KSE Institute Russia Chartbook

Serious Vulnerabilities on the Eve of New US Sanctions on Rosneft/Lukoil

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Executive Summary

1. **New US sanctions on Rosneft/Lukoil could exacerbate existing vulnerabilities.** Oil export earnings decreased to $13.1 bn in Oct. (vs. $13.4 bn in Sep.), and Russia already suffered from low global prices, which brought the average Russian export price to ~$54/bbl. So far, global prices have only ticked up marginally in response to the new measures, while the discount on Russian oil appears to be widening noticeably due to heightened risk perception among involved actors. The future trajectory of prices and the impact on export volumes depends on the strictness of enforcement and the subsequent response from key buyers (i.e., China, India, and Turkey). Should volumes drop markedly and discounts increase further, macroeconomic stability and the budget could be in serious trouble.
2. **Budget remains a challenge and Russia is likely to miss its revised deficit target.** Over Jan.-Oct, Russia's federal budget recorded a deficit of 4.2 trillion rubles—a noticeable increase vs. Jan.-Sep. (3.5 trillion). Oil and gas revenues were 21% weaker y-o-y, while non-O&G revenues came in 11% stronger and expenditures rose 15%. The slowing economy increasingly weighs on tax collection; non-O&G revenues dropped y-o-y in Oct. (by 4.6%) for the first time in three years. Given the year-to-date performance and patterns observed in recent years (with large deficits in December), it is likely that Russia will also break through the new target of 5.7 trillion rubles, especially as the revised budget numbers did not change planned expenditures, which are a main driver of the higher deficit.
3. **Domestic borrowing surges to cover the deficit; other financing channels constrained.** Russia has relied heavily on OFZs in 2025 to finance the budget; new issuance in Jan.-Oct. (of 4.5 trillion rubles) exceeded the Jan.-Oct. 2024 level by 135% and the issuance plan was revised upward—from 4.8 to 7.0 trillion. Under the assumption of a large budget deficit in December, Russia's MinFin will have to use a significant share of the NWF's remaining liquid assets (of 4.2 trillion) despite increased domestic borrowing. The large increase in debt issuance will also be inflationary—especially if supported by CBR repo operations—and further complicate efforts to stabilize prices. For the moment, the CBR's persistently tight monetary policy has brough down inflation to 7.7% y-o-y in Oct. (from 8.0% in Sep.).
4. **Economic activity is slowing precipitously and the outlook for the economy is bleak.** Rosstat's preliminary GDP estimate for Q3 shows a y-o-y growth rate of 0.6% (vs. 1.1% in Q2 and 1.4% in Q1). This slowdown is a result of the war-driven growth model reaching its limits as budgetary constraints grow, monetary policy remains tight, labor supply is constrained, and foreign investment is absent. All international institutions have reduced their outlook for 2025-26 significantly—to 1% real GDP growth or even below per year.

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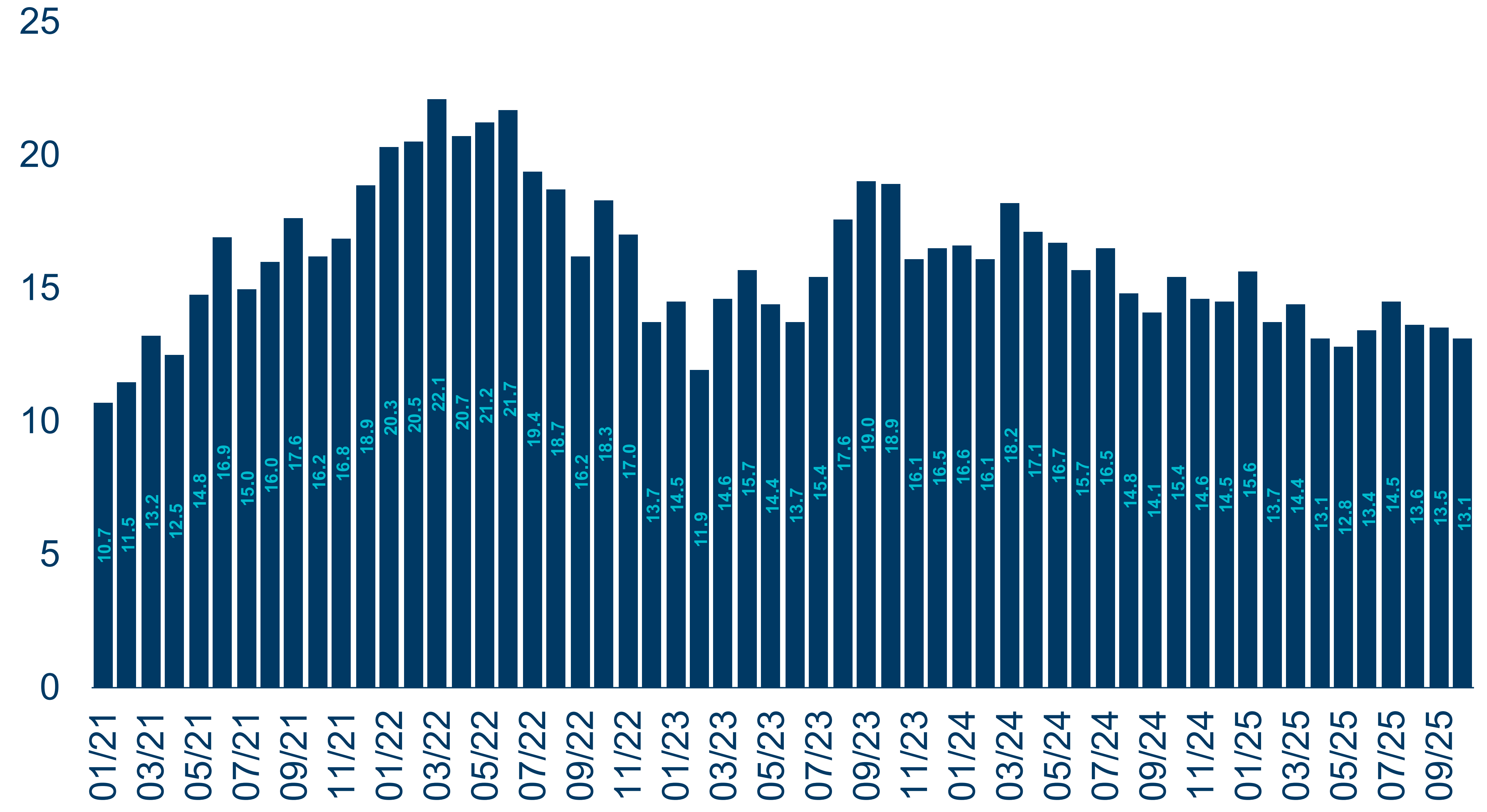
Export prices weak even before new sanctions take effect.

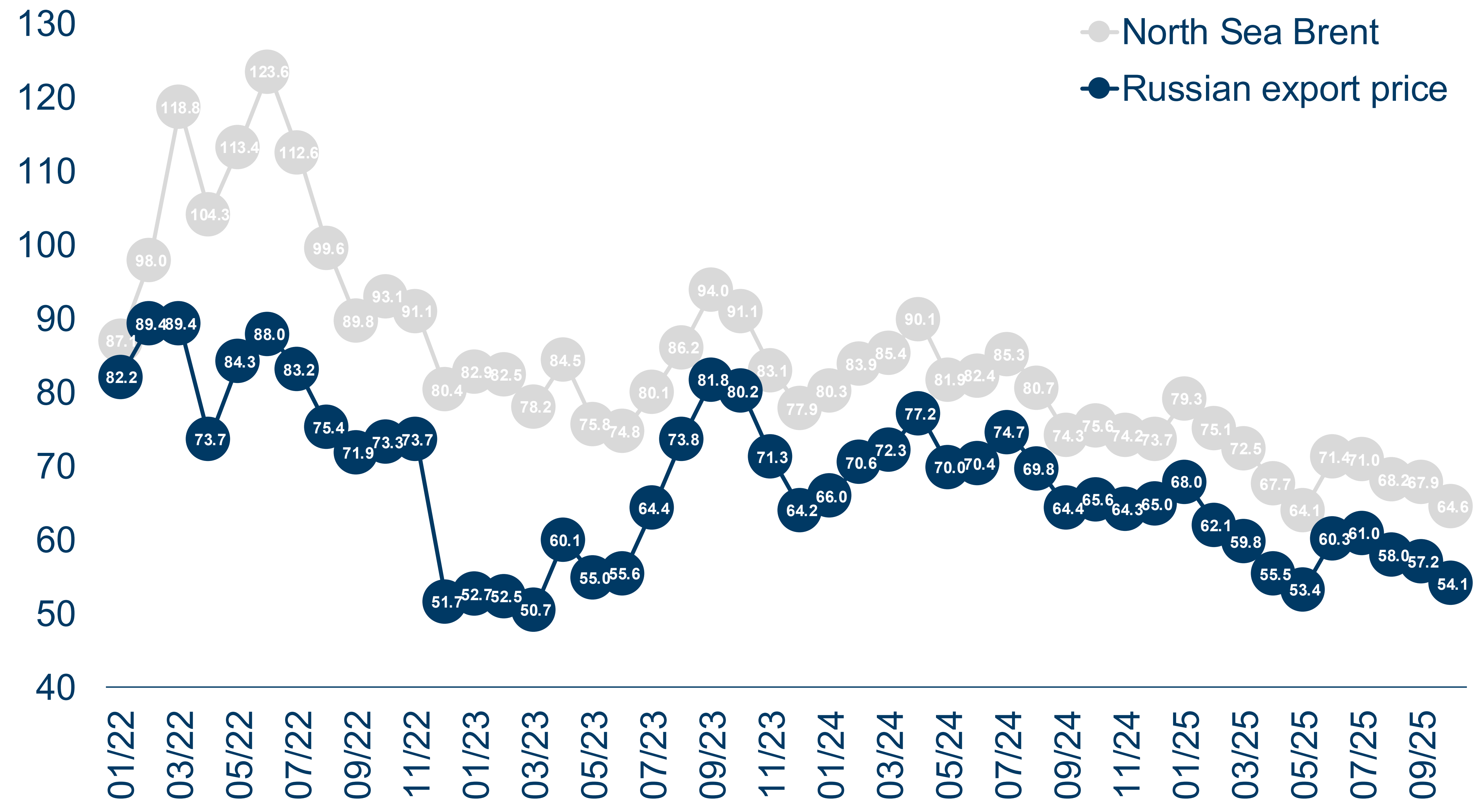
- Oil export earnings continued to fall—to $13.1 billion in October 2025 vs. $13.5 billion in September.
- Prices for Russian oil fell along with global prices, to about ~$54 per barrel—above the revised price cap.
- In the coming months, US sanctions on Rosneft/Lukoil could weigh heavily on export prices and volumes.

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*

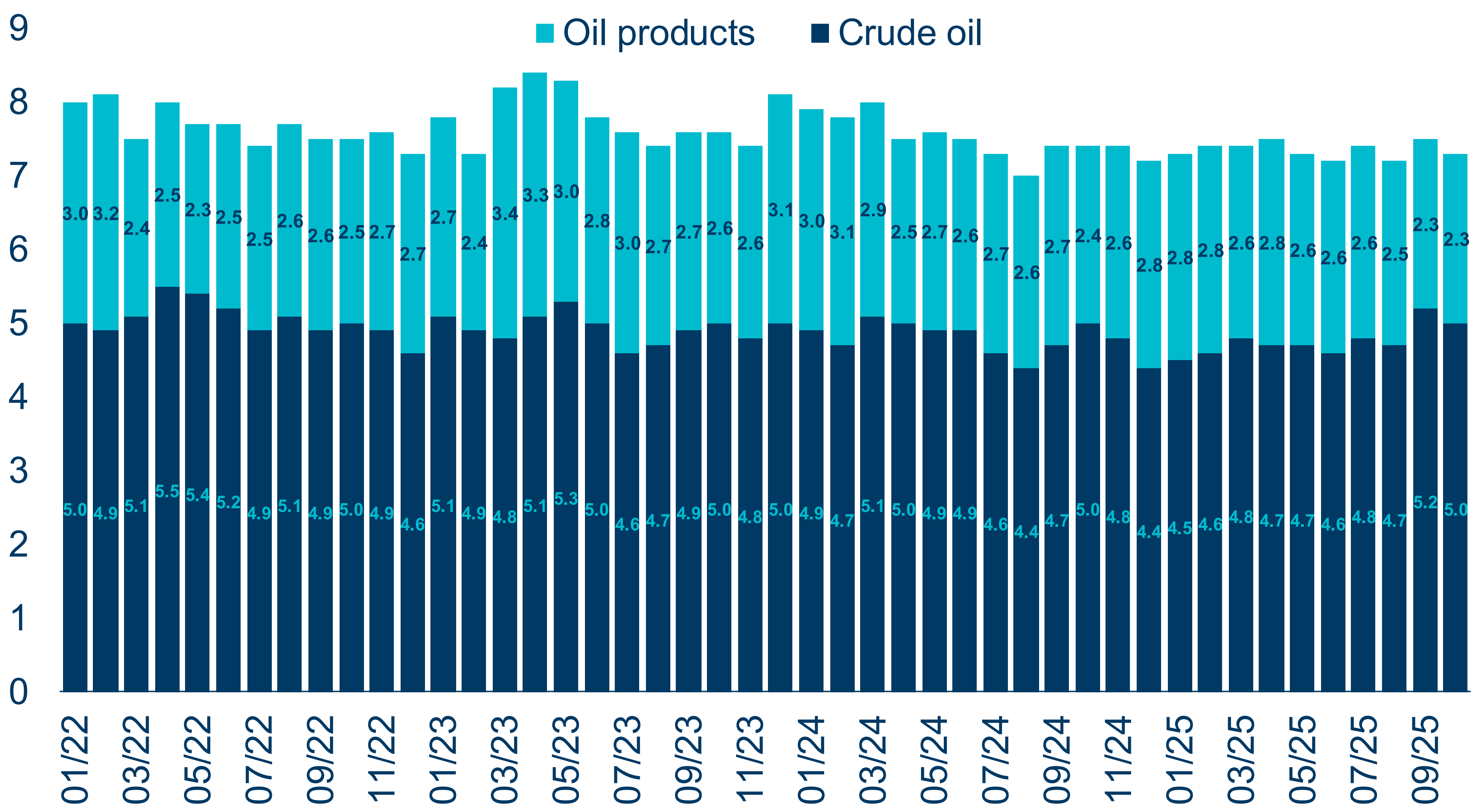


Source: International Energy Agency, KSE Institute

Broadly stable oil export volumes; shift toward crude reversing.

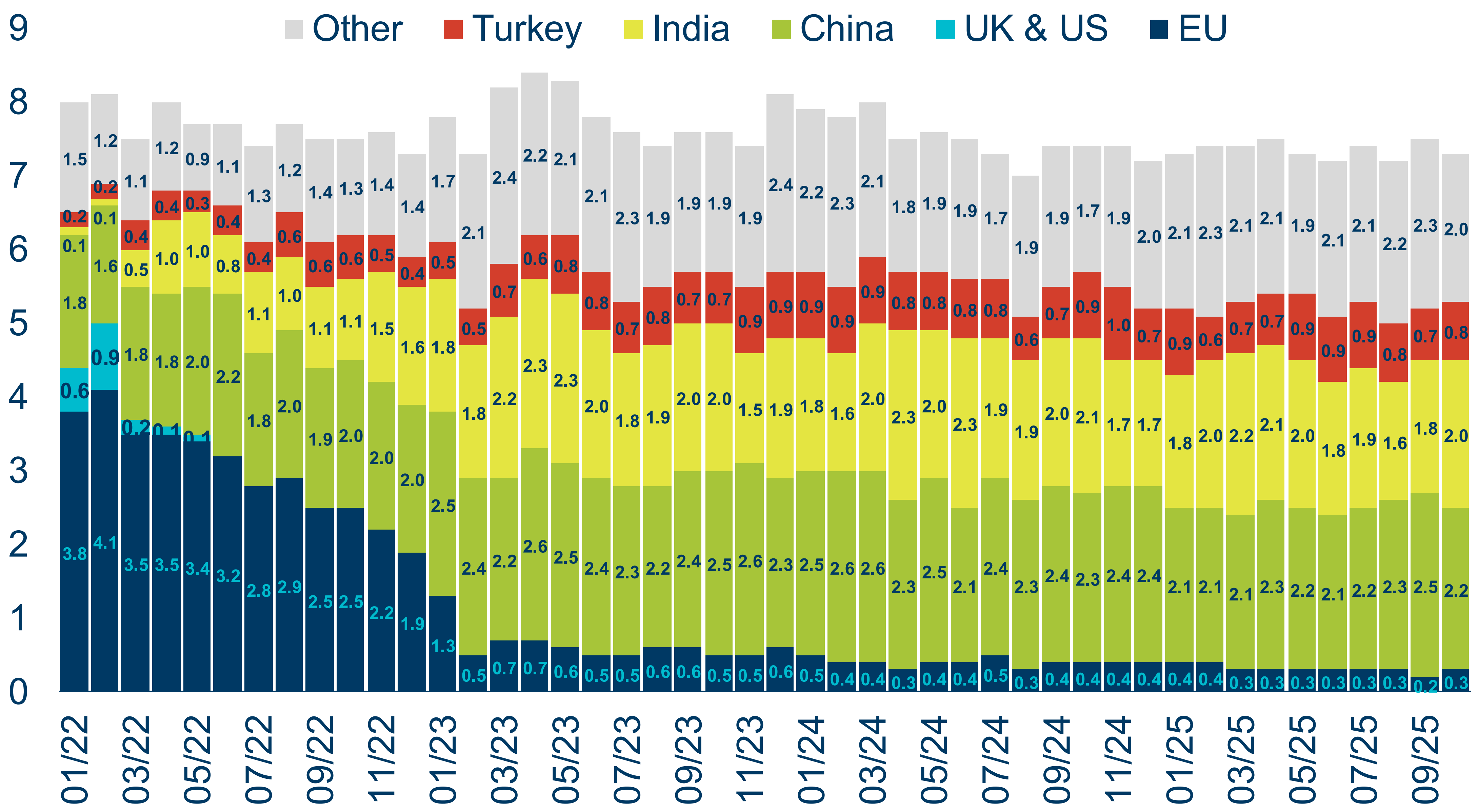
- Russian oil export volumes have been remarkably steady over the last 3.5 years.
- China, India, and Turkey are the most important buyers (~65-70% of oil exports).
- Exports of oil products remain subdued due to Ukrainian attacks on refineries.

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

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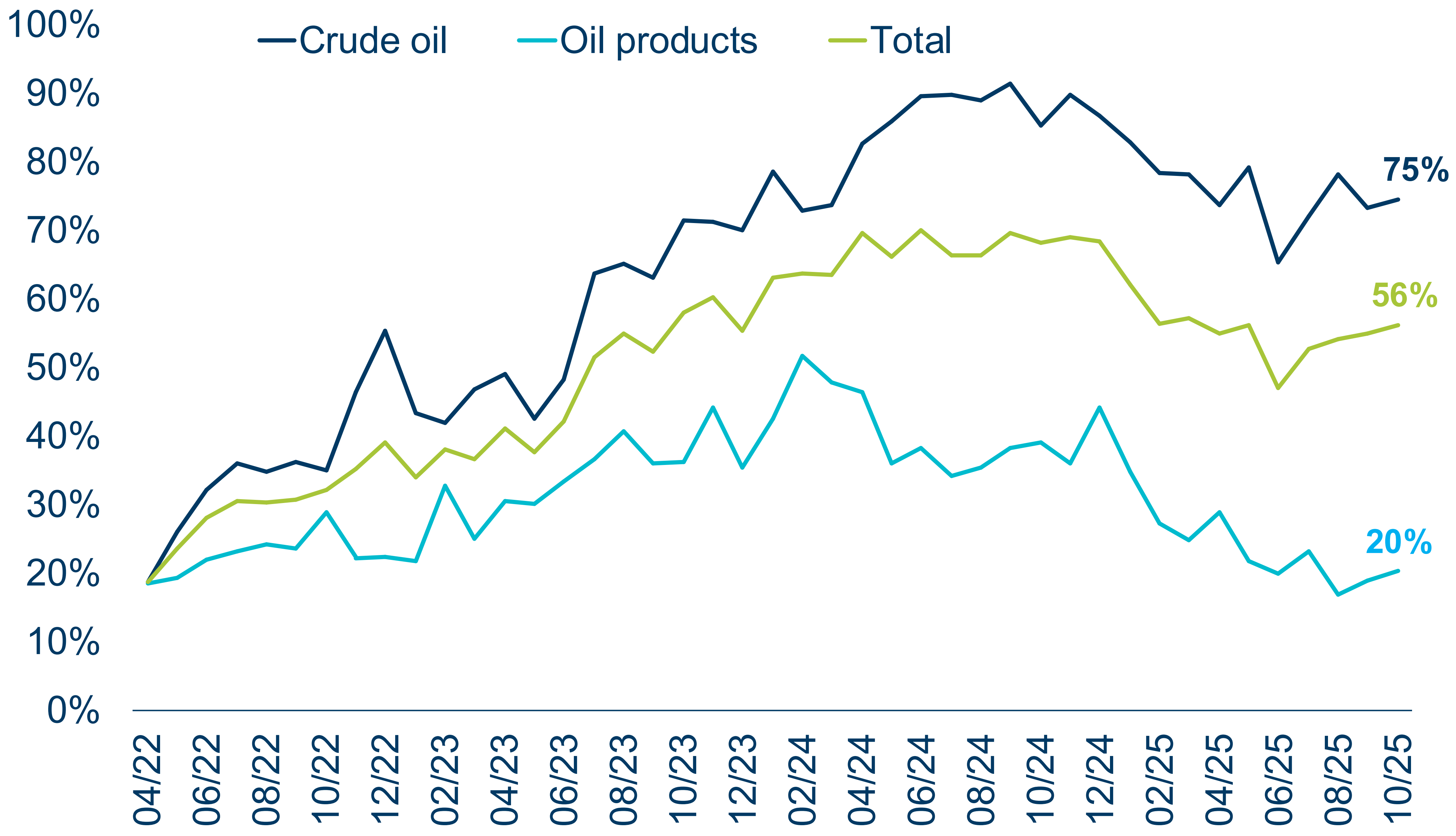
EXTERNAL

Stepped-up shadow tanker sanctions require tighter enforcement.

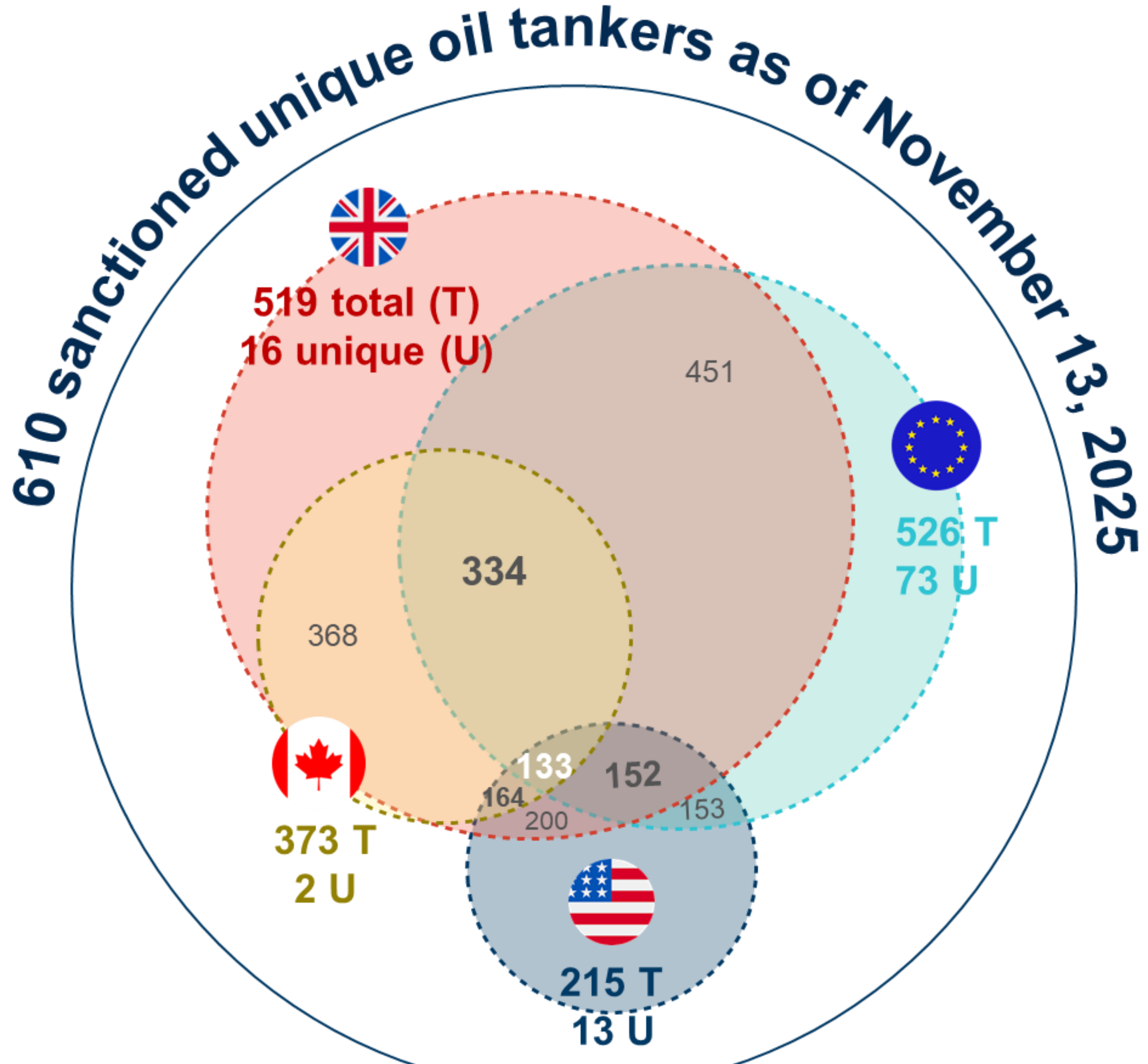
- The total number of sanctioned shadow tankers has reached 610, with 152 listed by the EU, UK, and US.
- With listings reaching ~70% of the shadow fleet, more effective enforcement will need to be in the focus.
- The shadow fleet's share in Russian oil exports remained broadly stable in September (vs. August).

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 (60 vessels) and New Zealand (43 vessels) are not included, lists are aligned with the UK and Canada.

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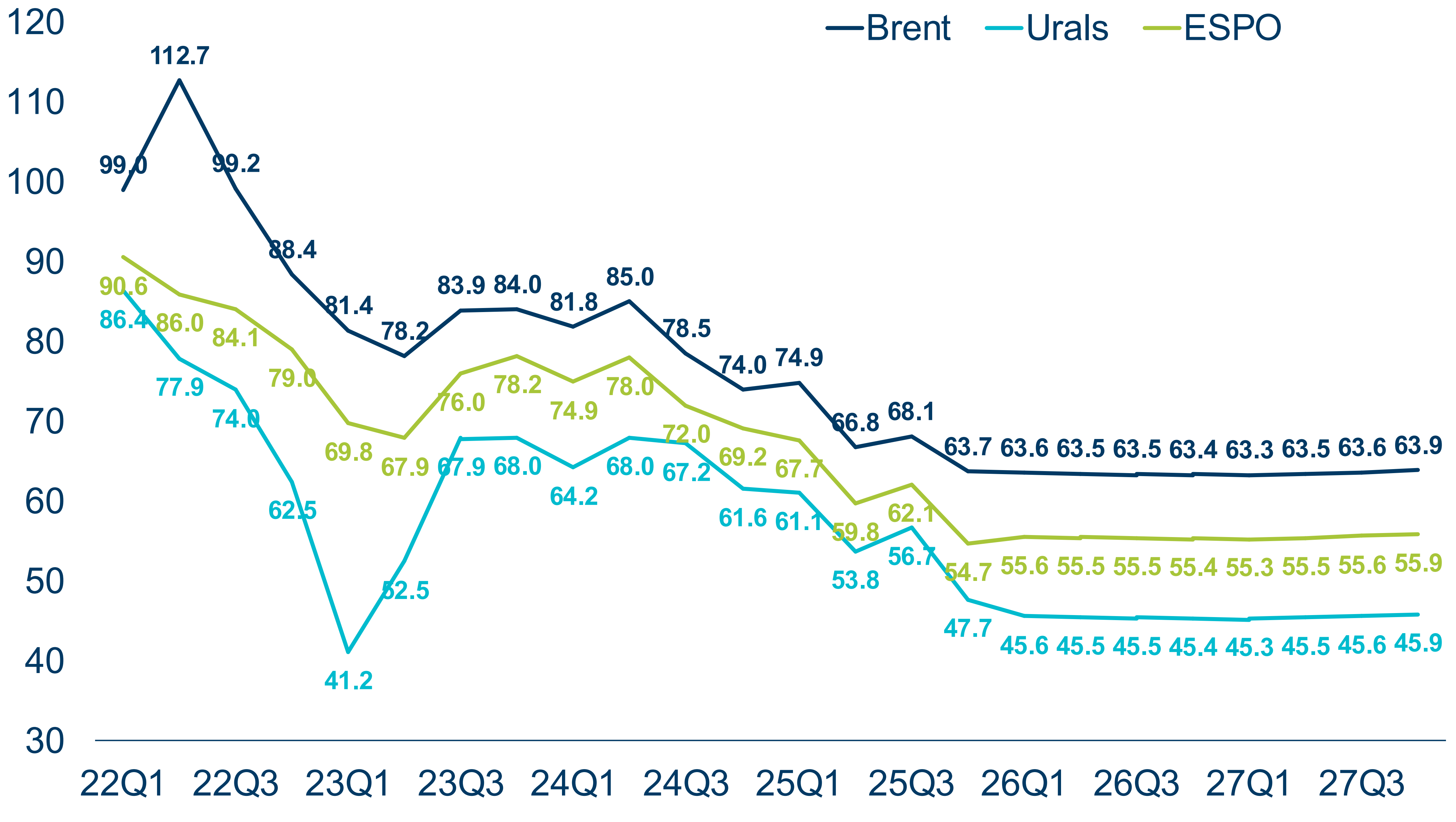
Challenging outlook for Russian oil and gas exports.

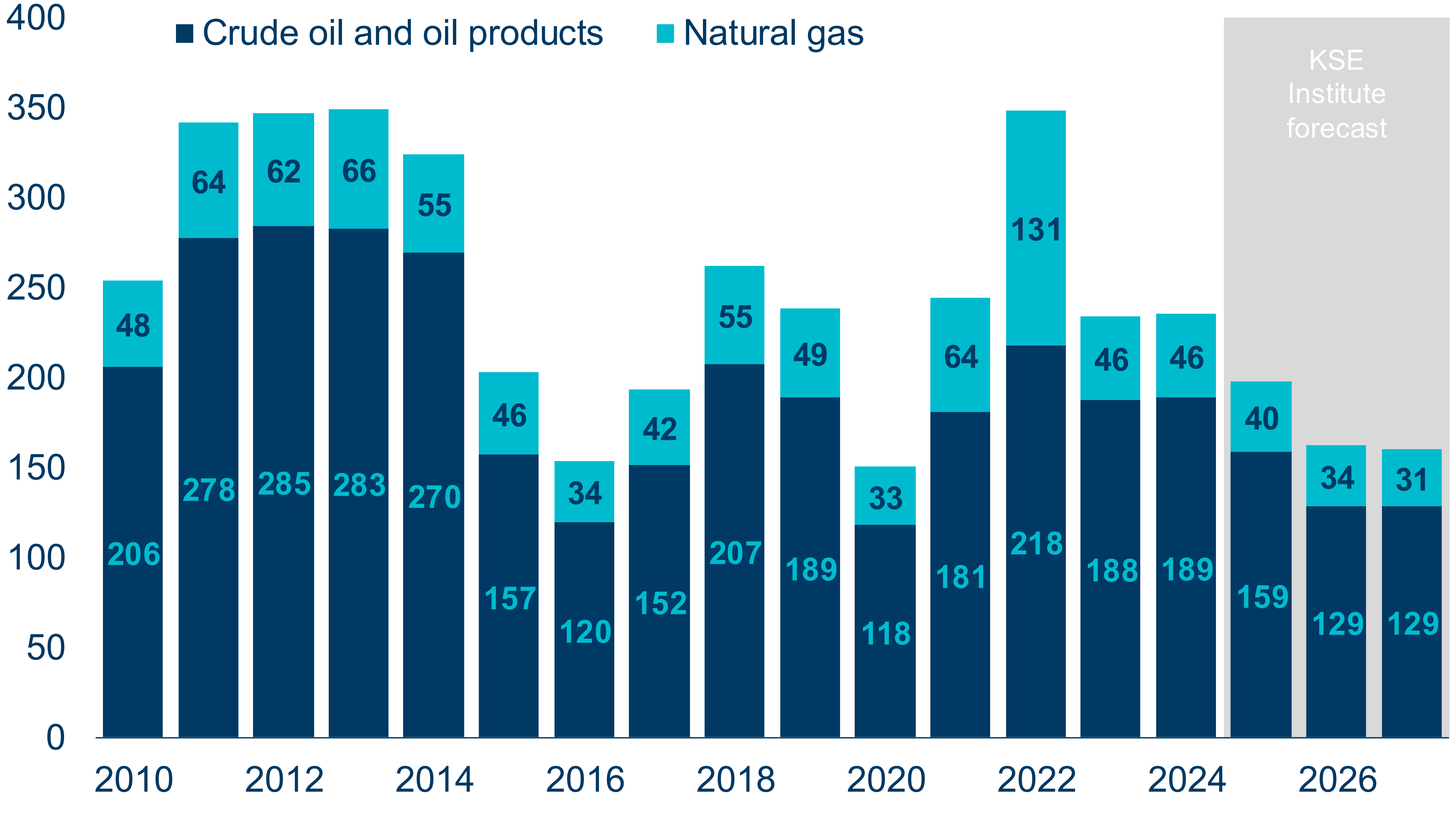
- Following Rosneft/Lukoil sanctions, markets expect marginally higher oil prices in H1 2026 and an overall stable situation.
- At the same time, the discount on Russian crude oil is widening, bringing Urals to the mid-40s and ESPO to the mid-50s.
- The outlook for Russian oil export earnings is dependent on the new sanctions‘ enforcement and their effect on volumes.

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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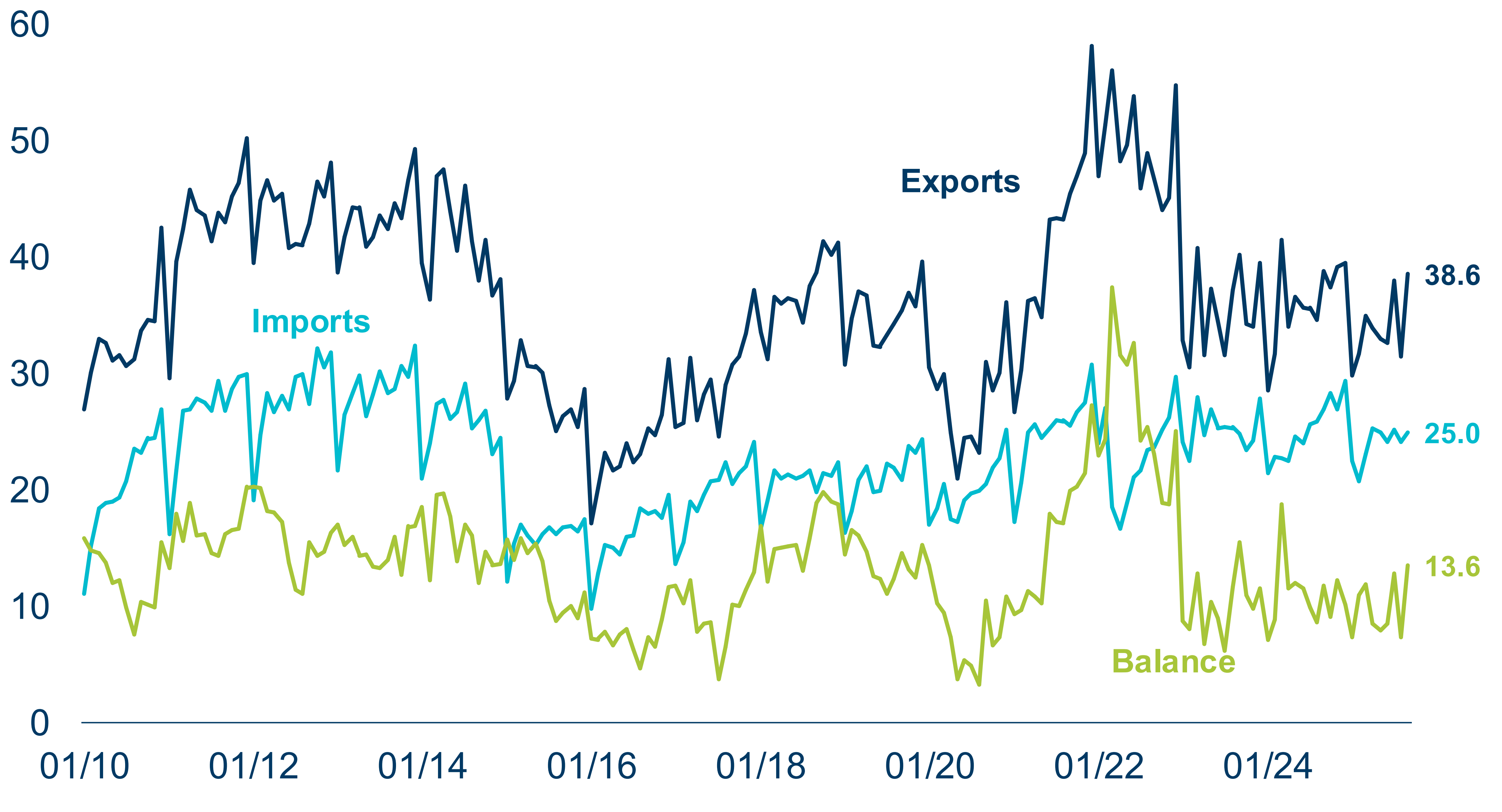
Current account surplus increases on the back of stronger exports.

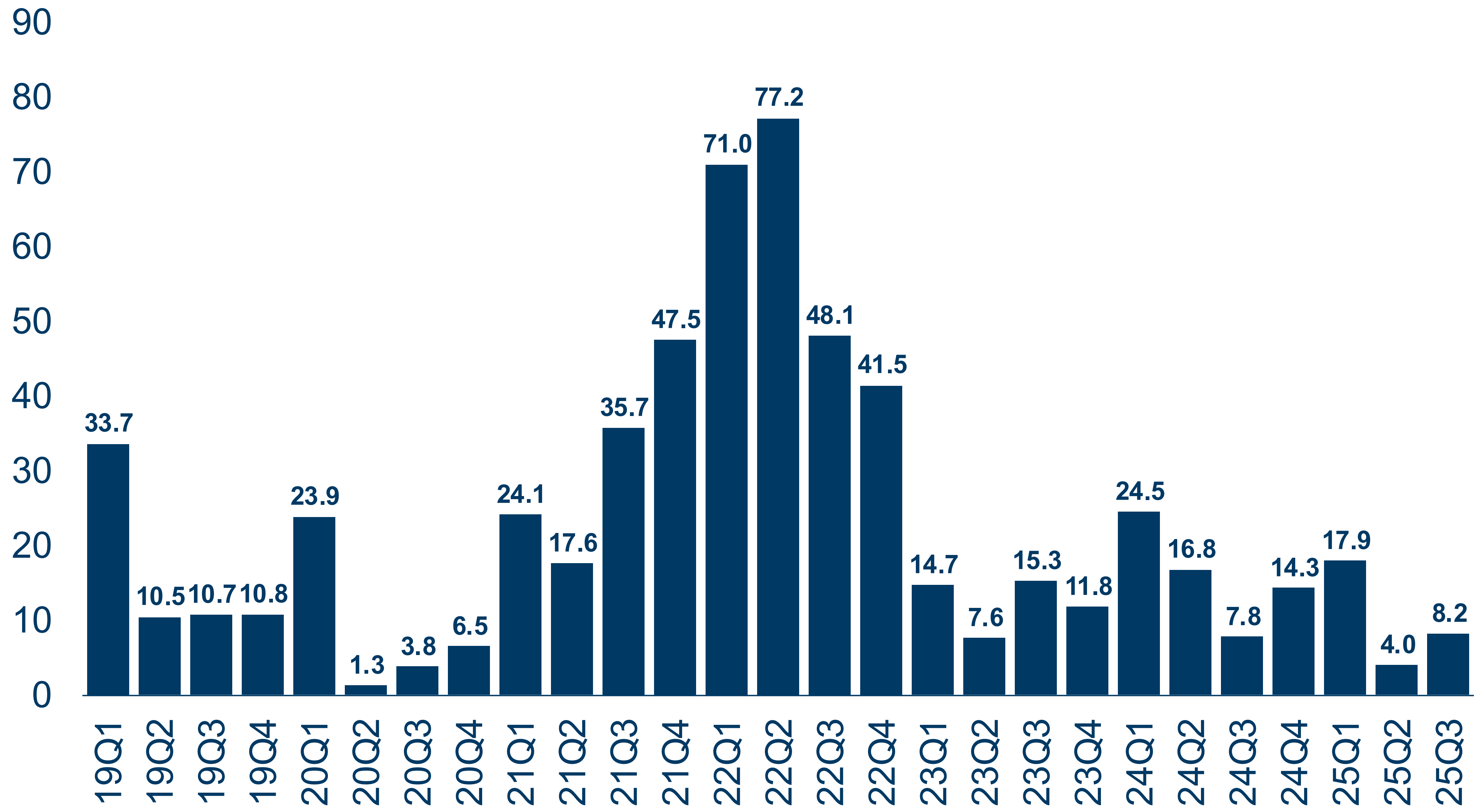
- Russia's exports recovered after a significant decline in August, while imports remained broadly stable.
- The current account surplus improved to $8.2 billion in Q3 2025 but remains much weaker than in Q1 2025.
- The change is largely a result of much stronger goods exports, while services and income 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

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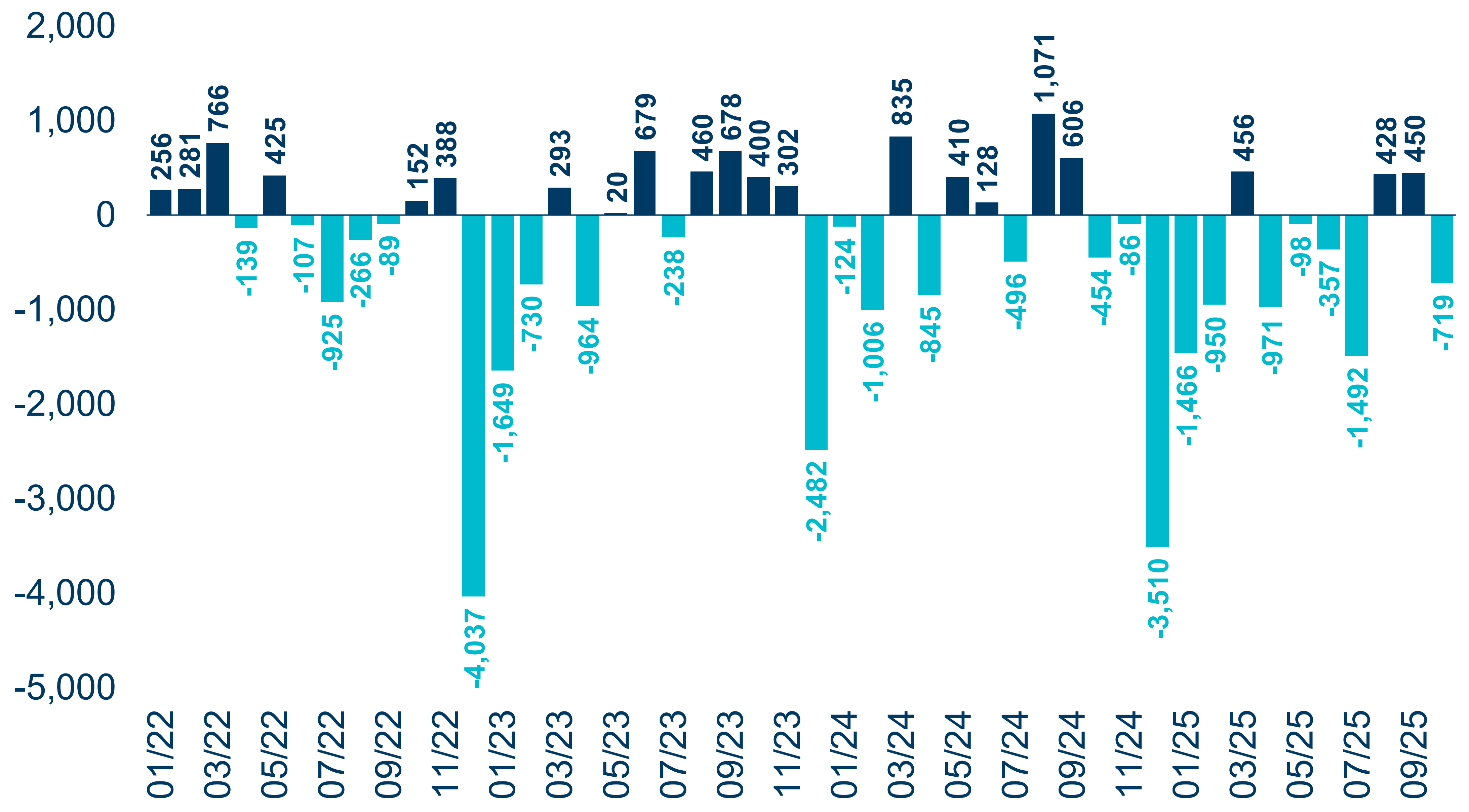
Budget returns to deficit in September; revised target unlikely to be reached.

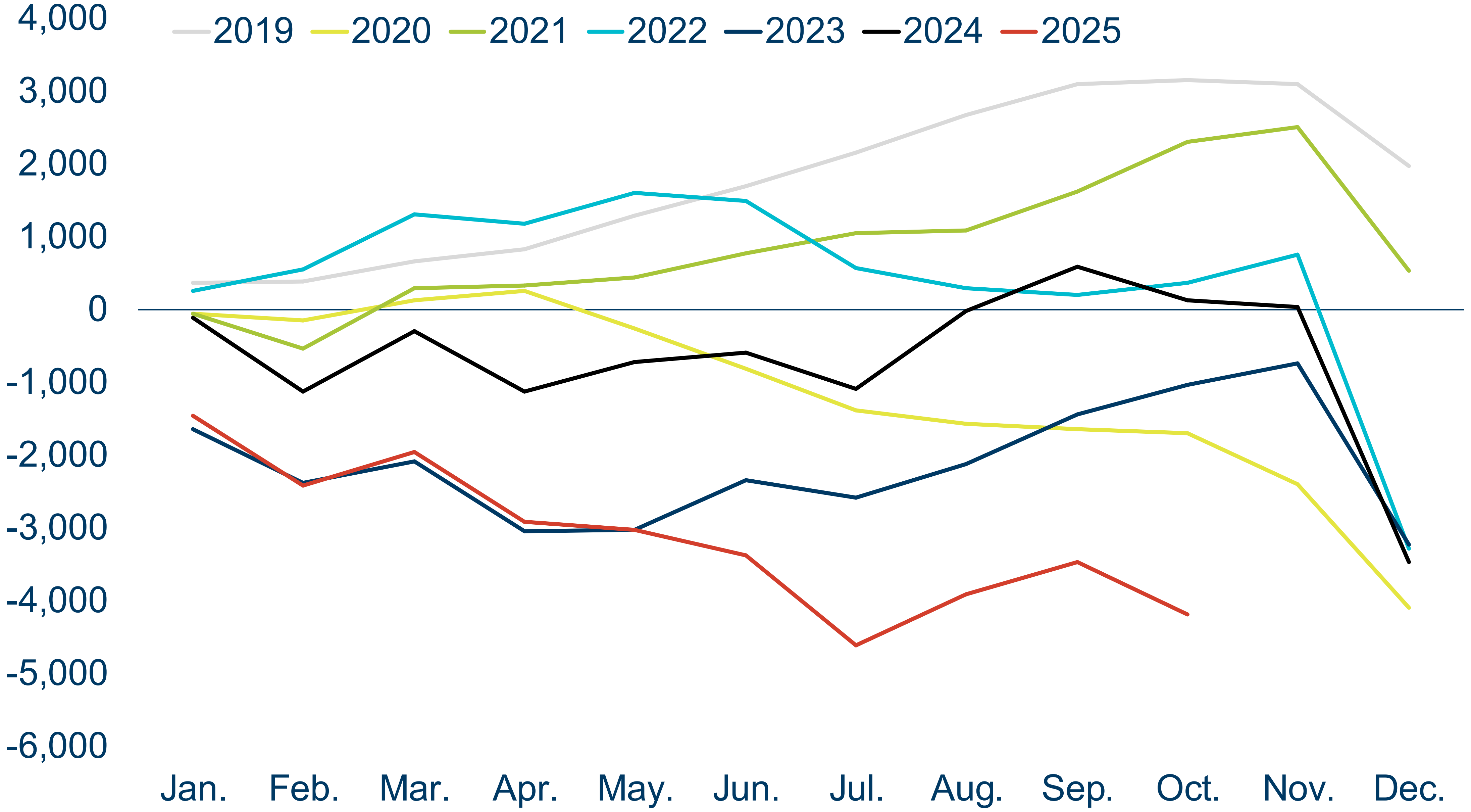
- The budget deficit over Jan.-Oct. reached 4.2 trillion rubles—a noticeable increase vs. Jan.-Sep. (3.5 trillion).
- The September deficit brings the cumulative number for Jan.-Oct. to 73% of the revised target of 5.7 trillion.
- Should Nov.-Dec. play out like last in 2024 (with high year-end spending), 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

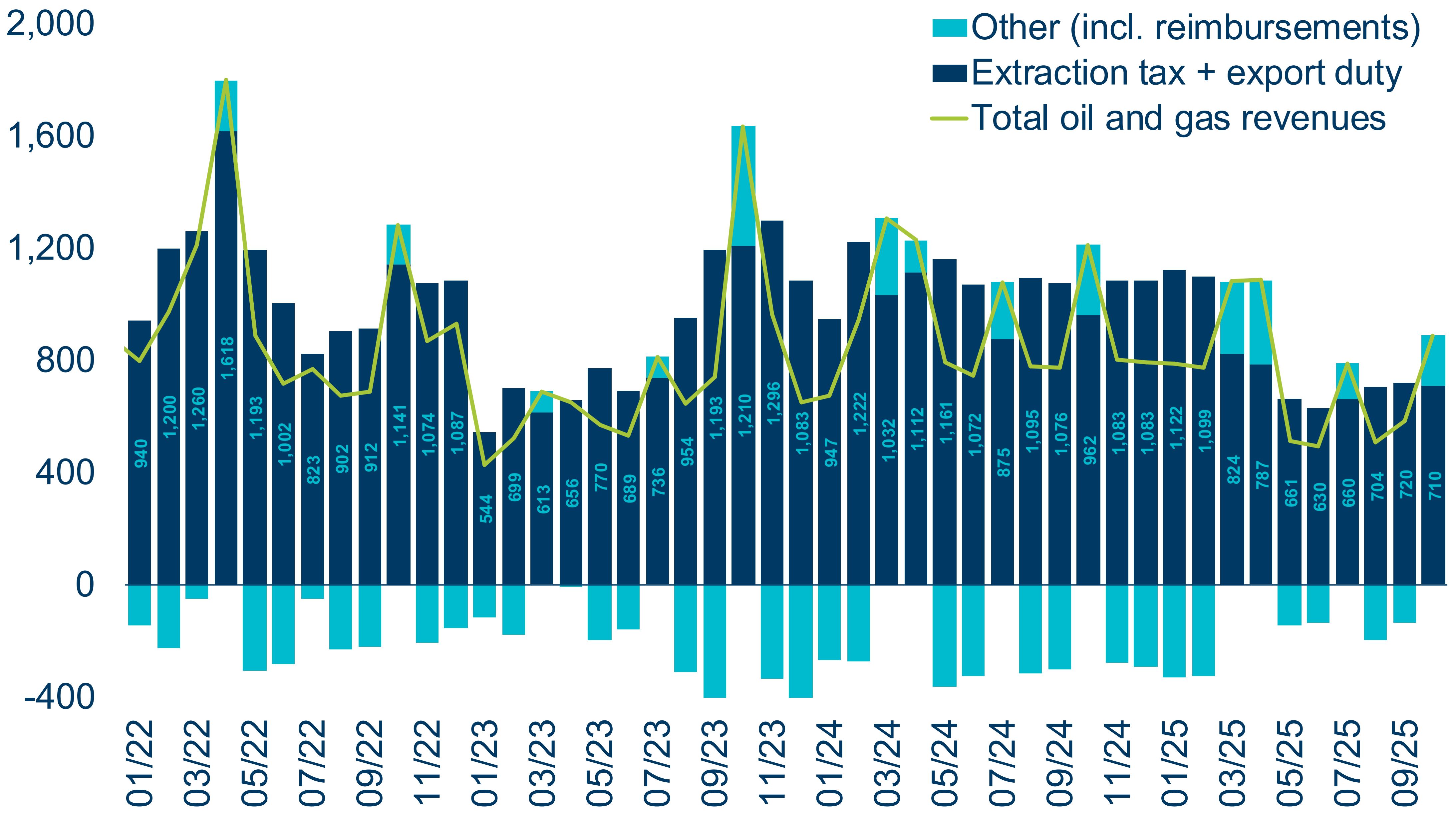


Source: Ministry of Finance, KSE Institute

Subdued oil and gas revenues; non-O&G revenues show series weakness.

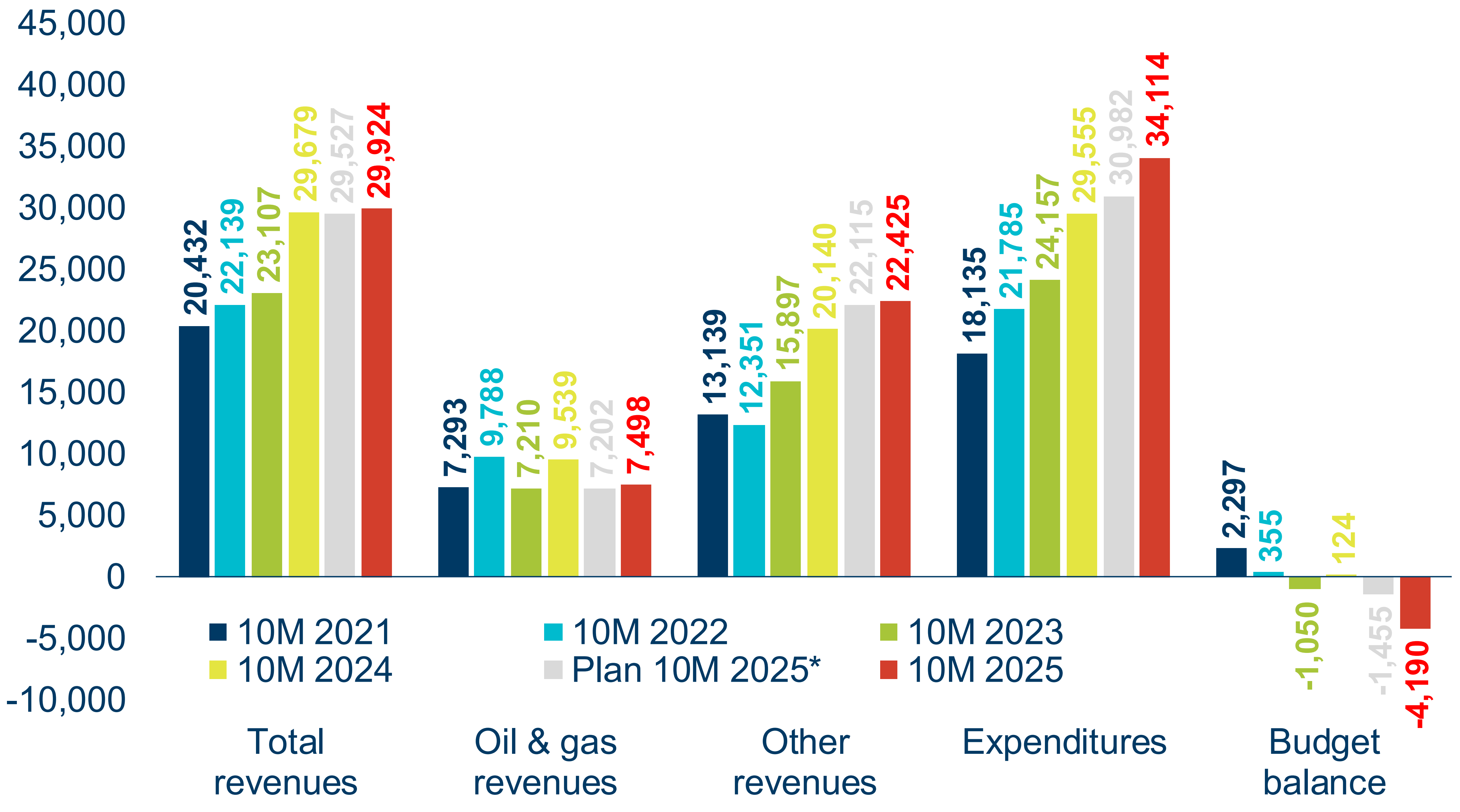
- Oil and gas revenues were 21% weaker y-o-y, non-O&G revenues 11% stronger, and expenditures 15% higher.
- O&G revenues increased on the back of quarterly tax payments but remain subdued compared to 2023-24.
- Non-O&G revenues declined year-over-year in October for the first time in three years as the economy slows.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

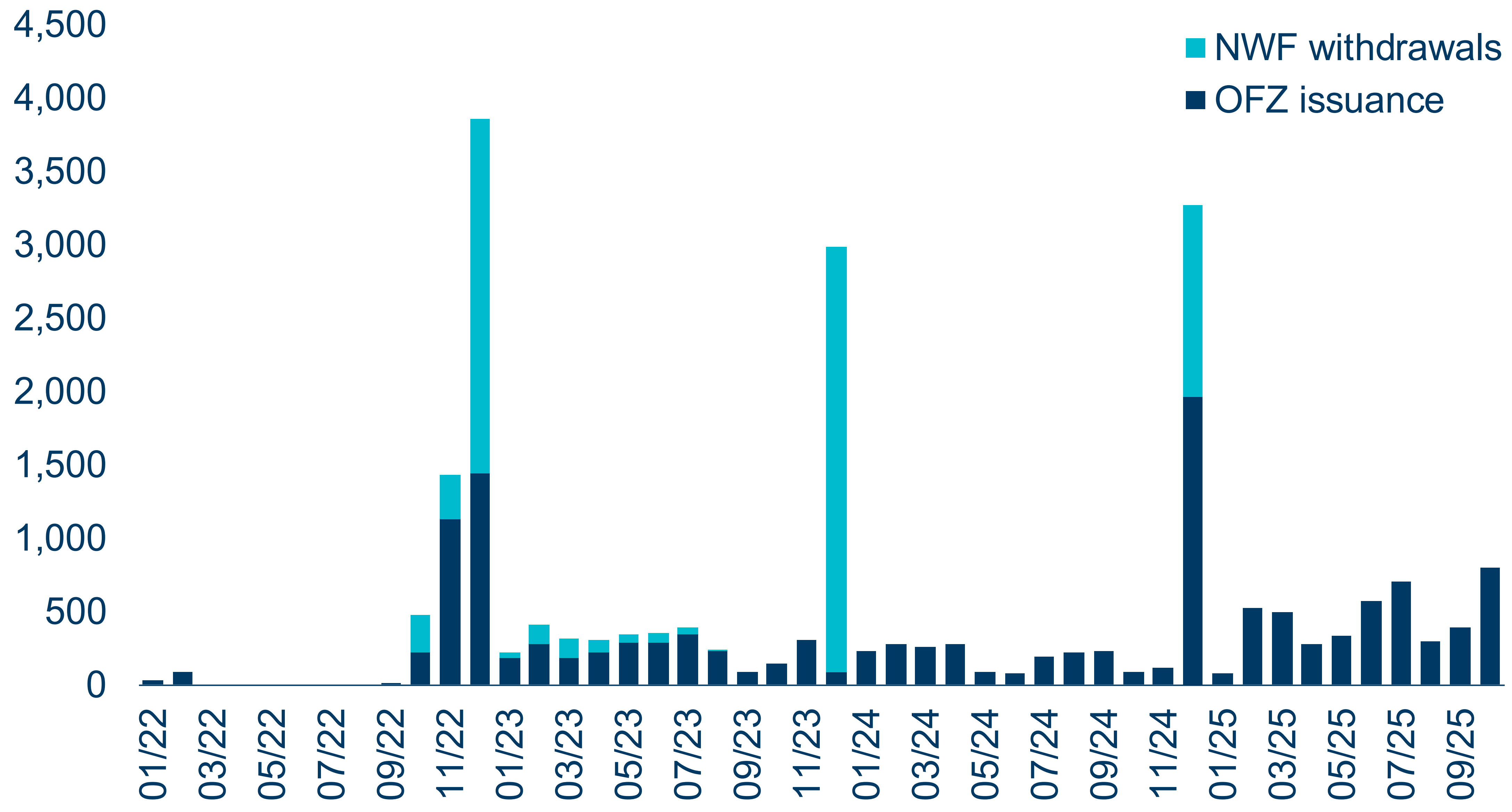


Source: Ministry of Finance, KSE Institute *based on avg. 2019-24 within-year distribution.

Domestic debt issuance increased to finance larger deficit.

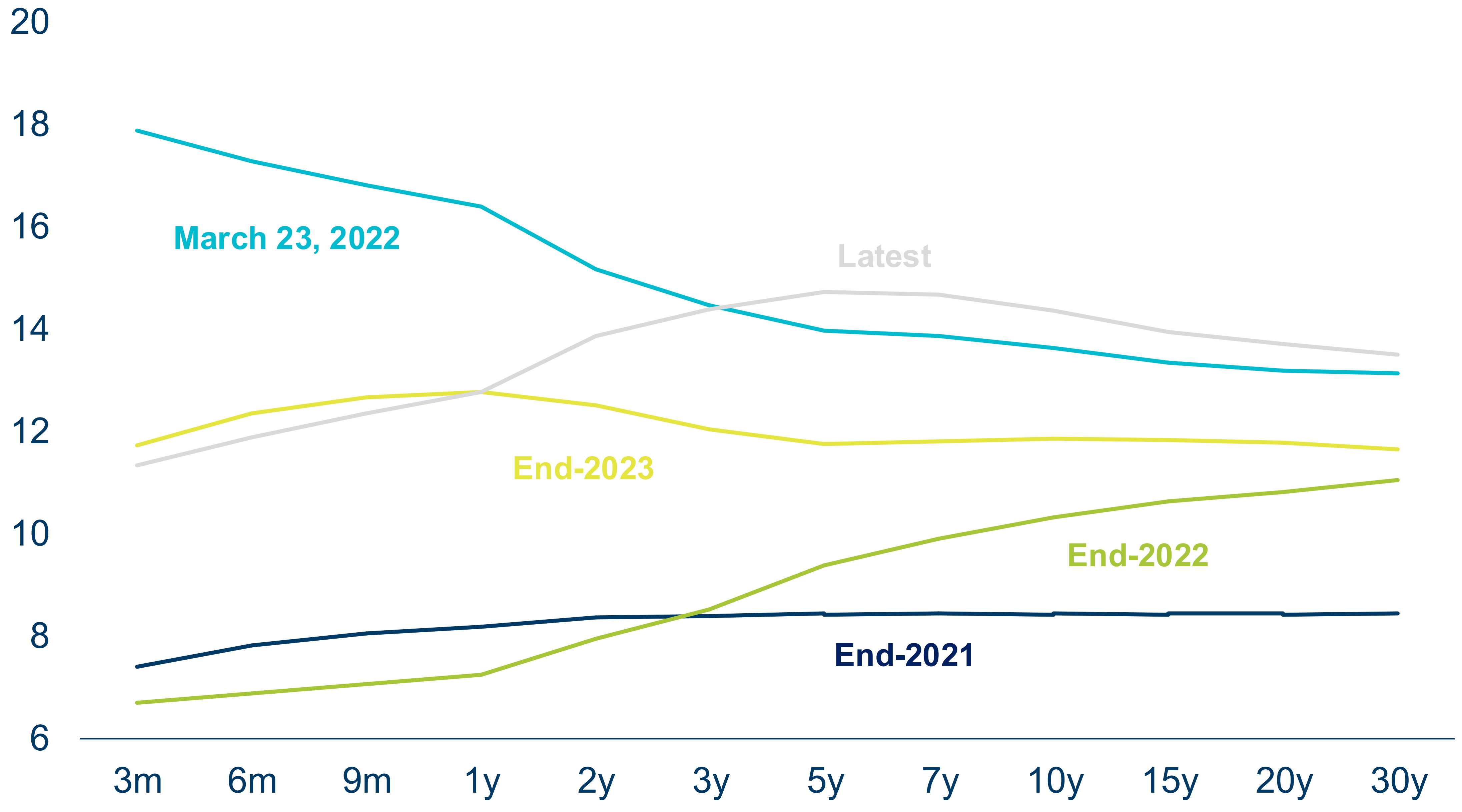
- Due to the larger deficit, OFZ issuance in Jan.-Oct. was 135% higher than in Jan.-Oct. 2024.
- Total issuance in 2025 reached 4.5 trillion rubles—64% of the revised issuance plan for the year.
- In November, the CBR supported bank demand for OFZs with repo operations.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %

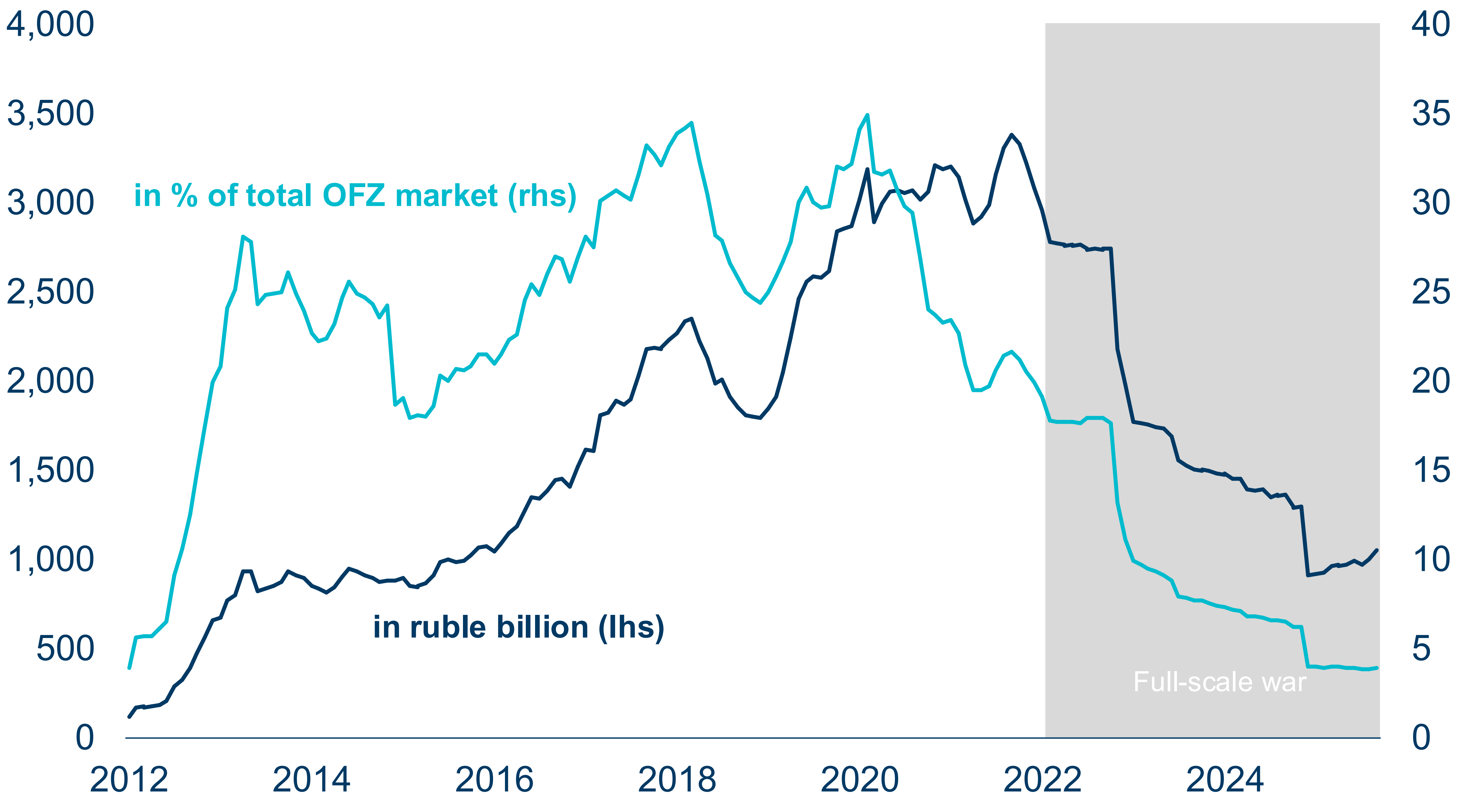


Source: Bank of Russia, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

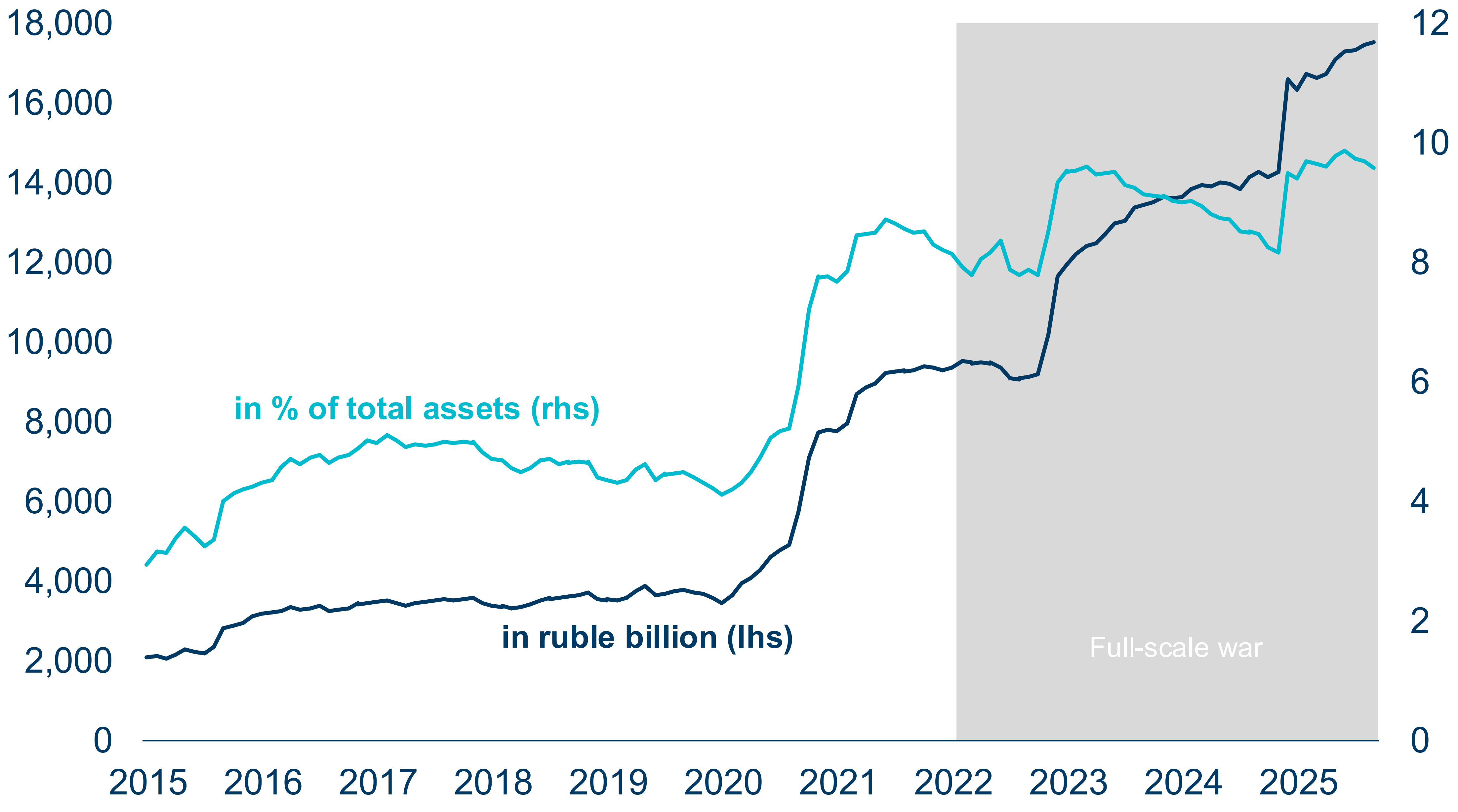
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 1.9 trillion rubles (or 64%) since Jan. 2022 as bonds matured.
- Credit institutions’ holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations’ OFZ holdings*

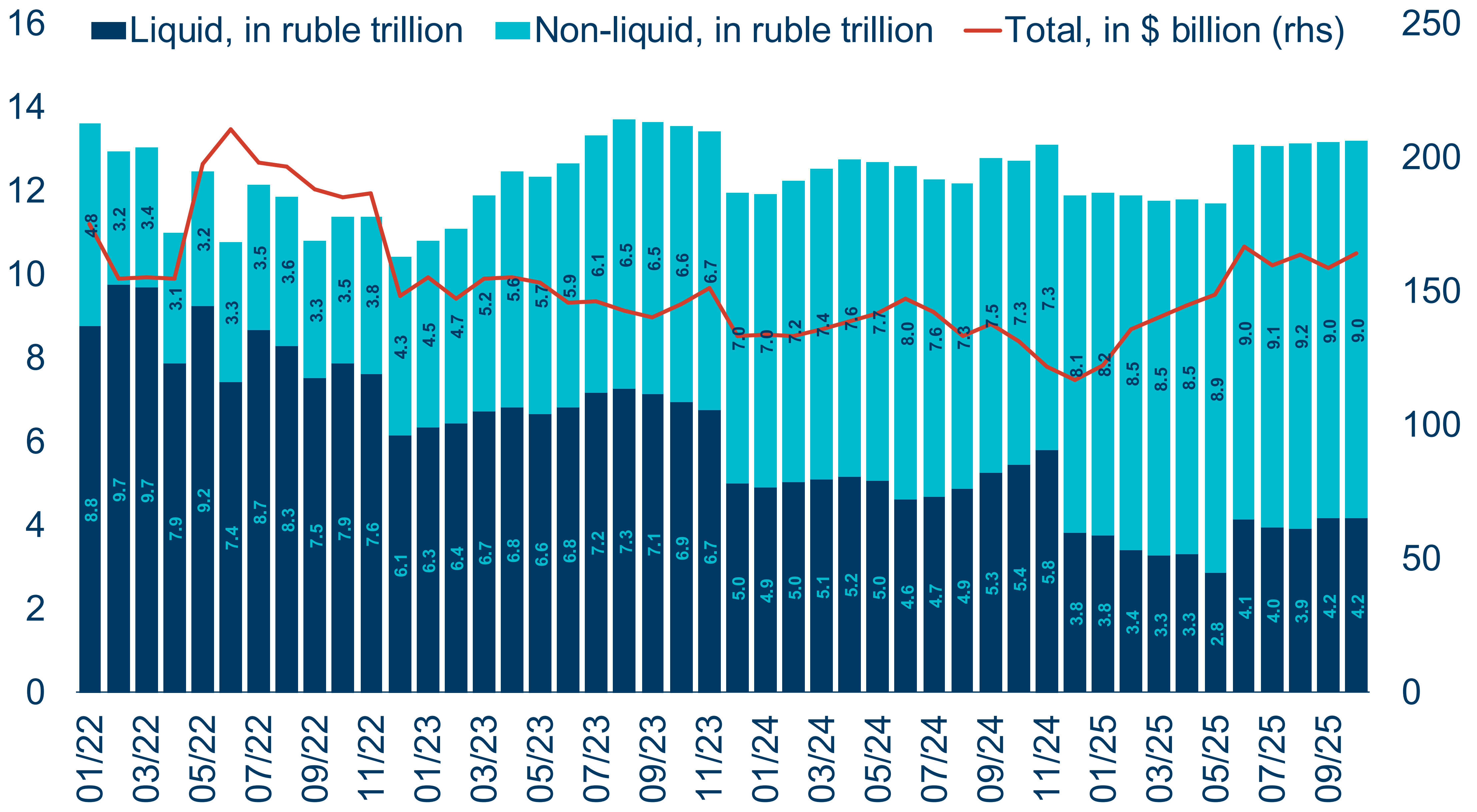


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

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

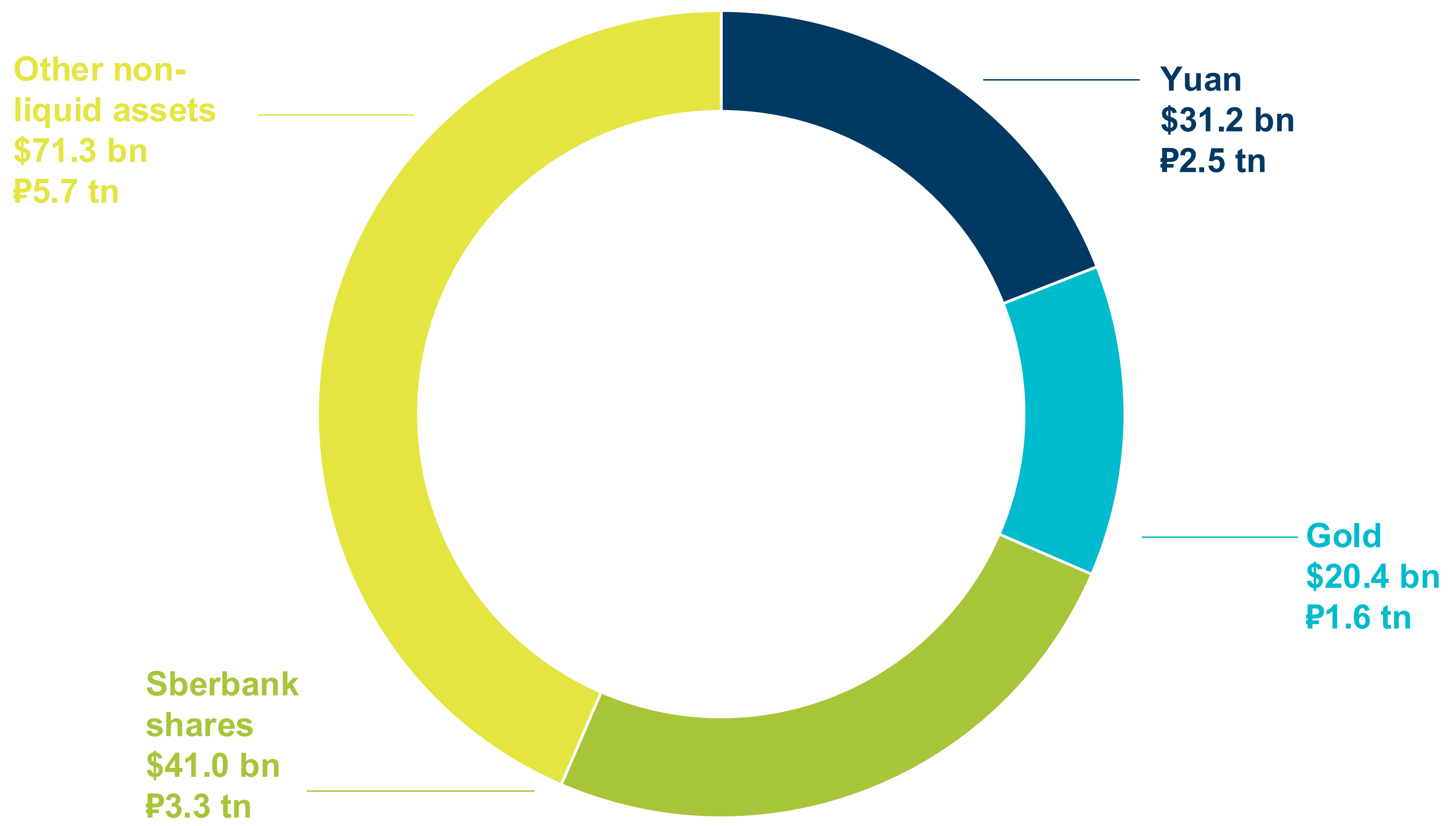
- Total assets of the National Welfare Fund stood at 13.2 trillion rubles ($164.0 billion, 6.0% of GDP) in October 2025.
- Liquid assets have declined by 57% since early-2022 and only account for 31% of the total (vs. 75% in Feb. 2022).
- Depending on policy choices regarding budget financing, this critical 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 November 1, 2025*



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

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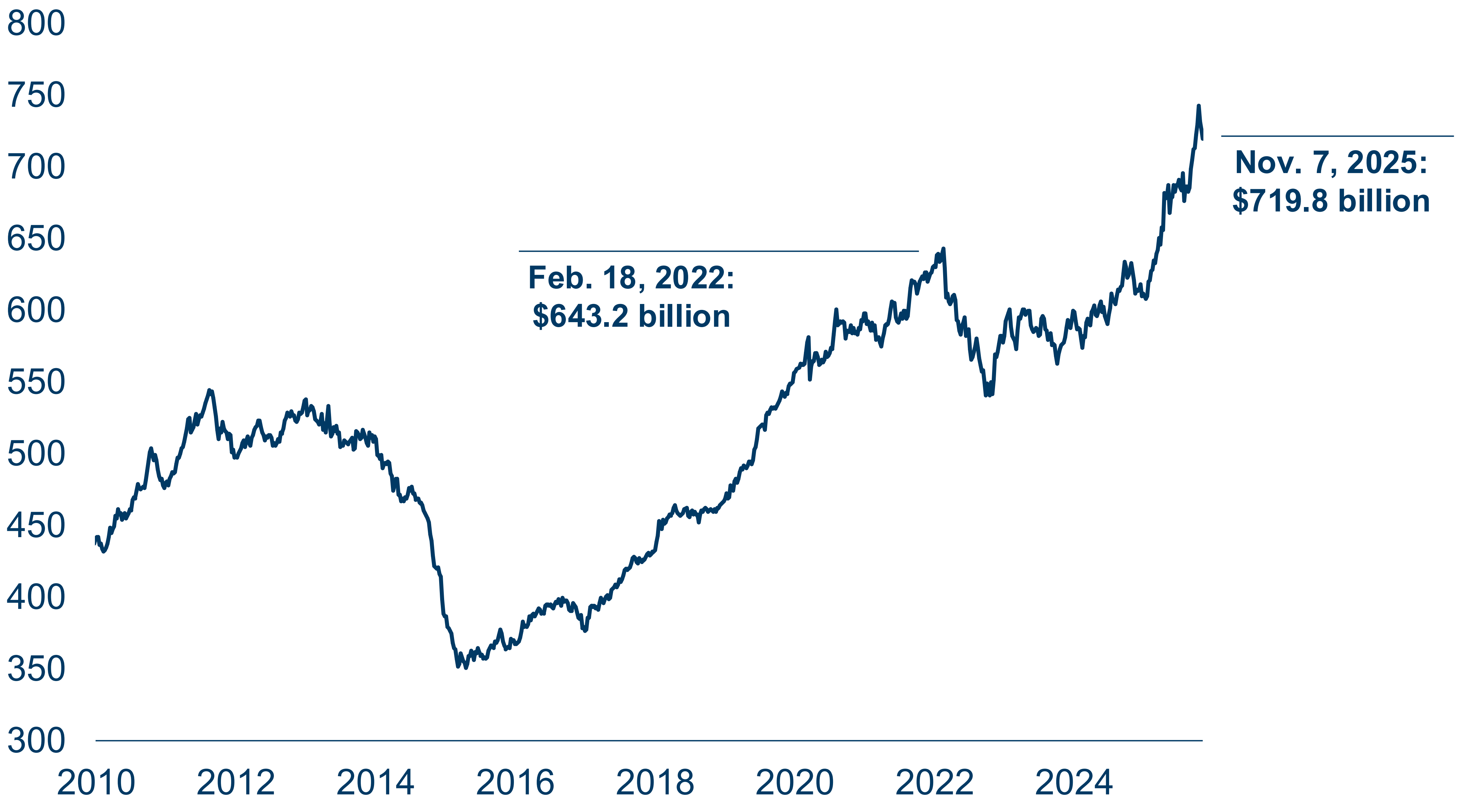
Large share of reserves remains immobilized.

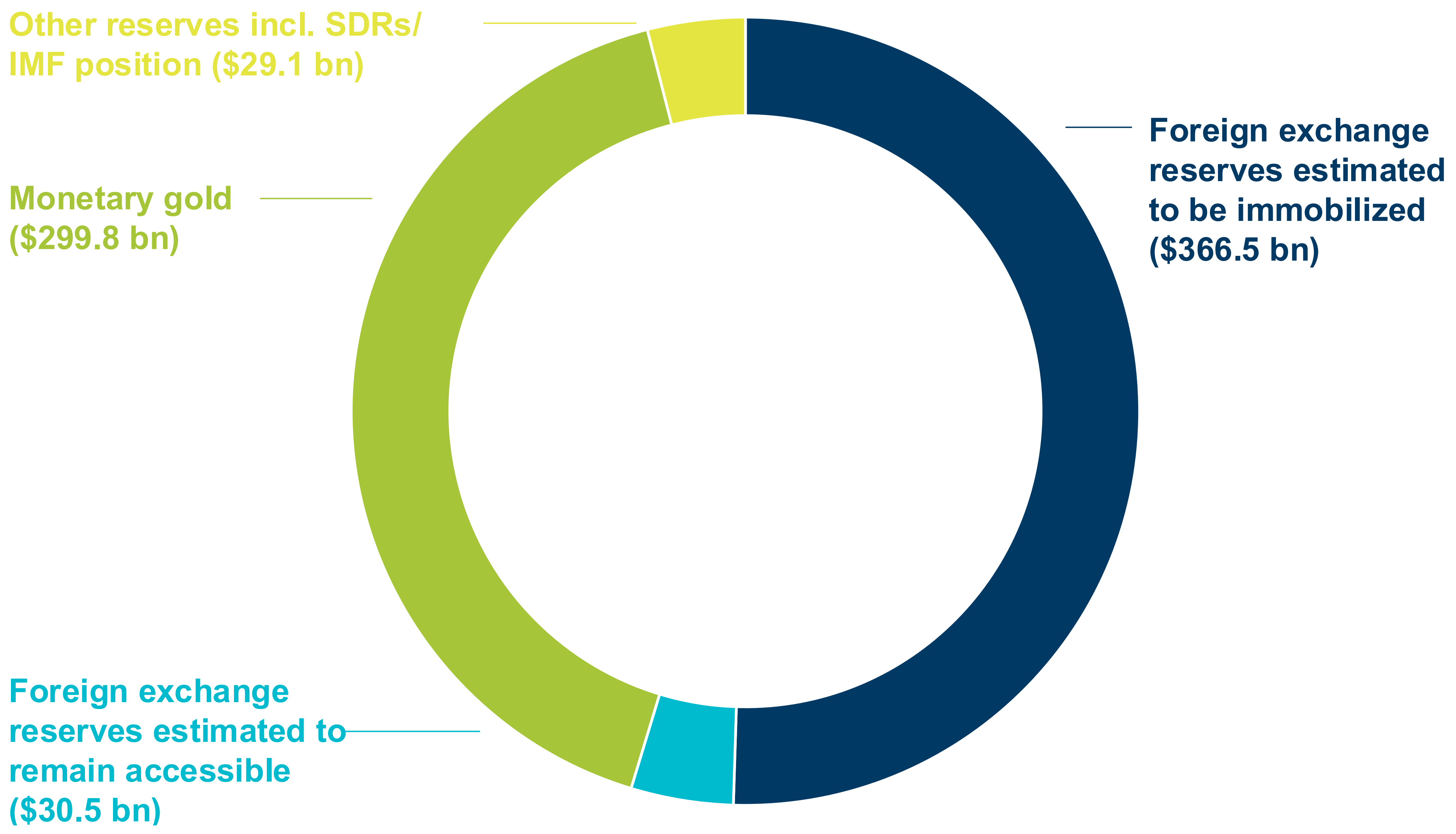
- Russia’s total international reserves stand at $719.8 billion vs. $643 billion before the start of the full-scale war.
- We estimate, based on the CBR’s Dec. 2021 data, that frozen reserves had a value of ~$367 billion at end-Oct.
- This left Russia with $31 billion of other foreign exchange, $300 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-October, in U.S. dollar billion*

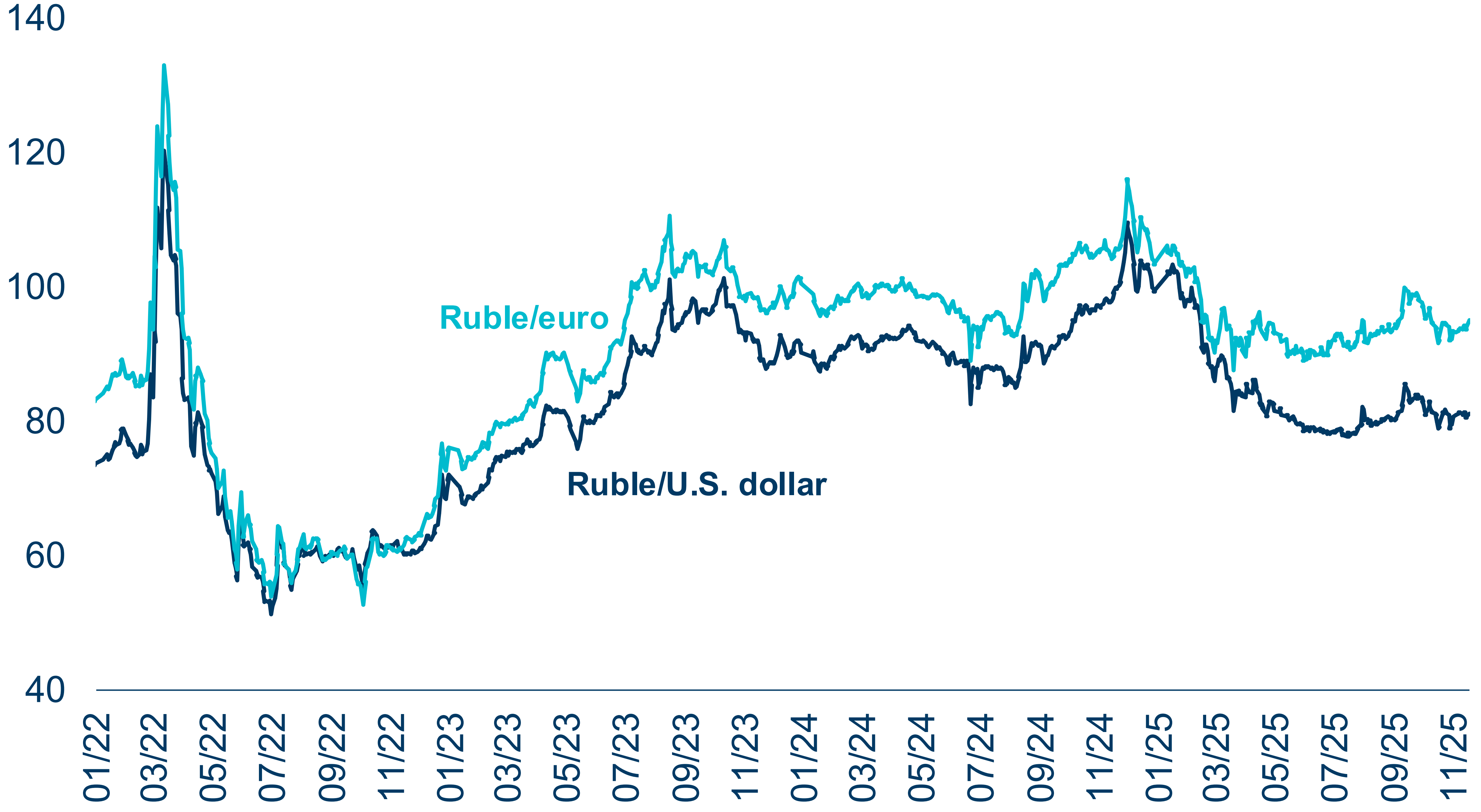


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

Ruble remains broadly stable; inflation continues to decline.

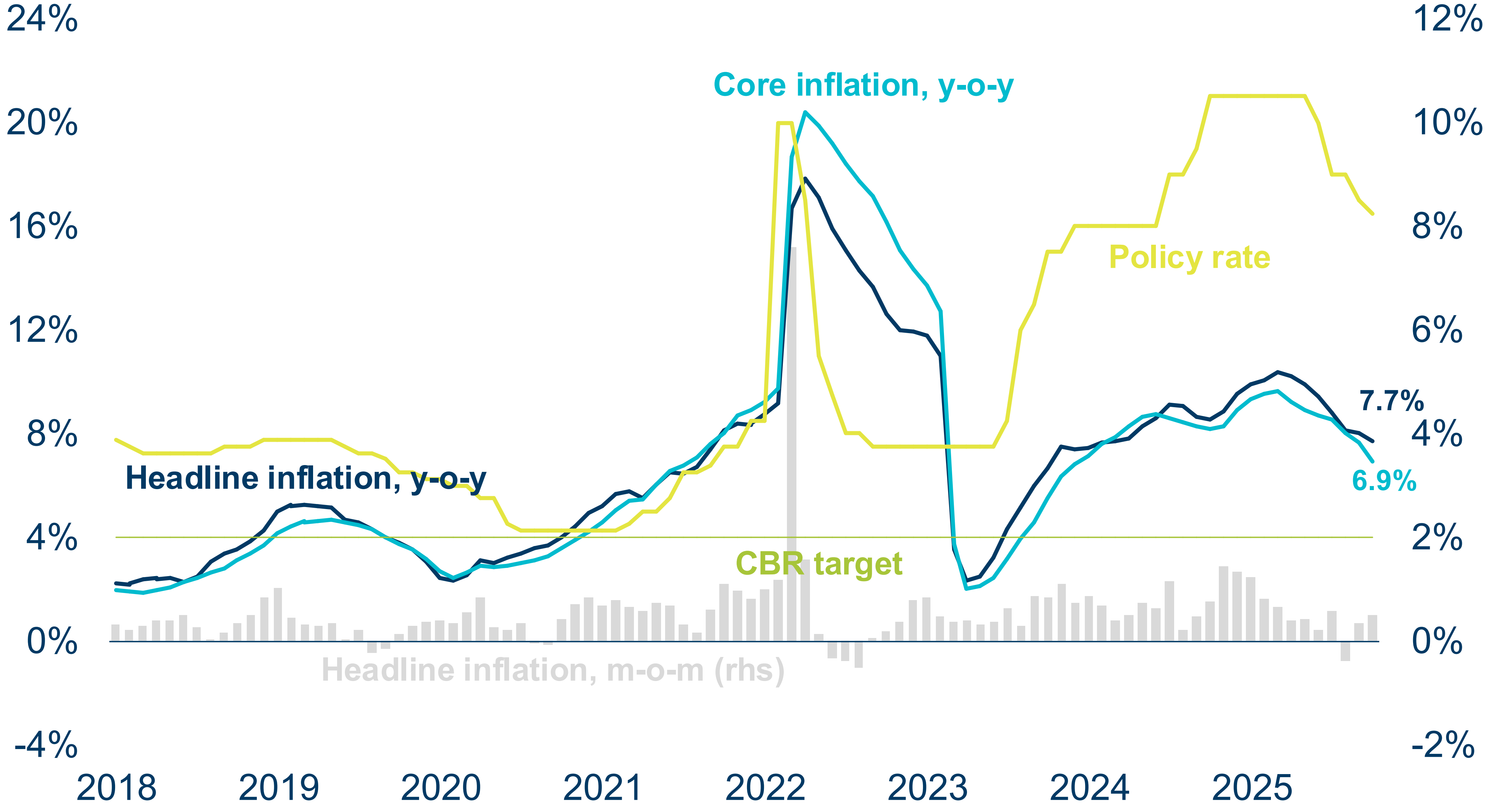
- The ruble has been broadly stable around 80 vs. the dollar and 93 vs. the euro since the end of Q3 2025.
- Inflation continues to moderate, falling from 8.0% y-o-y in October to 7.7% September (6.9% for core inflation).
- The CBR's tight monetary policy is finally showing results, albeit at the high 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 %

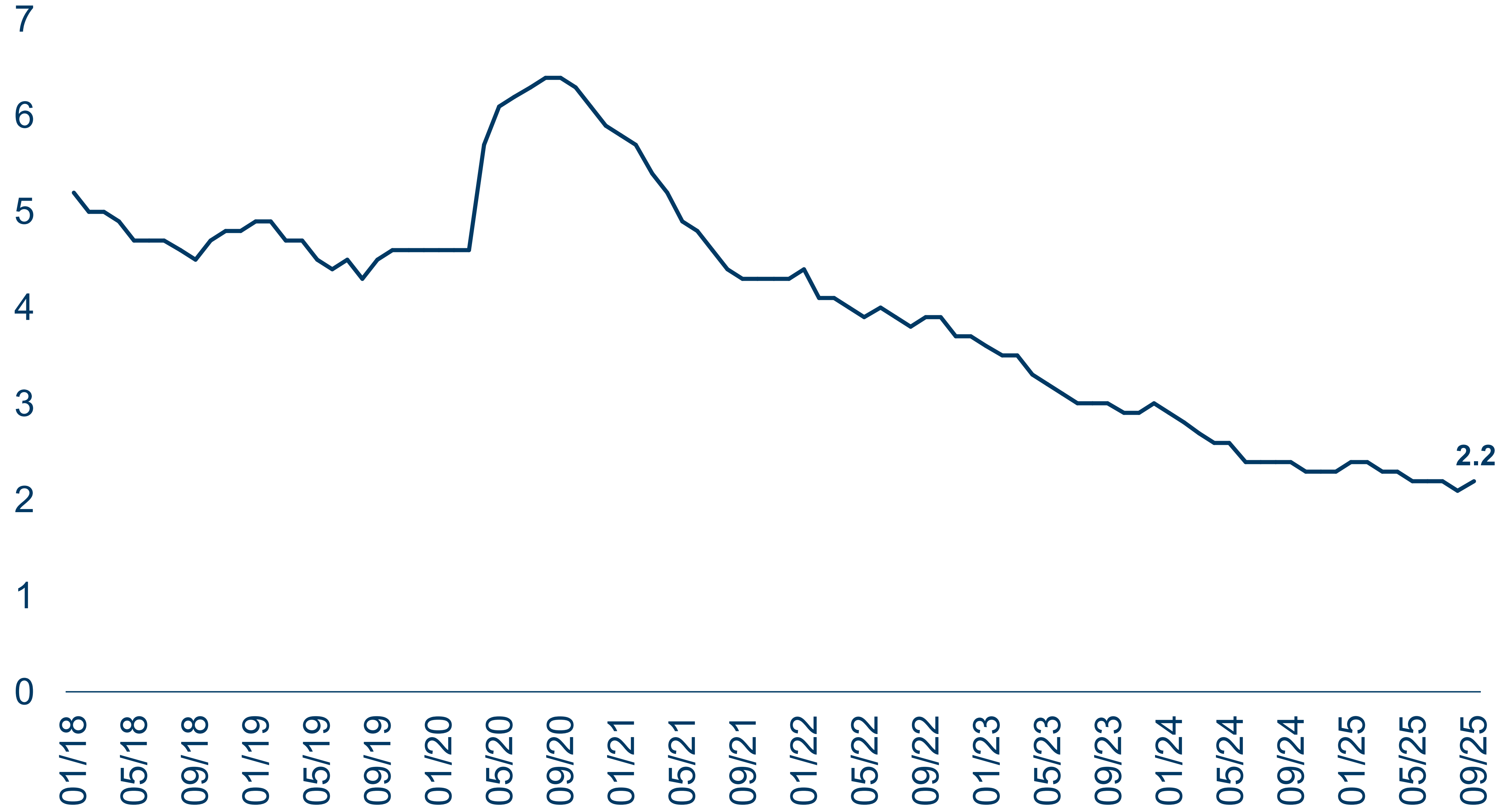


Source: Bank of Russia, KSE Institute

Russia's economy has little room to grow.

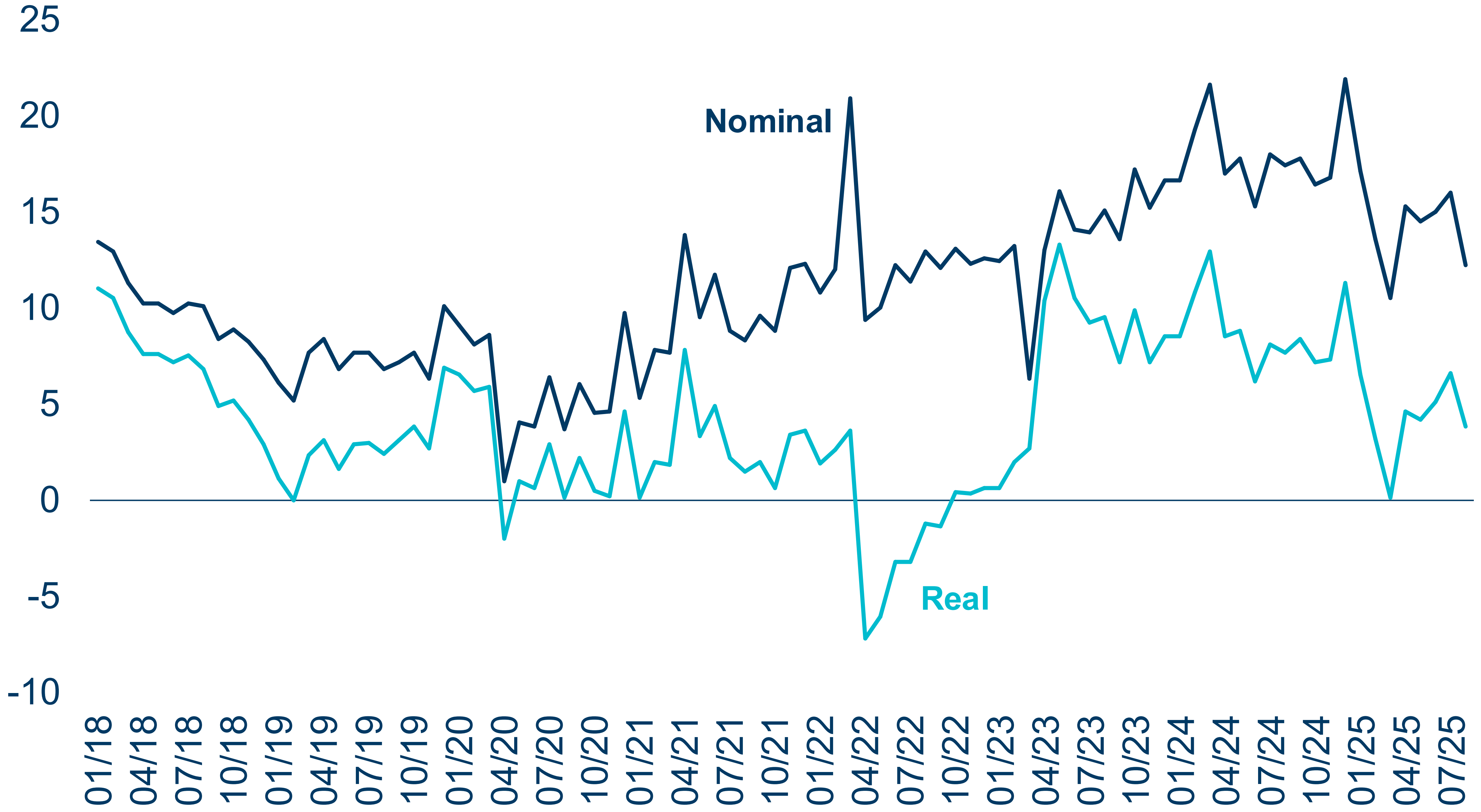
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from now.
- Wage growth has been noticeably weaker throughout 2025 vs. 2024 and stood at 12.2% y-o-y in August.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

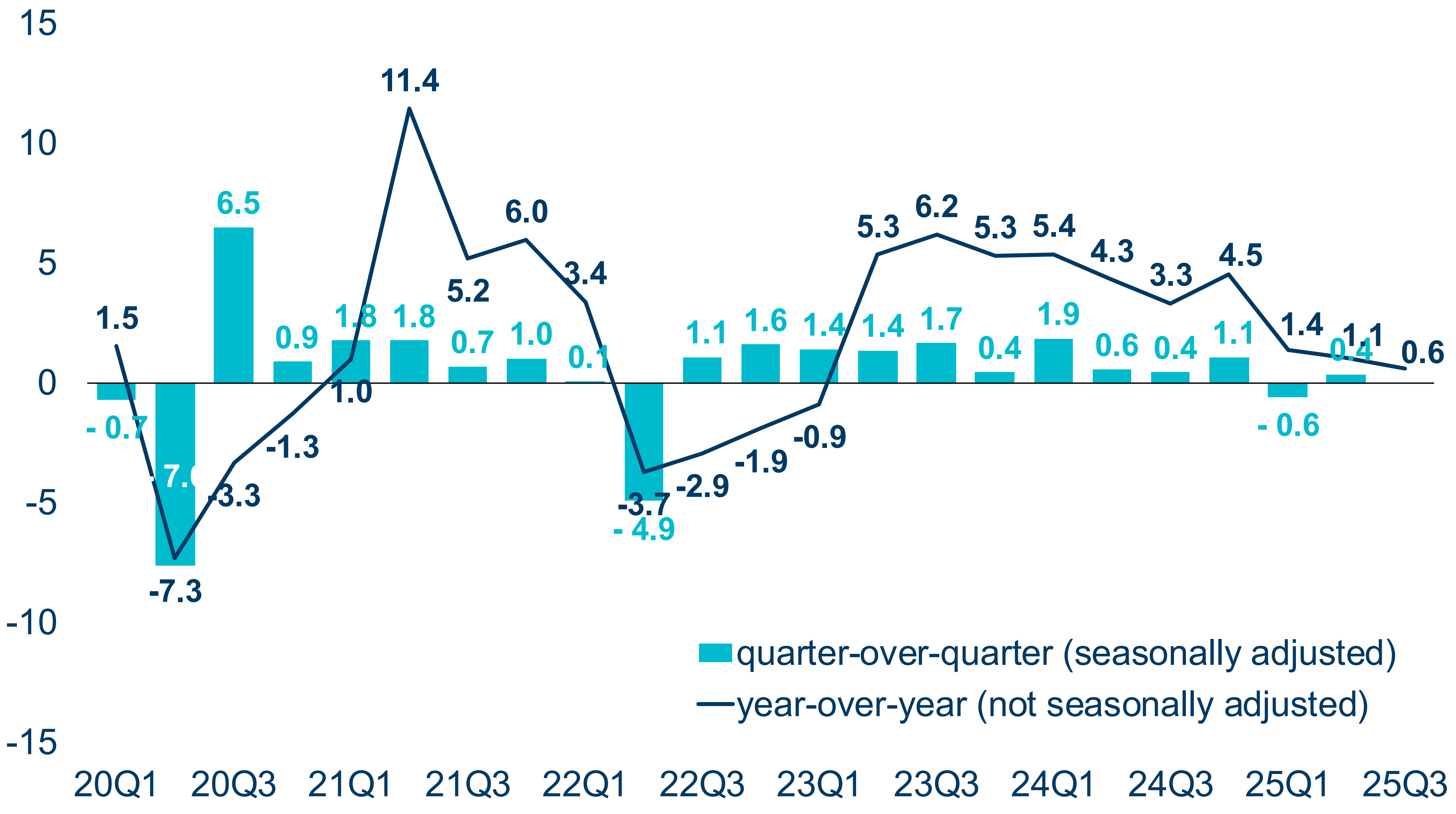


Source: Rosstat

Economic growth is slowing down, with prospects seriously constrained.

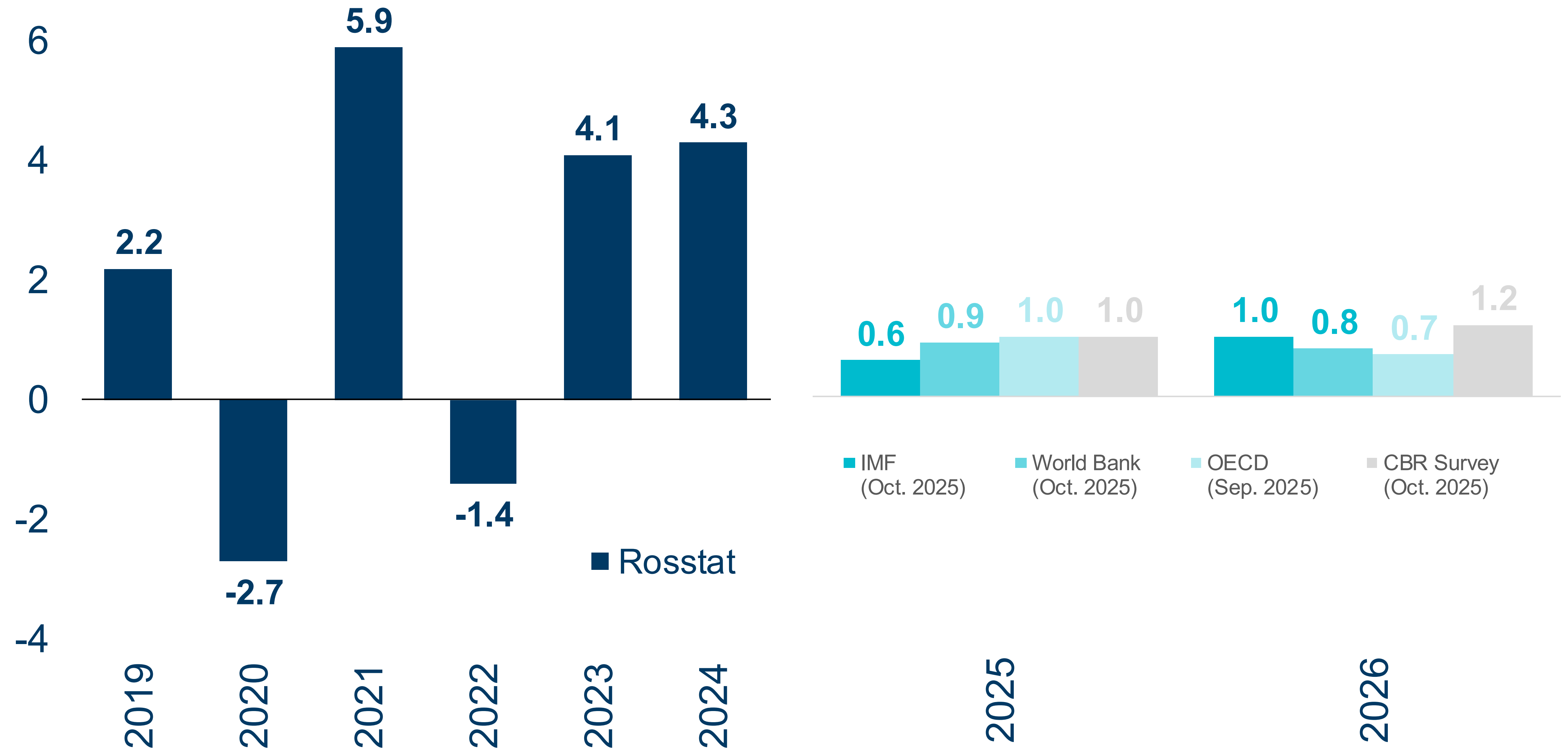
- Growth slowed further in Q3, with Rosstat's preliminary estimate showing a deceleration to 0.6% year-over-year.
- Q-o-Q numbers for Q3 are not yet available; in Q2, the economy grew something following a contraction in Q1.
- All key international and national institutions have sharply cut their forecasts 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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