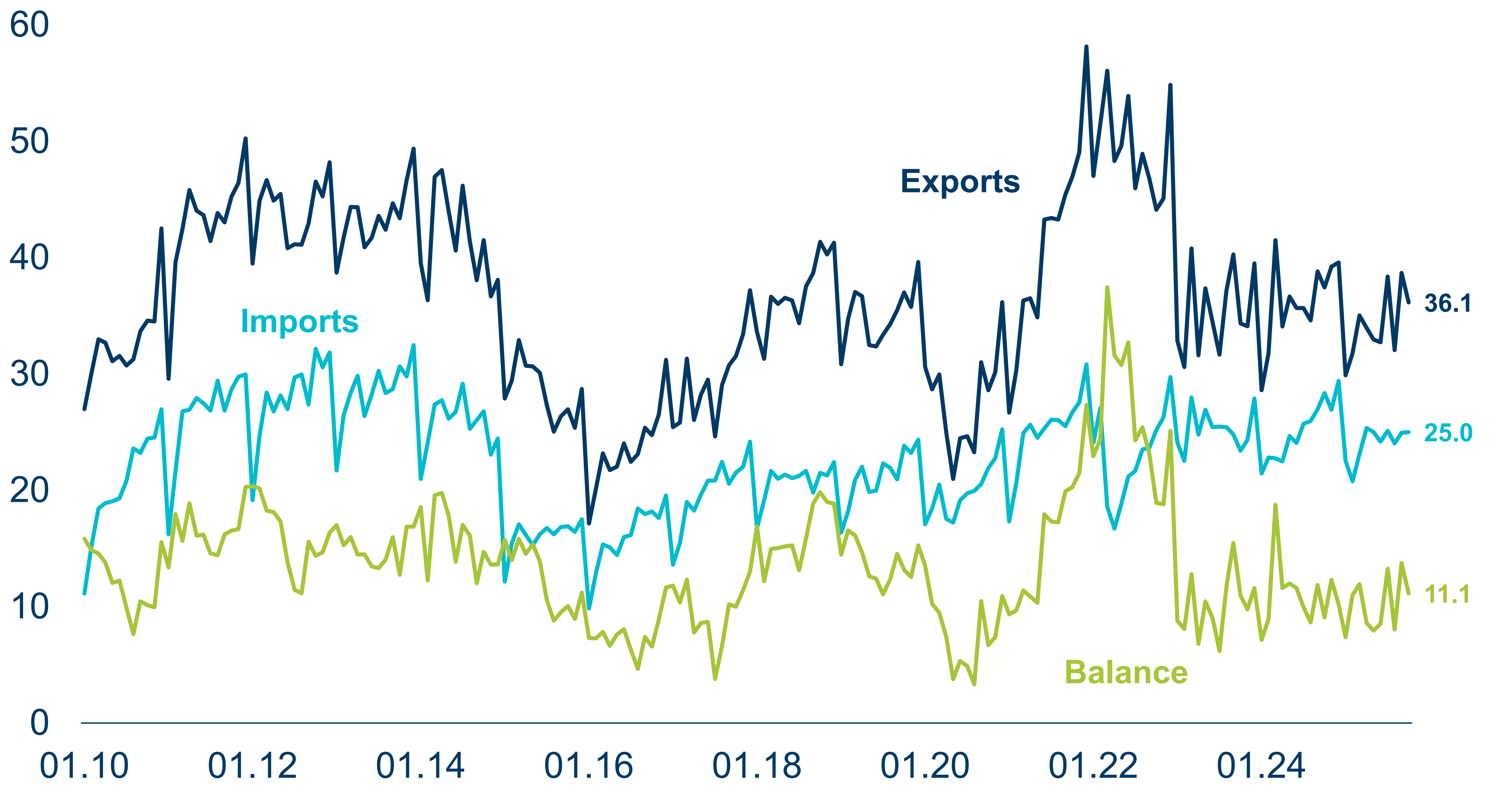
Current account surplus increases on the back of stronger exports.

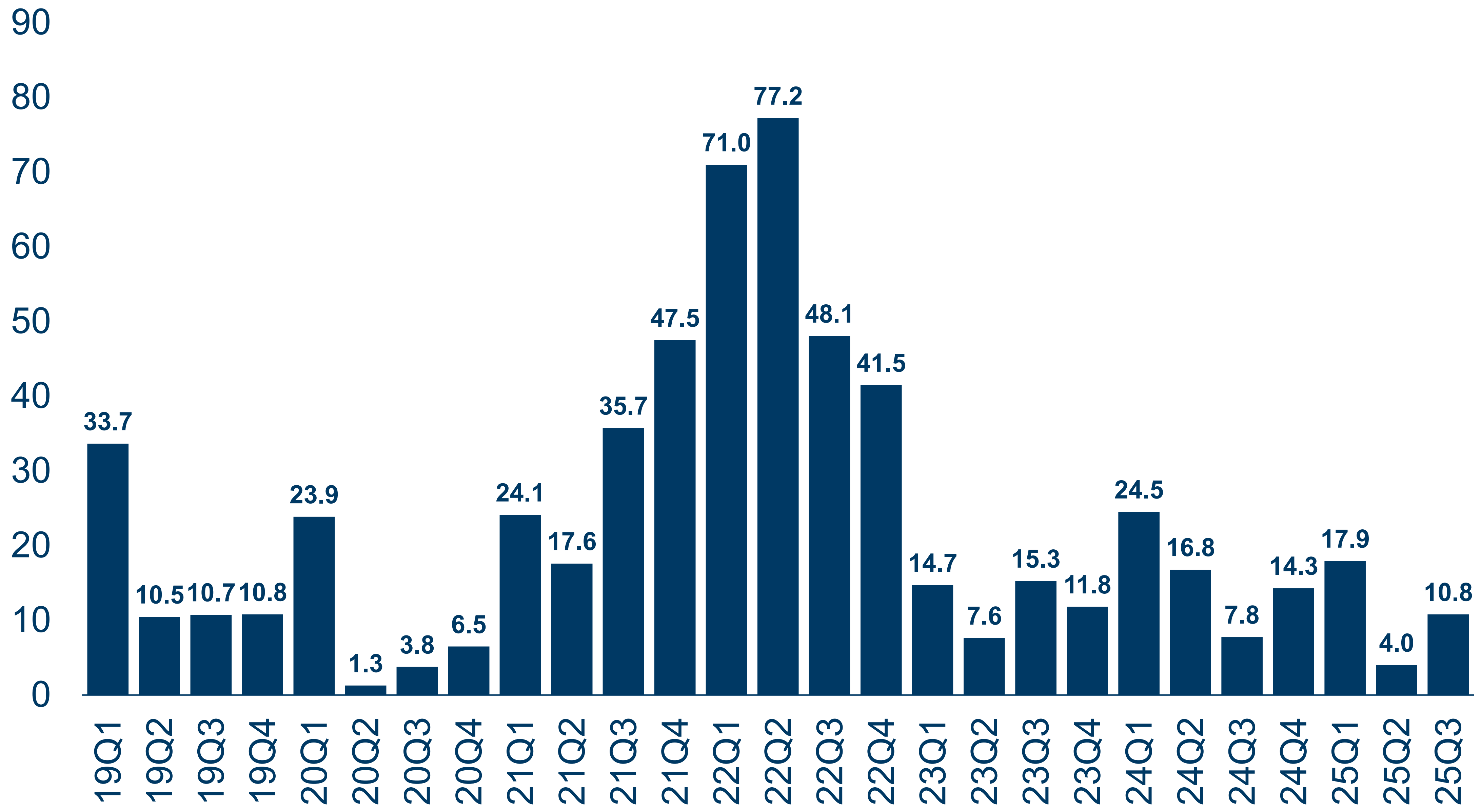
- Exports weakened marginally in Oct., while imports remained broadly stable, leading to a smaller surplus.
- The current account surplus improved to $10.8 billion in Q3 but remains much weaker than in Q1 2025.
- The change is largely a result of much stronger goods exports, while services and income deficits grew.

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

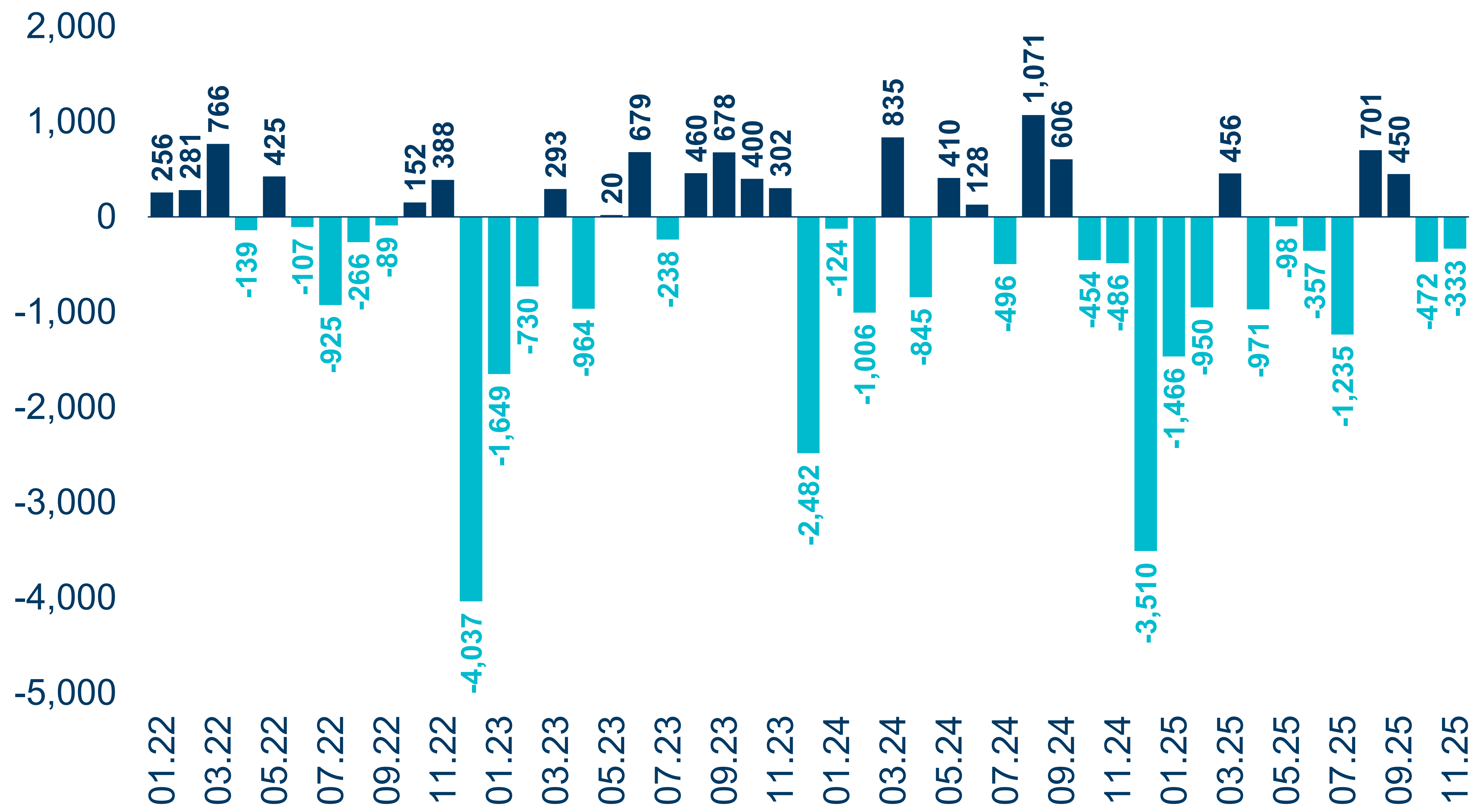


Source: Bank of Russia, KSE Institute

Deficit reaches 4.3 trillion; annual target likely to be breached.

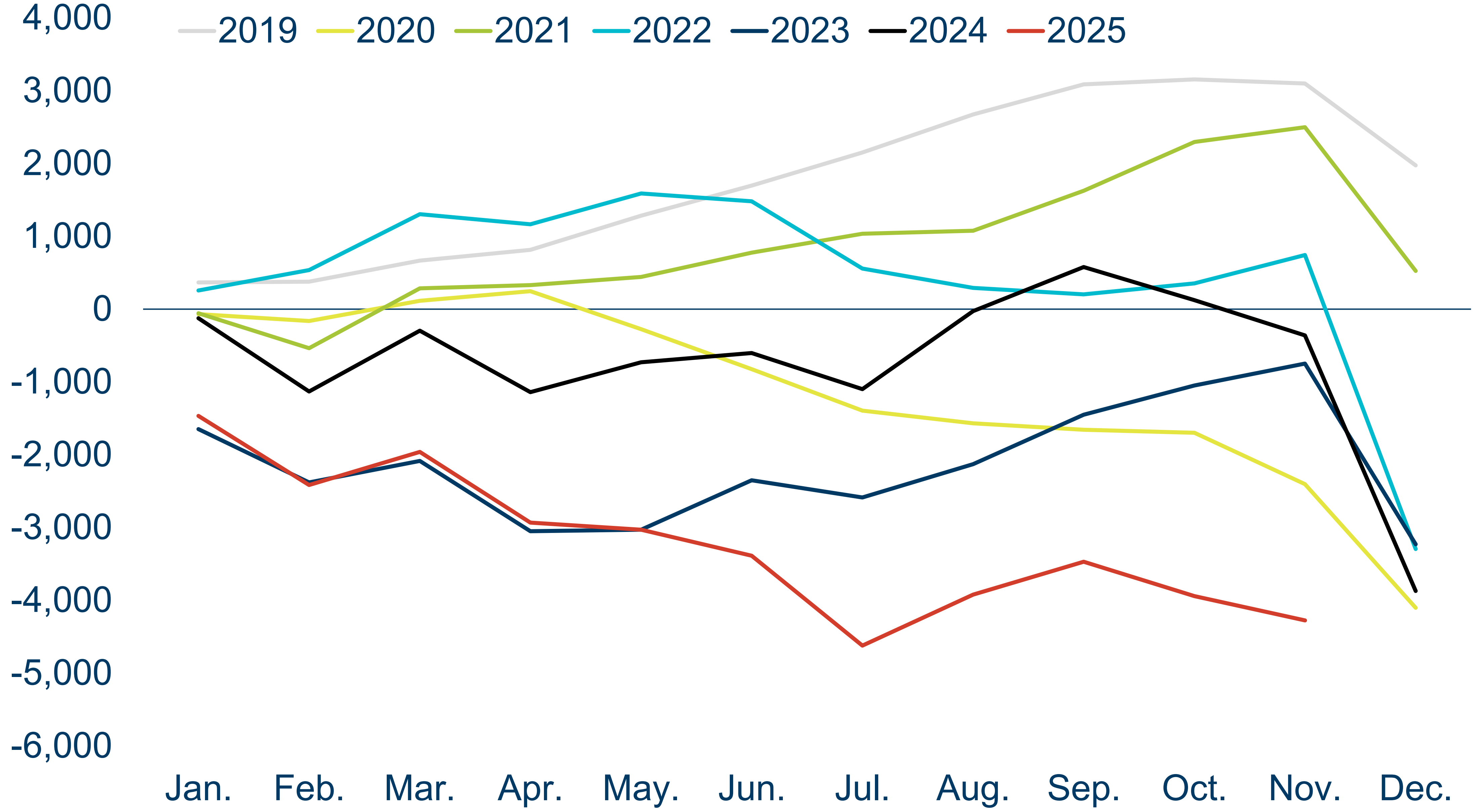
- The budget deficit over Jan.-Nov. reached 4.3 trillion rubles—a moderate increase vs. Jan.-Oct. (4 trillion).
- The November deficit brings the cumulative number for Jan.-Nov. to 75% of the revised target of 5.7 trillion.
- Should Dec. play out like it did in 2024 (with high year-end spending), the deficit would reach 7.8 trillion.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

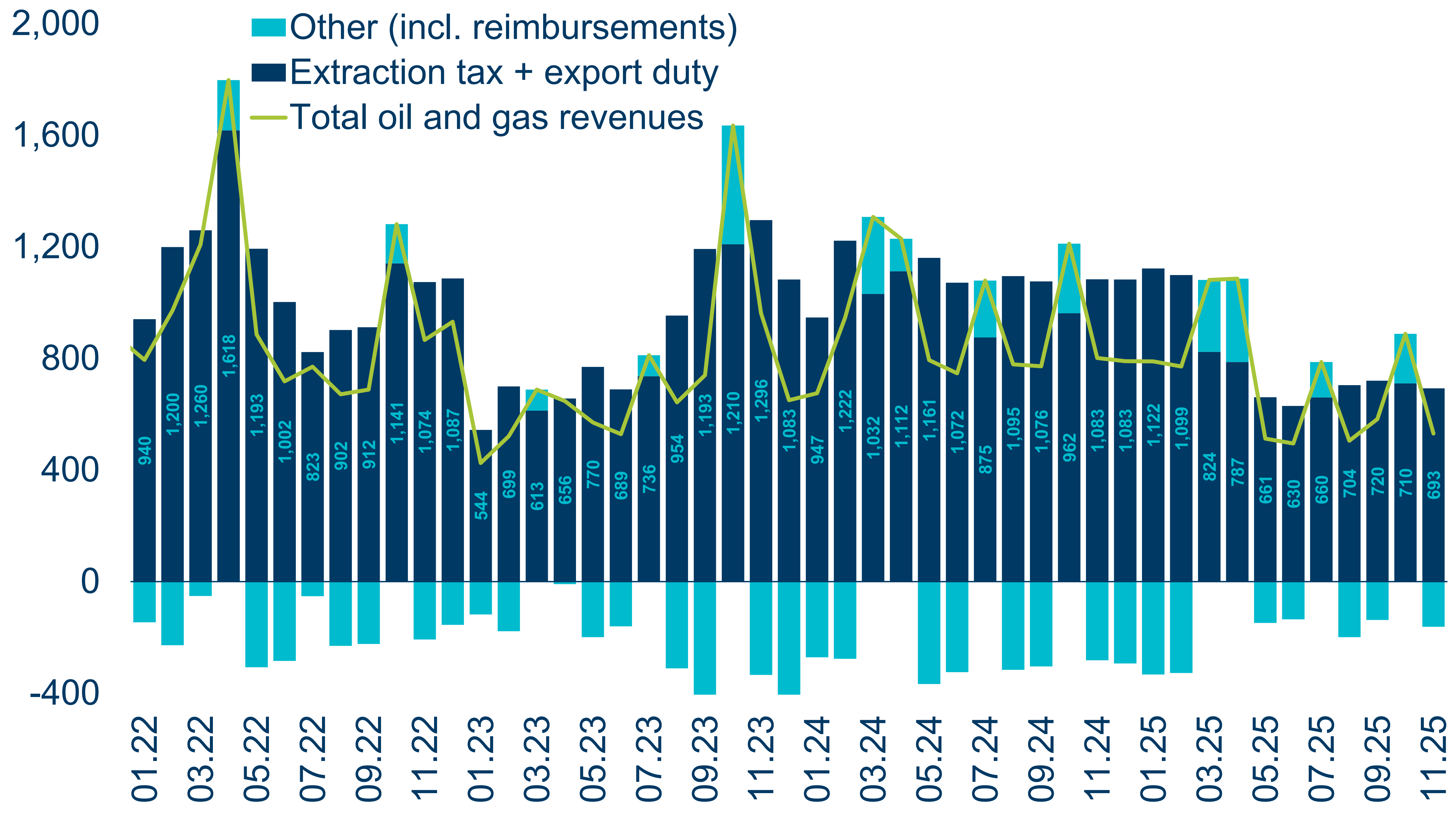


Source: Ministry of Finance, KSE Institute

Subdued oil and gas revenues; non-O&G revenues under pressure.

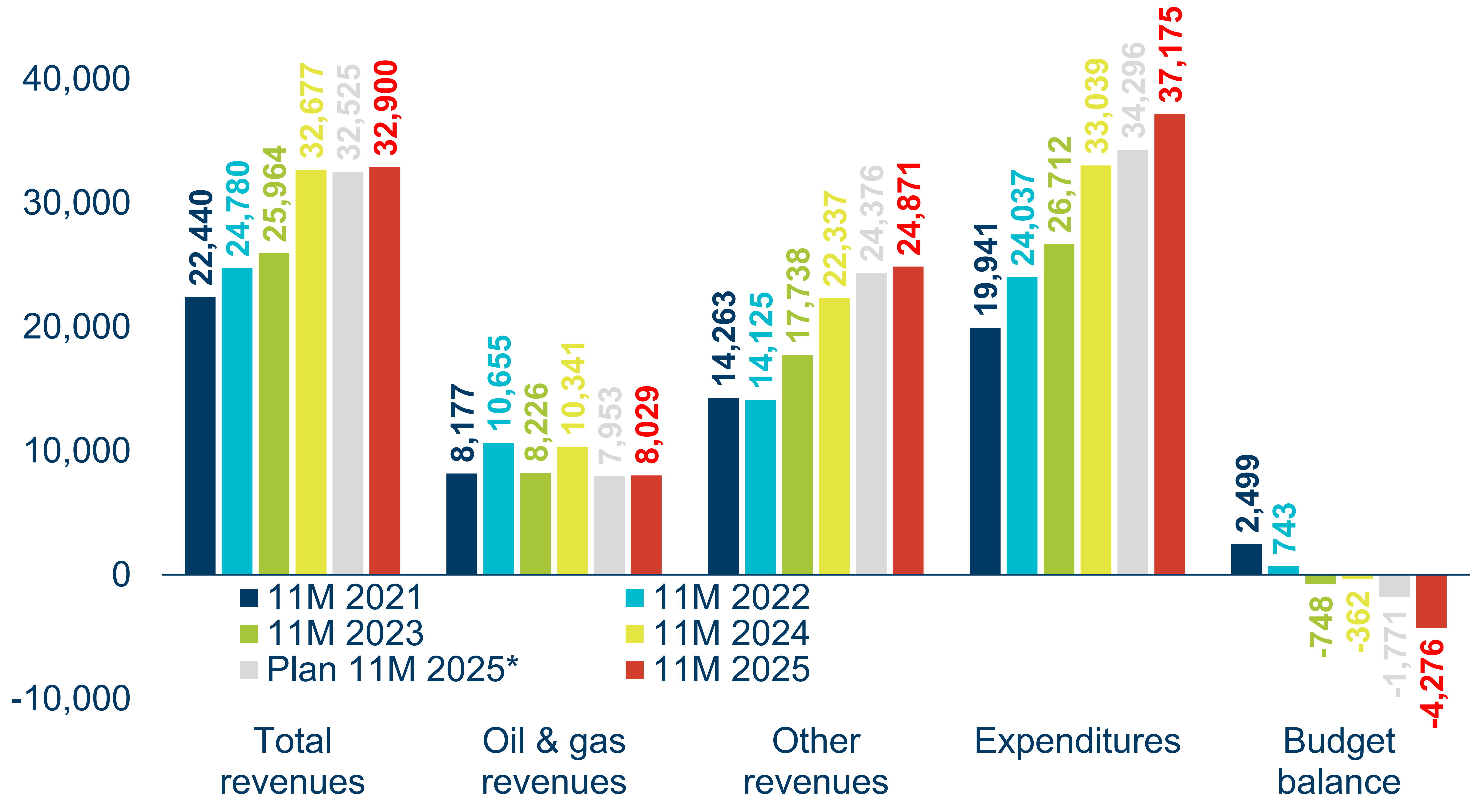
- Year-to-date, O&G revenues were 22% weaker, non-O&G revenues 11% stronger, and expenditures 13% higher.
- O&G revenues declined in Nov. as the temporary boost from quarterly tax payments faded and are likely to fall further.
- Non-O&G revenue growth moderated in Nov., reflecting the broader economic slowdown, which will also continue.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion



Source: Ministry of Finance, KSE Institute *based on avg. 2019-24 within-year distribution.

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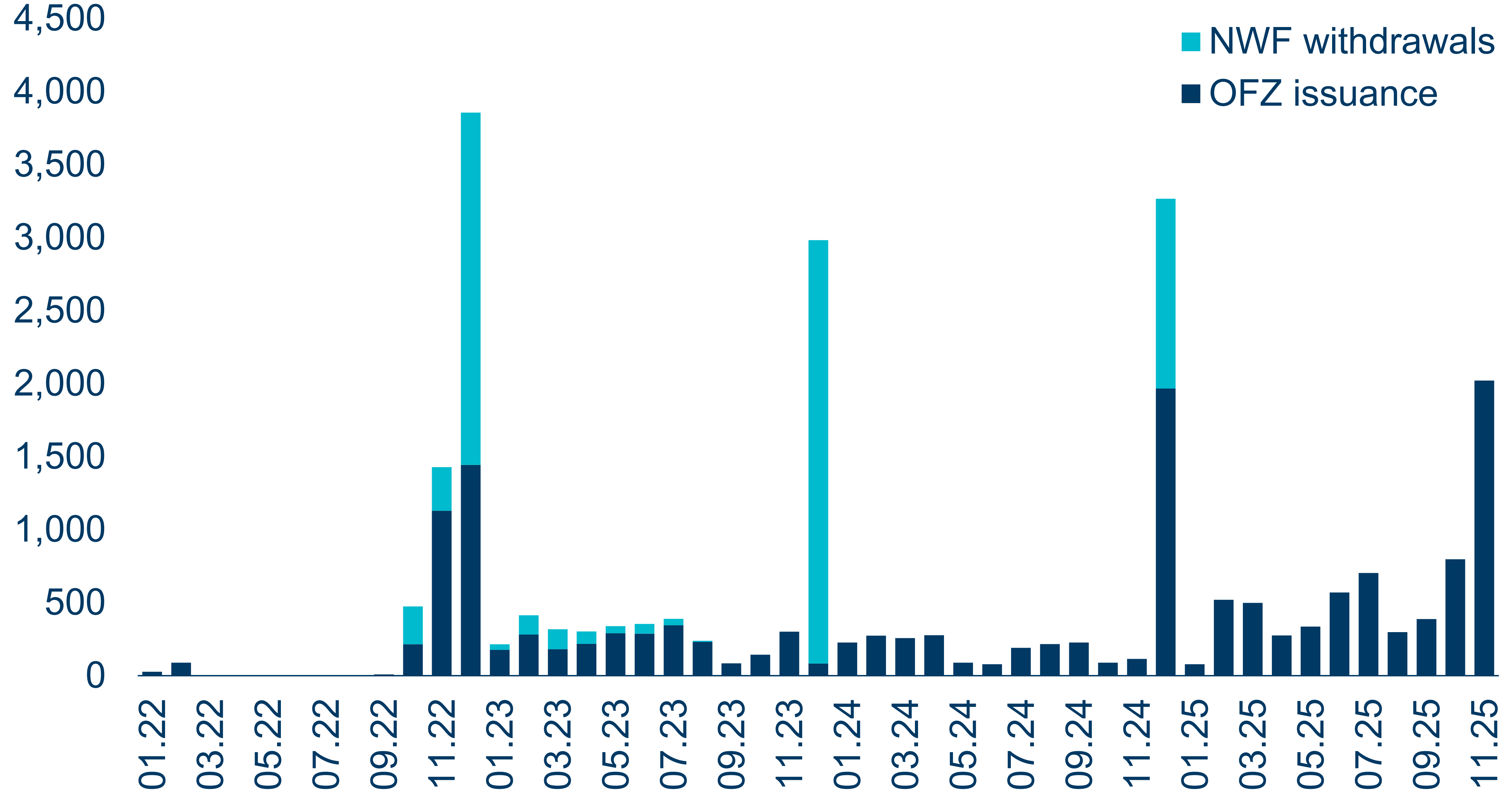
Domestic borrowing surges to record high as deficit widens.

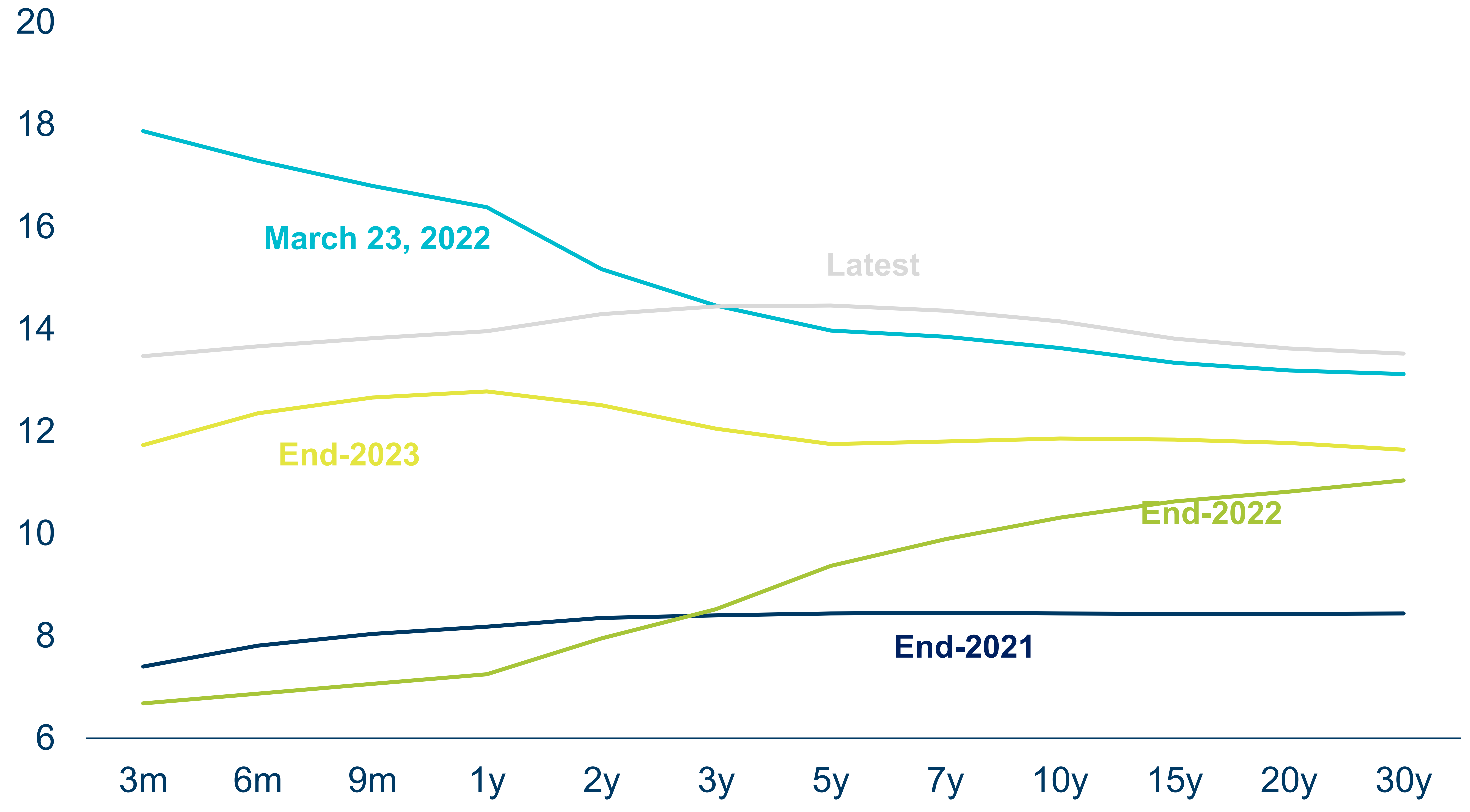
- Due to the larger deficit, OFZ issuance in Jan.-Nov. was 225% higher than in Jan.-Nov. 2024.
- Total issuance in 2025 reached 6.5 trillion rubles—92% of the revised issuance plan for the year.
- OFZ issuance rose significantly in November, reaching a record 2.0 trillion rubles in a single month

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %

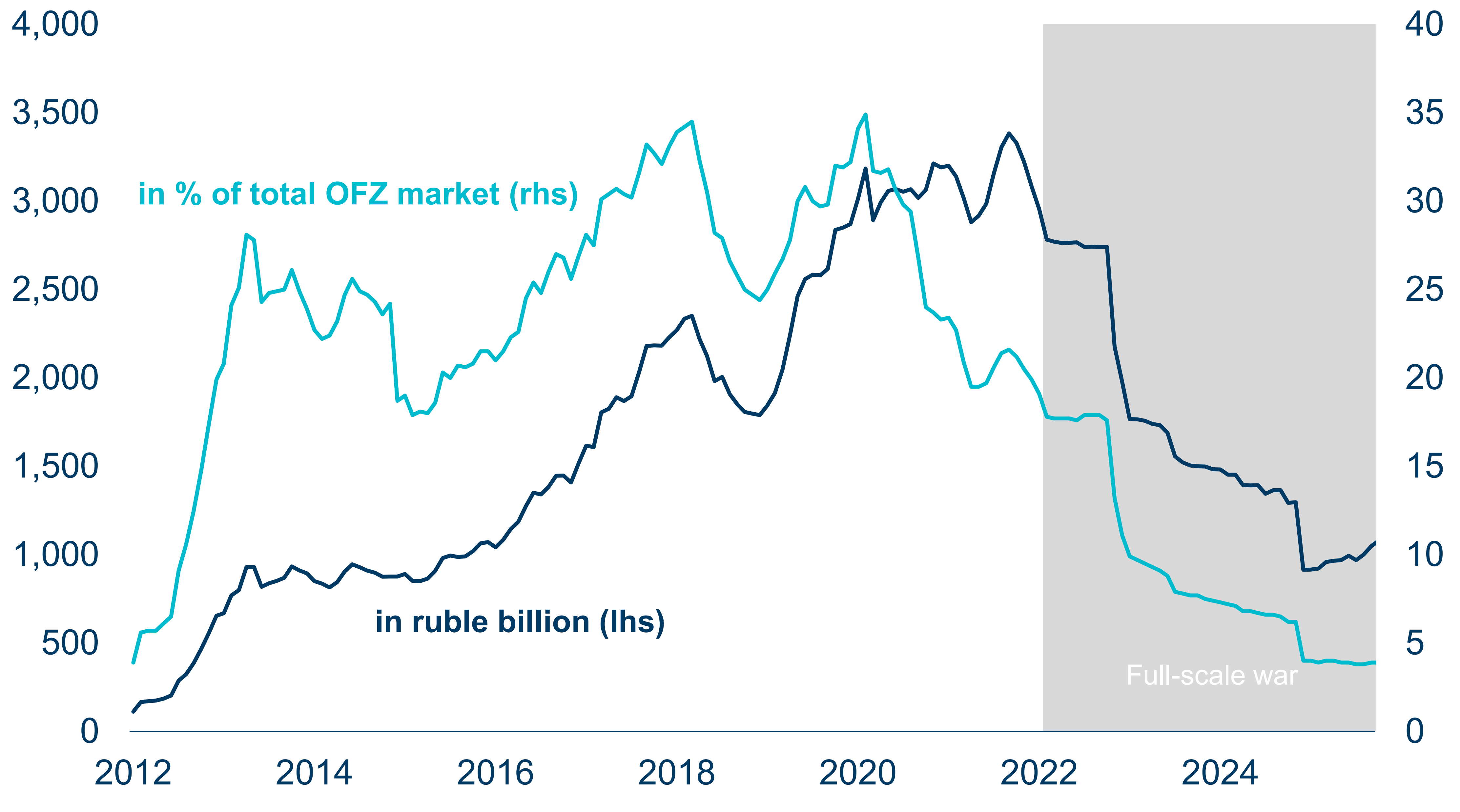


Source: Bank of Russia, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

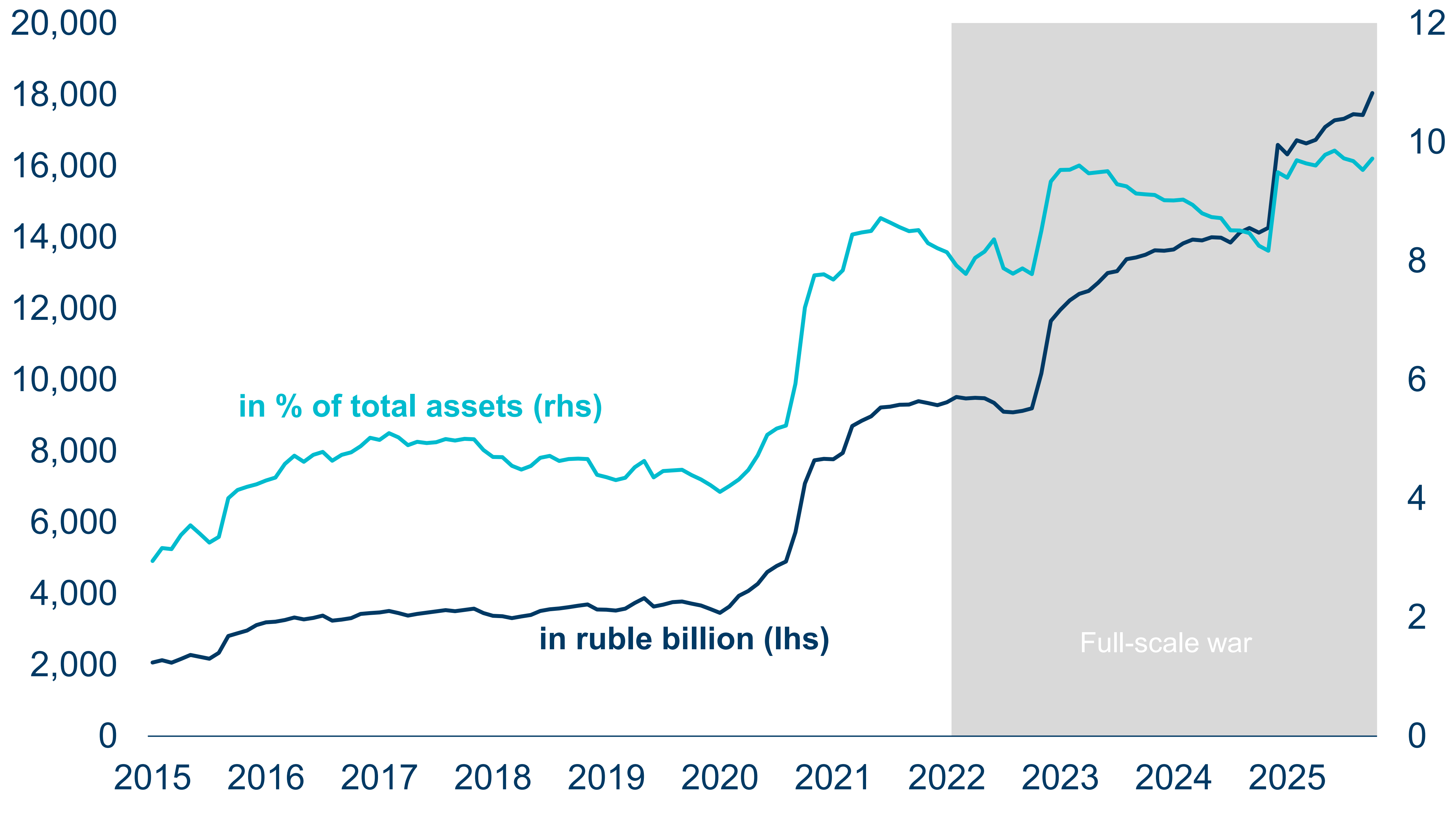
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- However, in early-Dec., Russia issued Yuan-denominated OFZ for the first time (worth ~220 billion rubles).
- Non-resident holdings have dropped 1.9 trillion rubles (or 63%) since Jan. 2022 as bonds matured.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

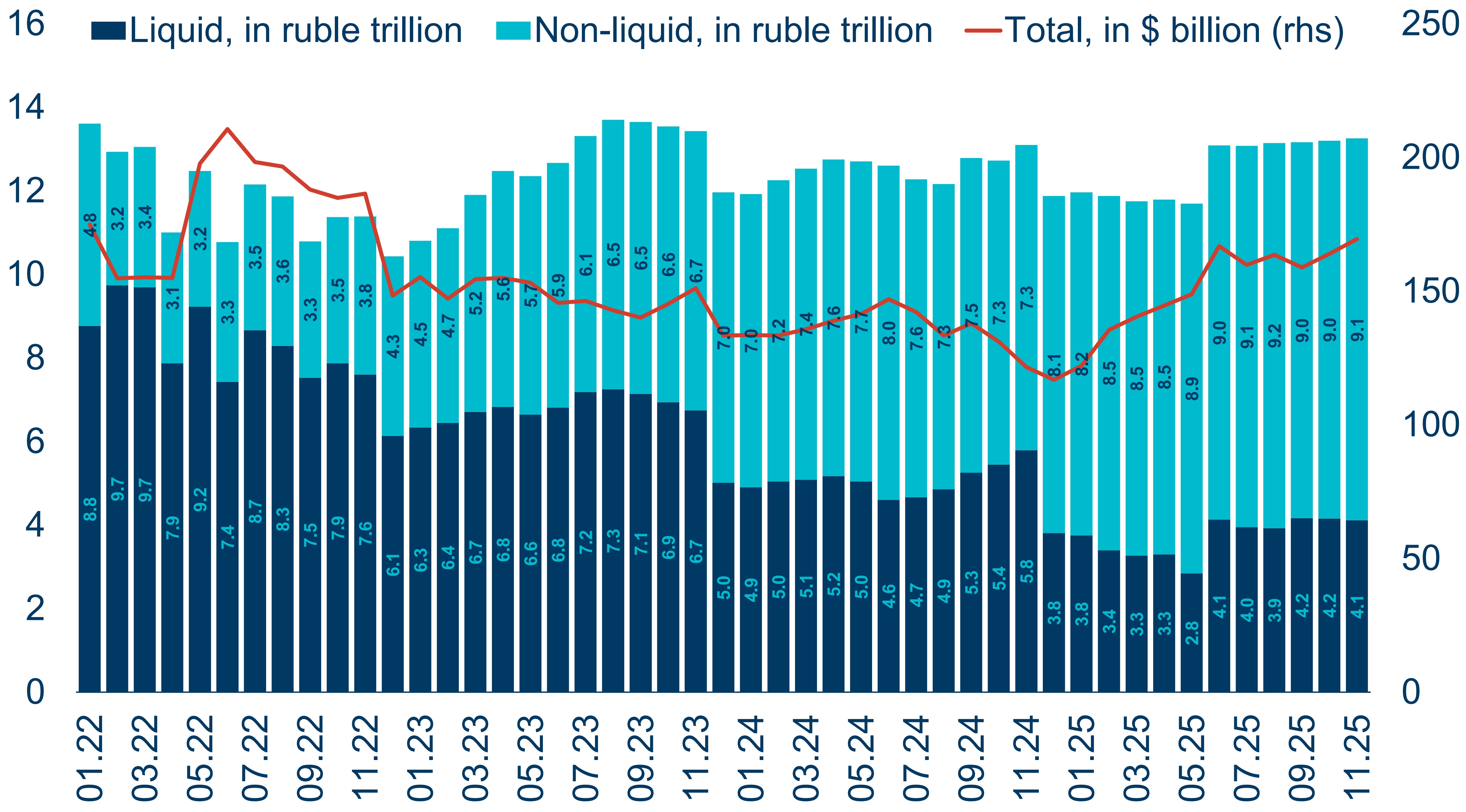


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

Liquid NWF assets unlikely to last for much more than one year.

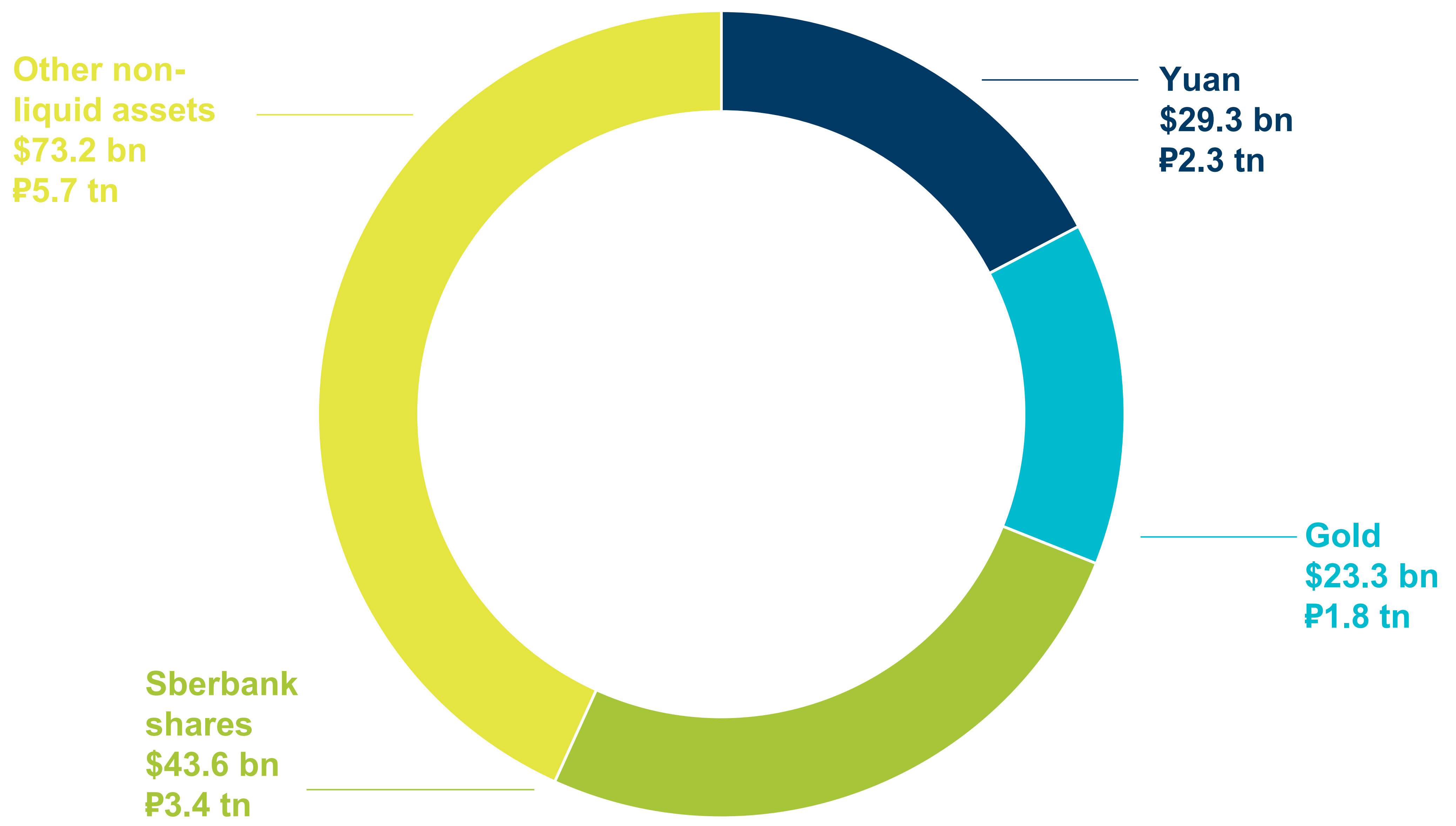
- Total assets of the National Welfare Fund stood at 13.2 trillion rubles ($169.5 billion, 6.1% of GDP) in Nov. 2025.
- Liquid assets have declined by 57% since early-2022 and only account for 31% of the total (vs. 75% in Feb. 2022).
- Depending on policy choices regarding budget financing, this critical macro buffer could be fully depleted soon.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of December 1, 2025*



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

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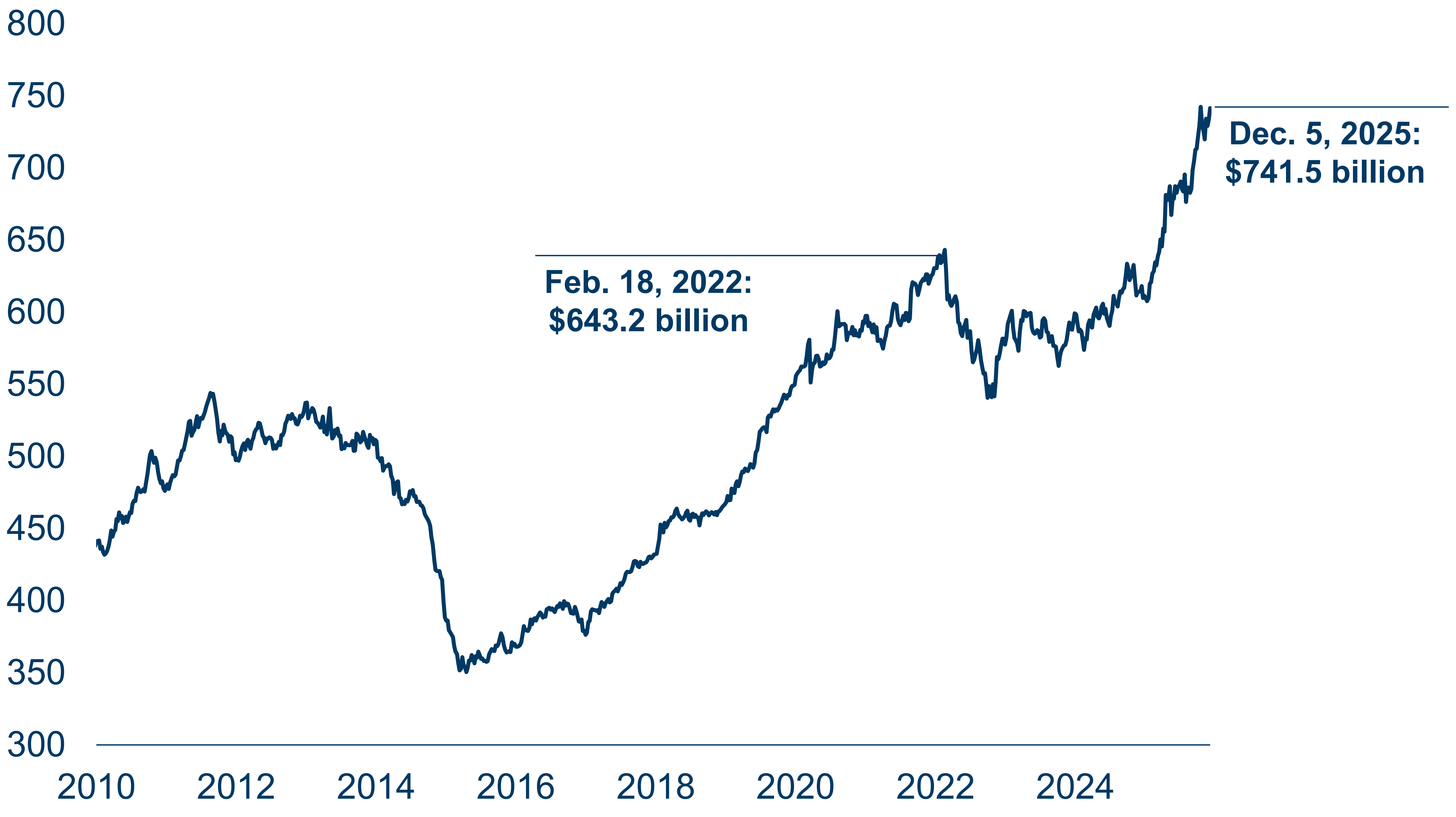
Large share of reserves remains immobilized.

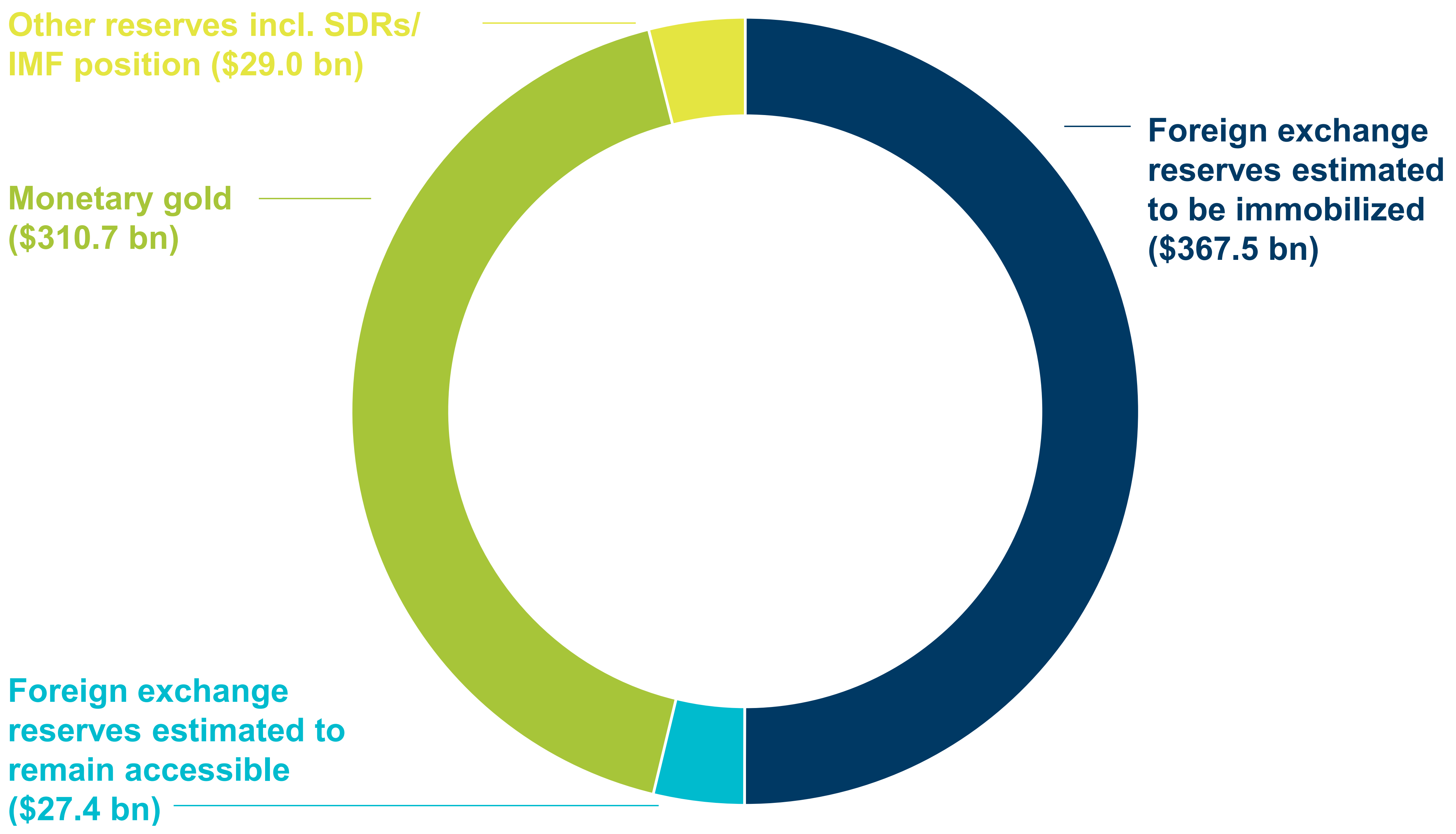
- Russia's total international reserves stand at $741.5 billion vs. $643 billion before the start of the full-scale war.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves had a value of ~$368 billion at end-Nov.
- This left Russia with $27 billion of other foreign exchange, $311 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-November, in U.S. dollar billion*

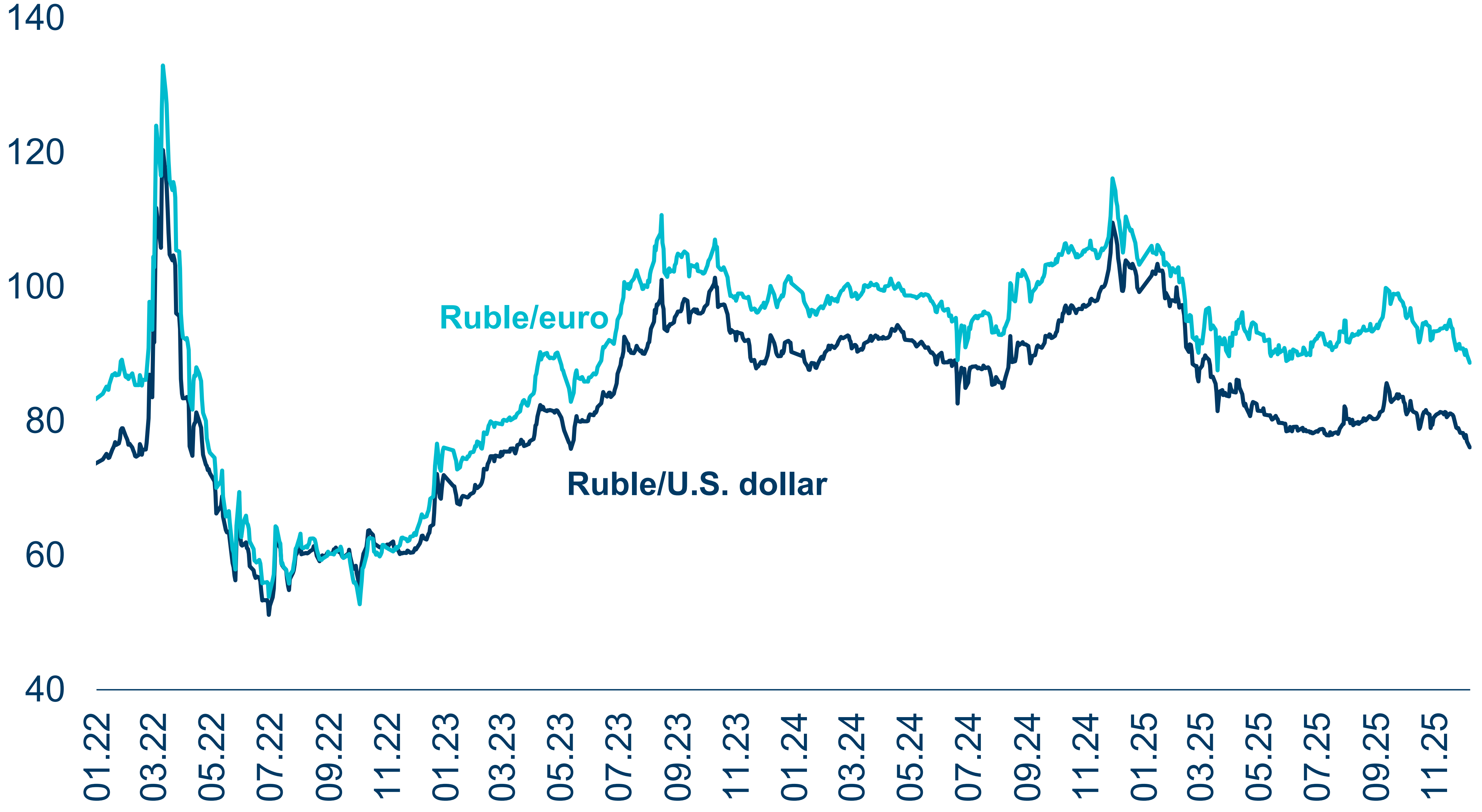


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

Ruble strengthens in late 2025; inflation continues to decline.

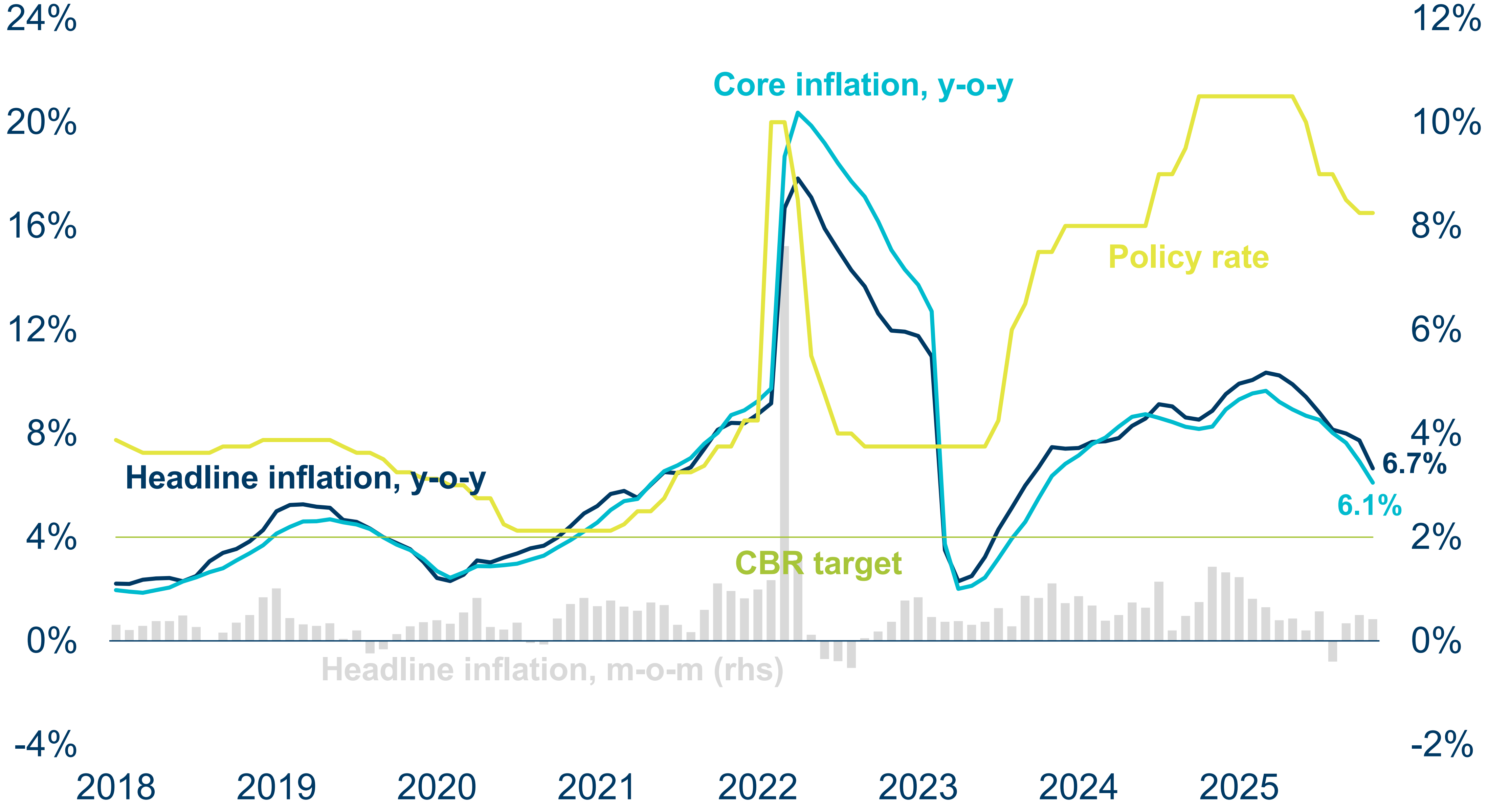
- The ruble strengthened in November-December, dropping below 80 vs. the dollar and towards 90 vs. the euro
- Inflation continues to moderate, falling from 7.7% y-o-y in October to 6.7% in November (6.1% for core inflation).
- The CBR's tight monetary policy is finally showing results, albeit at the high cost of slowing down the economy.

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



Source: Bank of Russia, KSE Institute

Inflation and CBR policy rate, in %

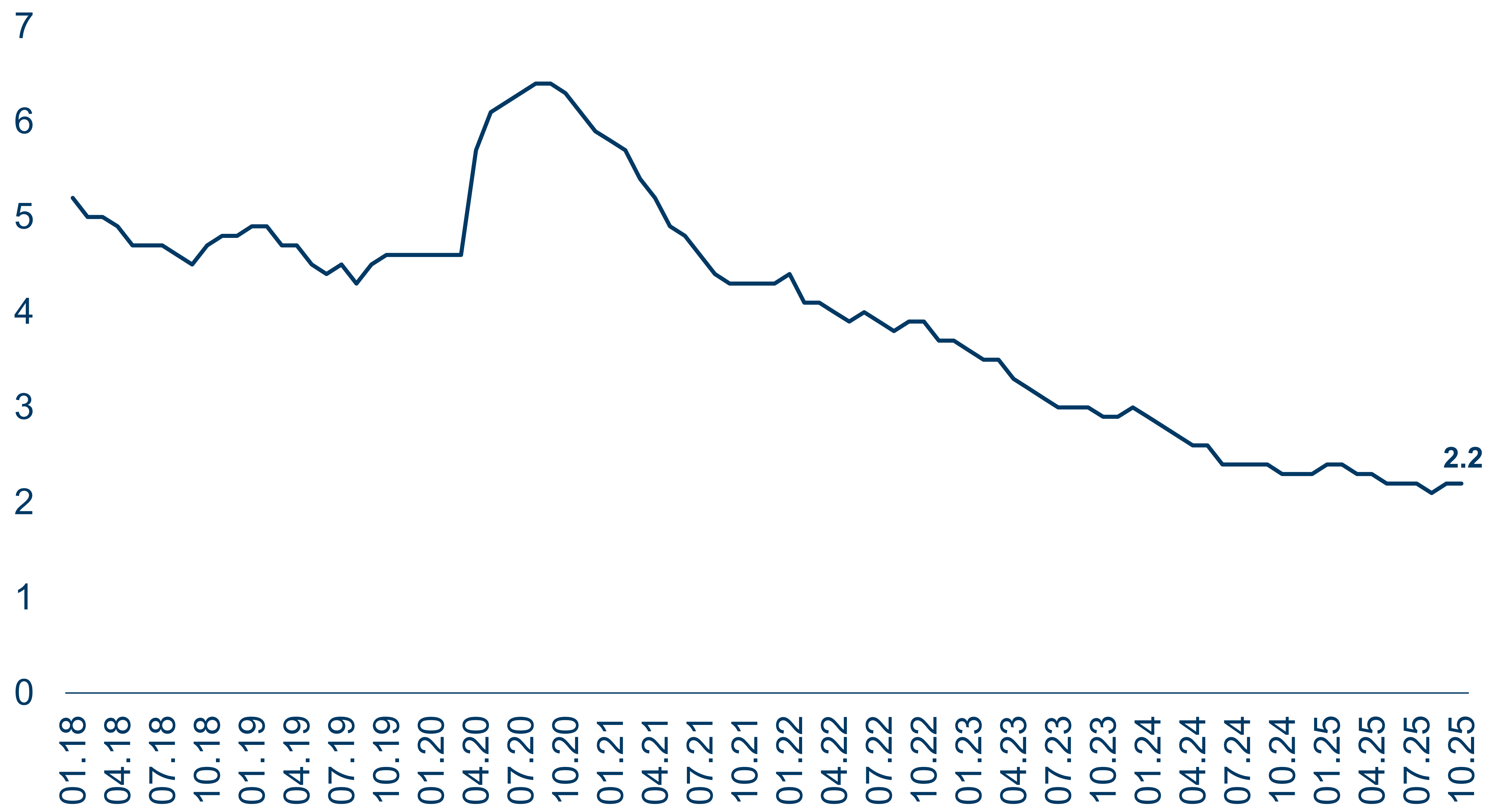


Source: Bank of Russia, KSE Institute

Russia's economy has little room to grow.

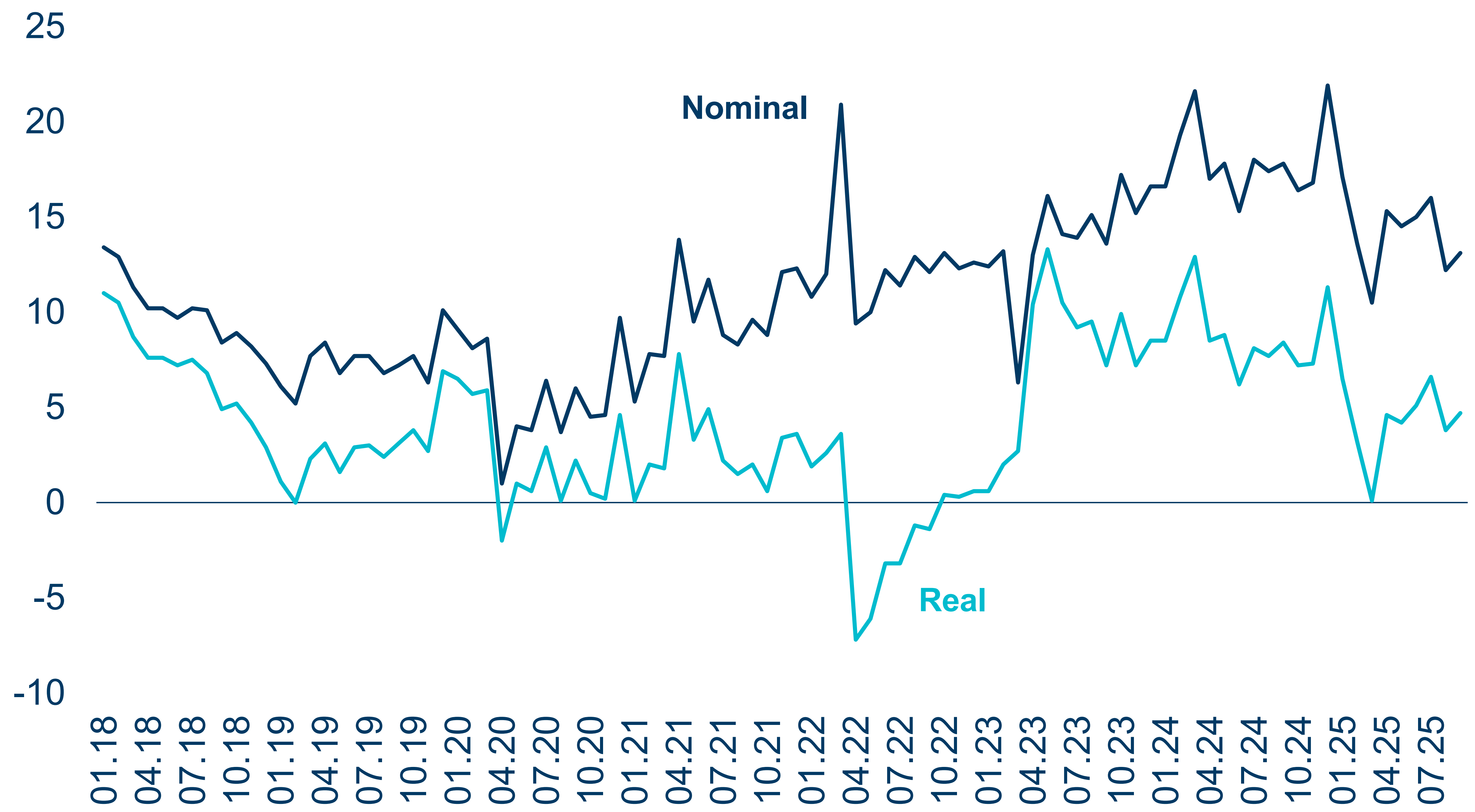
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from now.
- Wage growth has been noticeably weaker throughout 2025 vs. 2024 and stood at 13.1% y-o-y in September.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

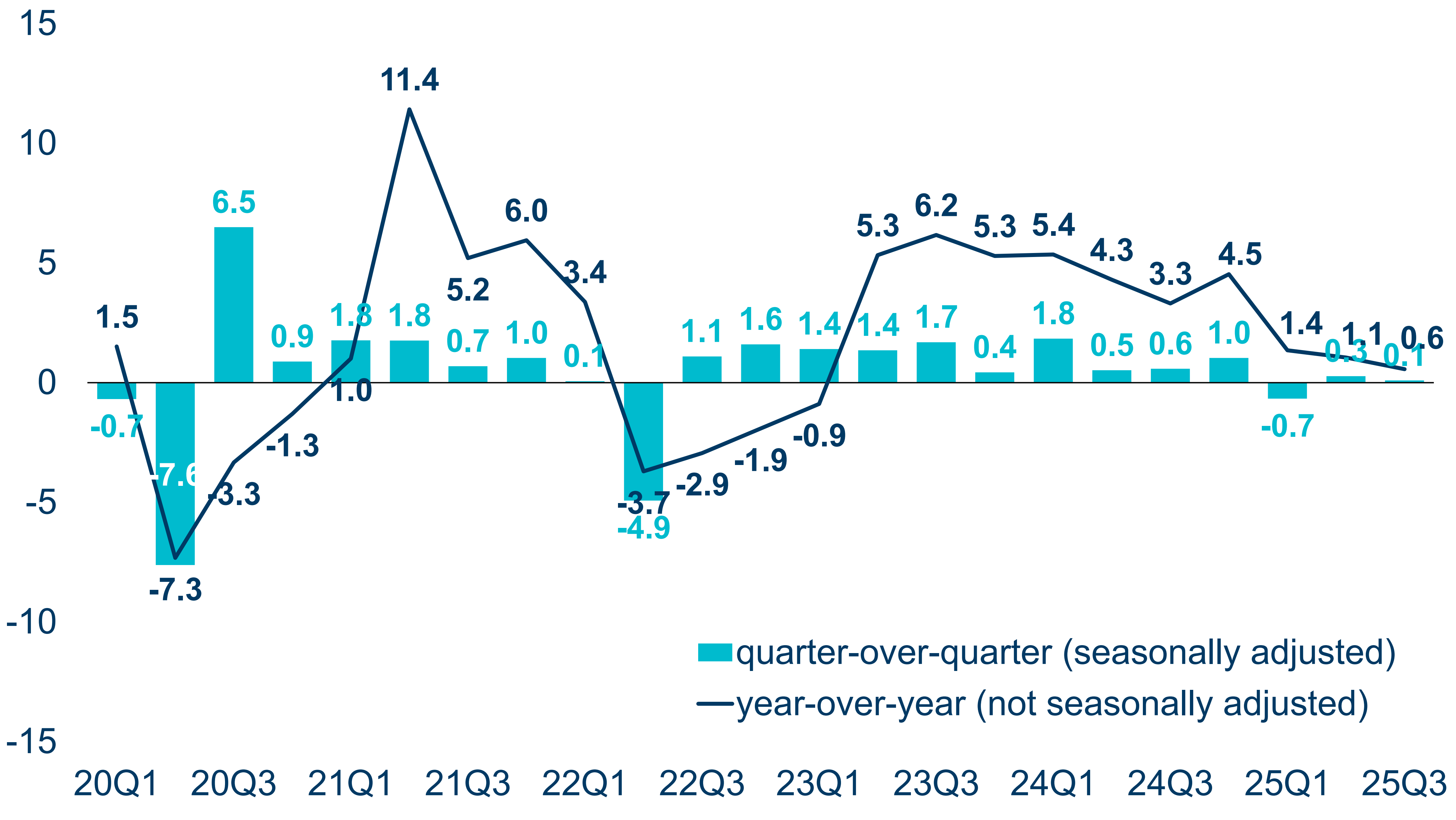


Source: Rosstat

Economic stalls in Q3, with prospects seriously constrained.

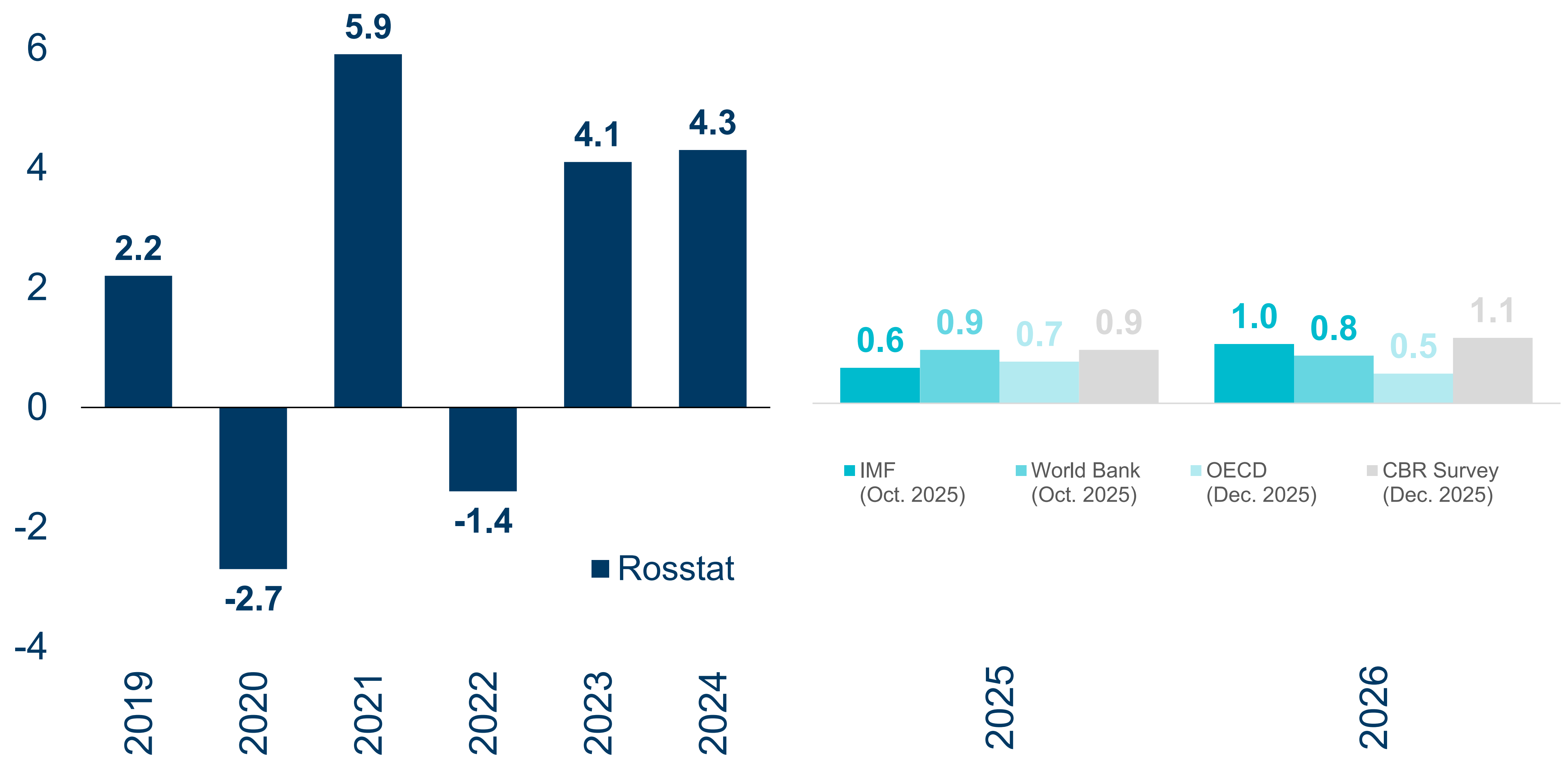
- Growth slowed further in Q3, with Rosstat's preliminary estimate showing a deceleration to 0.6% year-over-year.
- Quarter-over-quarter figures for Q3 indicate a further slowdown in economic growth—0.1% vs. 0.3% in Q2.
- All key international and national institutions have sharply cut their forecasts for Russian GDP growth in 2025-26.

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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