

KSE INSTITUTE RUSSIA CHARTBOOK

SPENDING CUTS KEEP BUDGET ON TARGET;

RUSSIAN OIL PRICES CONTINUE TO PLUNGE

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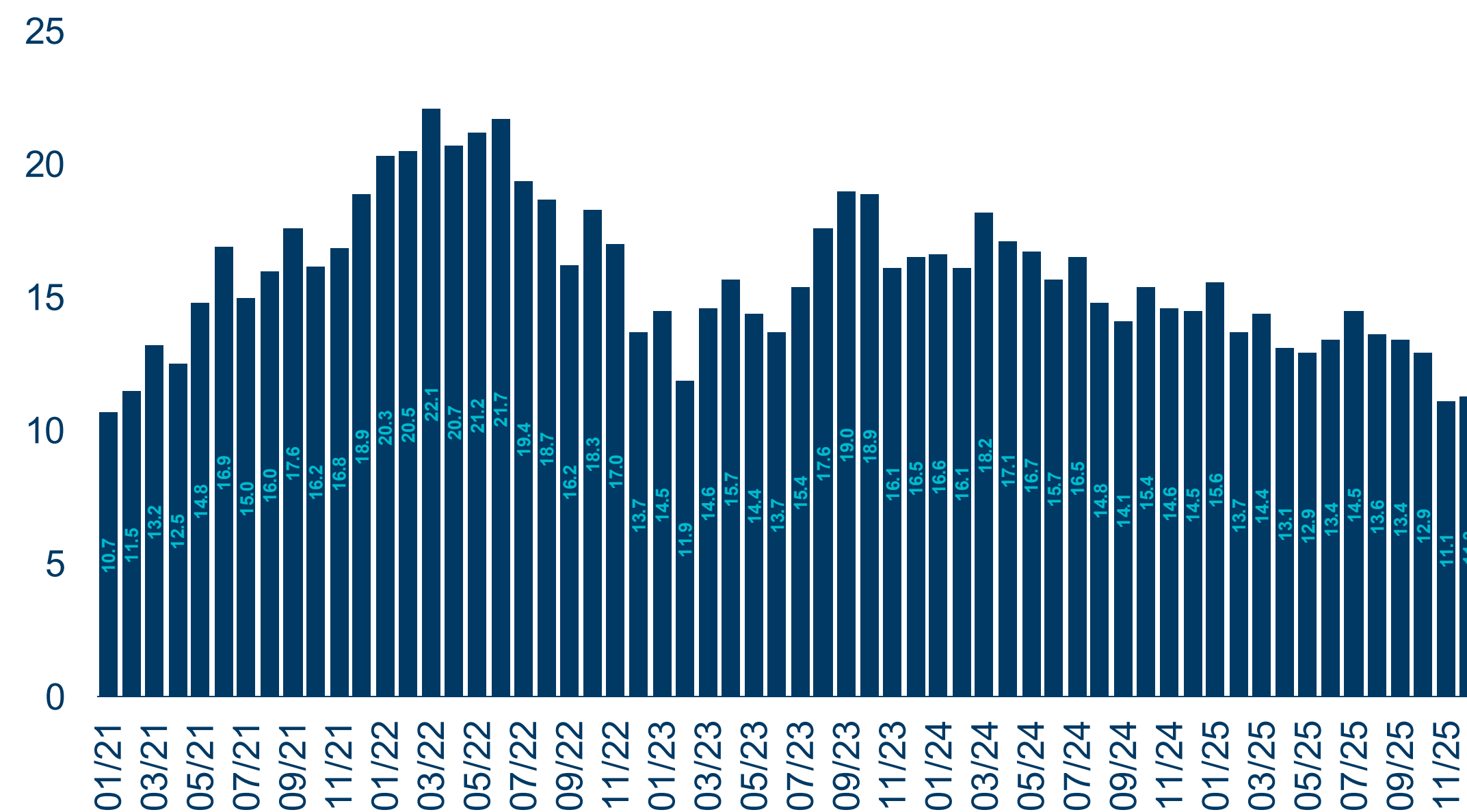
Executive Summary

- 1. Russian oil export prices continued to plunge.** In December, Russia sold its crude oil at an average price of \$41.3/bbl, and Urals fell below \$38/bbl as the discount to global prices widened to \$21.3/bbl and \$25.0/bbl, respectively. As a result of recent US sanctions against Rosneft and Lukoil as well as a significantly oversupplied global market, Russia is facing an environment more challenging than even during early 2023. While current geopolitical tensions have led to a temporary increase in global oil prices in recent weeks, we expect Brent to fall back to ~\$55/bbl in the coming months and remain at this level for 2026-27. In December, Russia was able to offset lower prices with higher export volumes. However, with China and India appearing to scale back purchases, the amount of oil “on the water,” i.e., shipments without a buyer, has increased, which cannot be maintained for too long. Should the behavior of the biggest importers of Russian oil not change, export volumes will eventually decline and so will, in turn, production due to limited storage capacity.
- 2. Budget hits full-year target due to expenditure cuts.** In 2025, Russia’s federal budget recorded a deficit of 5.6 trillion rubles—in line with the revised plan but a 63% increase over 2024. The December deficit was uncharacteristically low according to preliminary numbers from MinFin, reaching 1.4 trillion vs. 3.5 trillion in Dec. 2024 and 2.5 trillion in Dec. 2023. This is either the result of significant spending cuts, which would constrain the government’s ability to meet its obligations, including for the war, or was achieved due to the shifting of spending into the new year. Overall, fundamental budget dynamics remain unfavorable with O&G revenues falling to their lowest level since Jan. 2023 (and second-lowest since the Covid pandemic) in Dec. Non-O&G revenue growth slowed considerably in 2025, reaching 13% (vs. 25-26% in 2023-24). With the economy effectively stalling in Q3, there is a pronounced risk of further pressure.
- 3. Russia’s MinFin relied heavily on domestic borrowing.** Total new OFZ issuance reached ~7 trillion rubles in 2025—in line with the original plan but 74% higher than in 2024. As a result, Russia was able to avoid using NWF assets for the budget and preserve this critical macroeconomic buffer for 2026. With domestic banks remaining the only significant buyer of domestic debt, the CBR supported their absorption capacity through large repo operations with outstanding total loans reaching above 5 trillion. Should deficits remain high and such operations become permanent, they would significantly impair the central bank’s ability to control inflation. For now, the CBR’s extremely tight monetary policy in 2024-25 has successfully reined in inflation, which reached 5.6% y-o-y in Dec., albeit at the cost of dramatically slowing down economic activity. The IMF expects full-year growth to reach only 0.6% (vs. 4.1% and 4.3% in 2023-24).

Export prices plunge below price cap; higher volumes provide support.

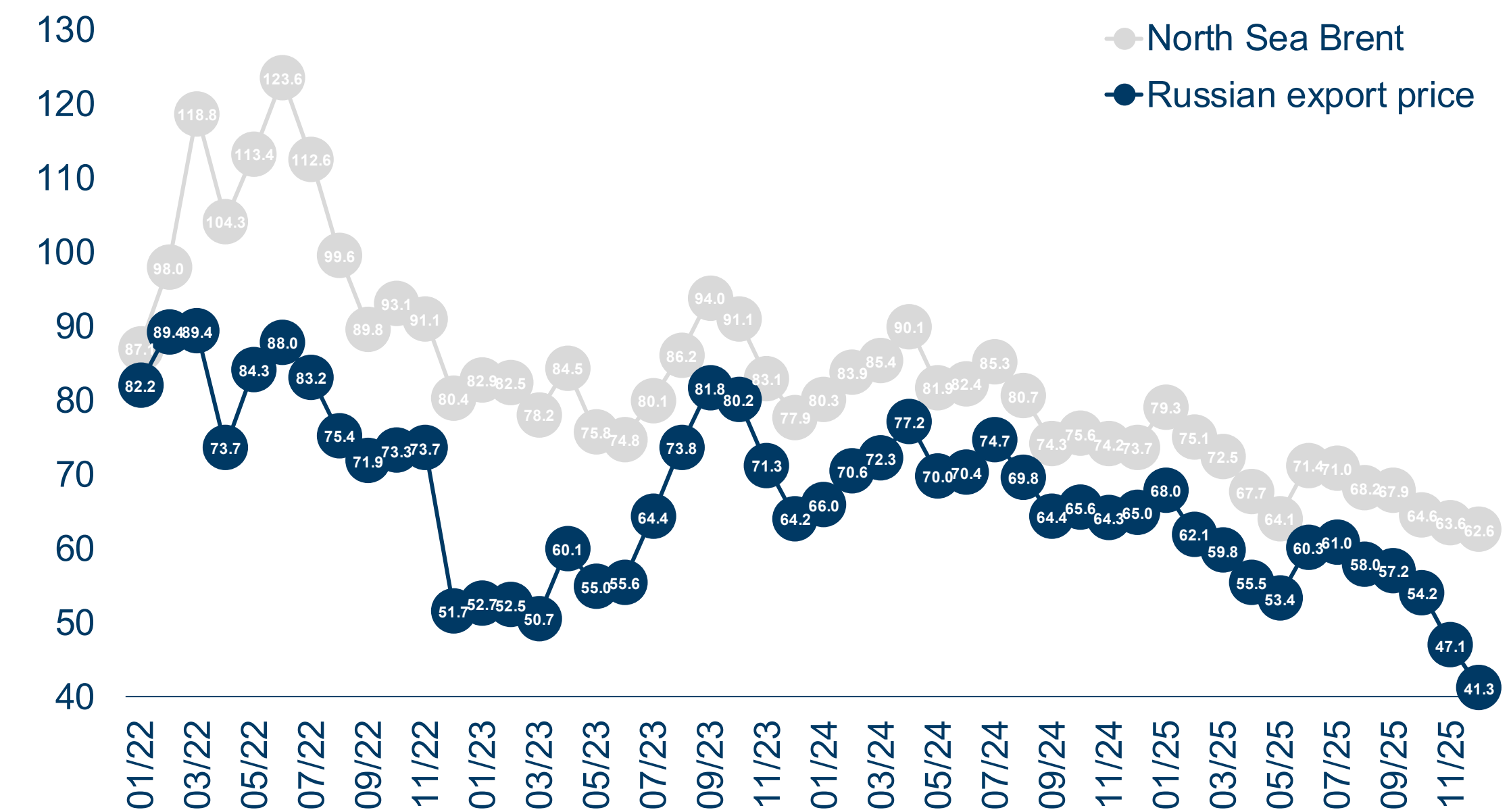
- Oil export earnings ticked up marginally in Dec., reaching \$11.3 billion after the sharp drop in Nov.
- Russian export prices collapsed to \$41.3/barrel, falling below the revised price cap for the first.
- Despite the sharp drop in prices, Russia was able to increase revenues by boosting export volumes.

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*

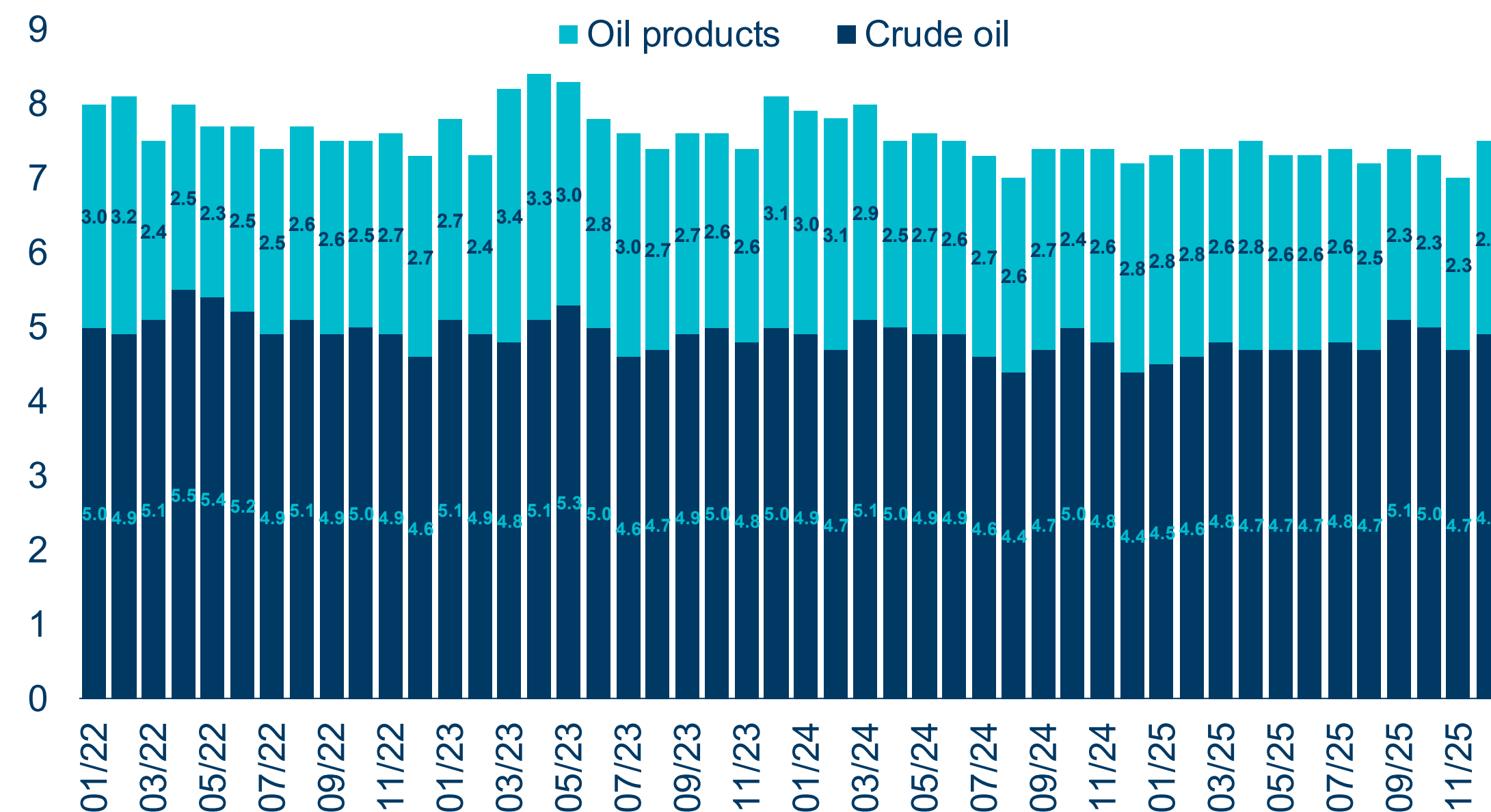


Source: International Energy Agency, KSE Institute

Oil export volumes recover as flows shift to undisclosed destinations.

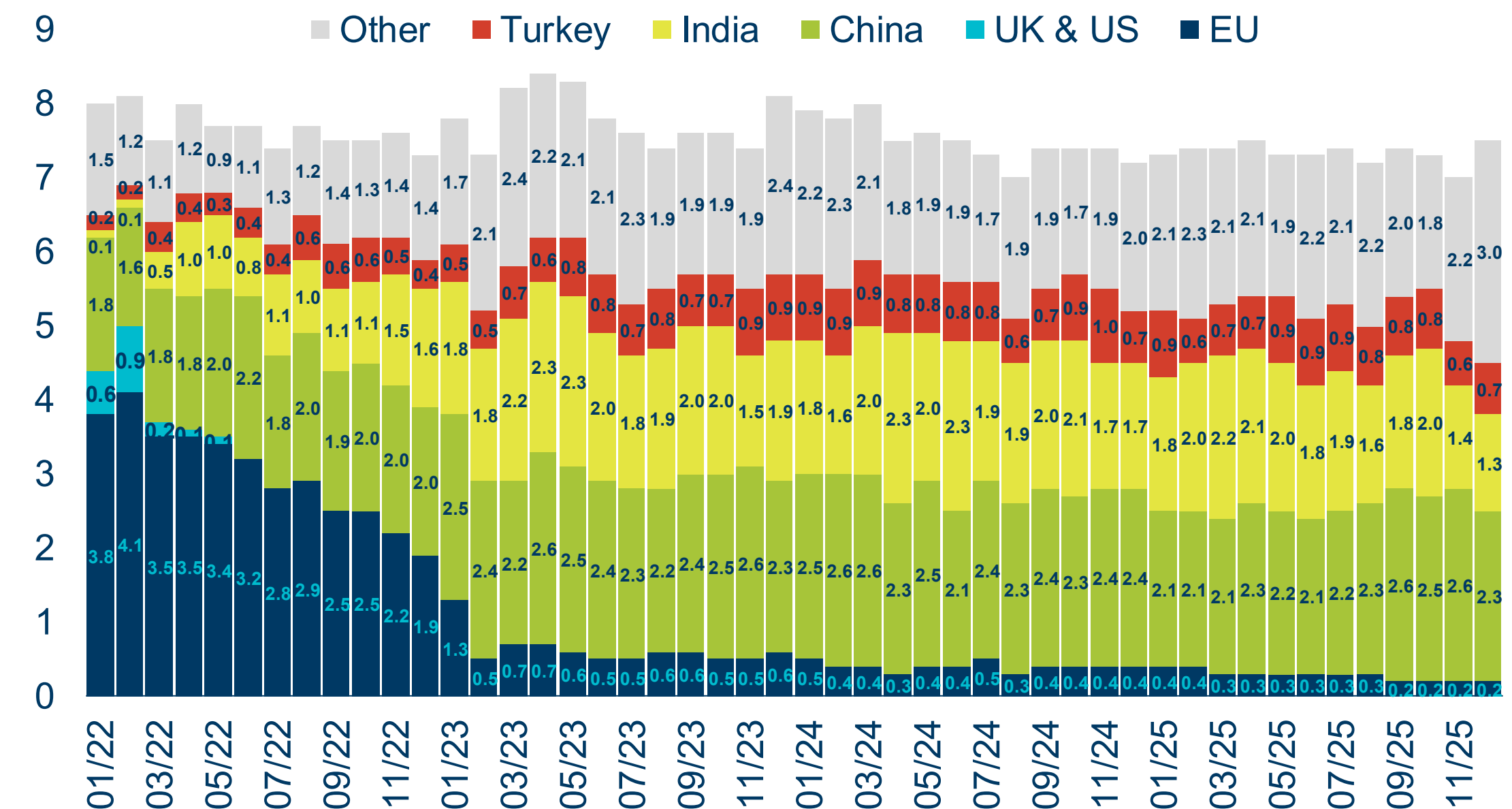
- Russian oil export volumes recovered to ~7.5 mb/d in Dec. (vs. ~6.8 mb/d in Nov.).
- According to IEA data, exports to China and India continued to decline in December.
- Exports to other destinations surged, likely indicating a large volume of oil “on the water”.

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

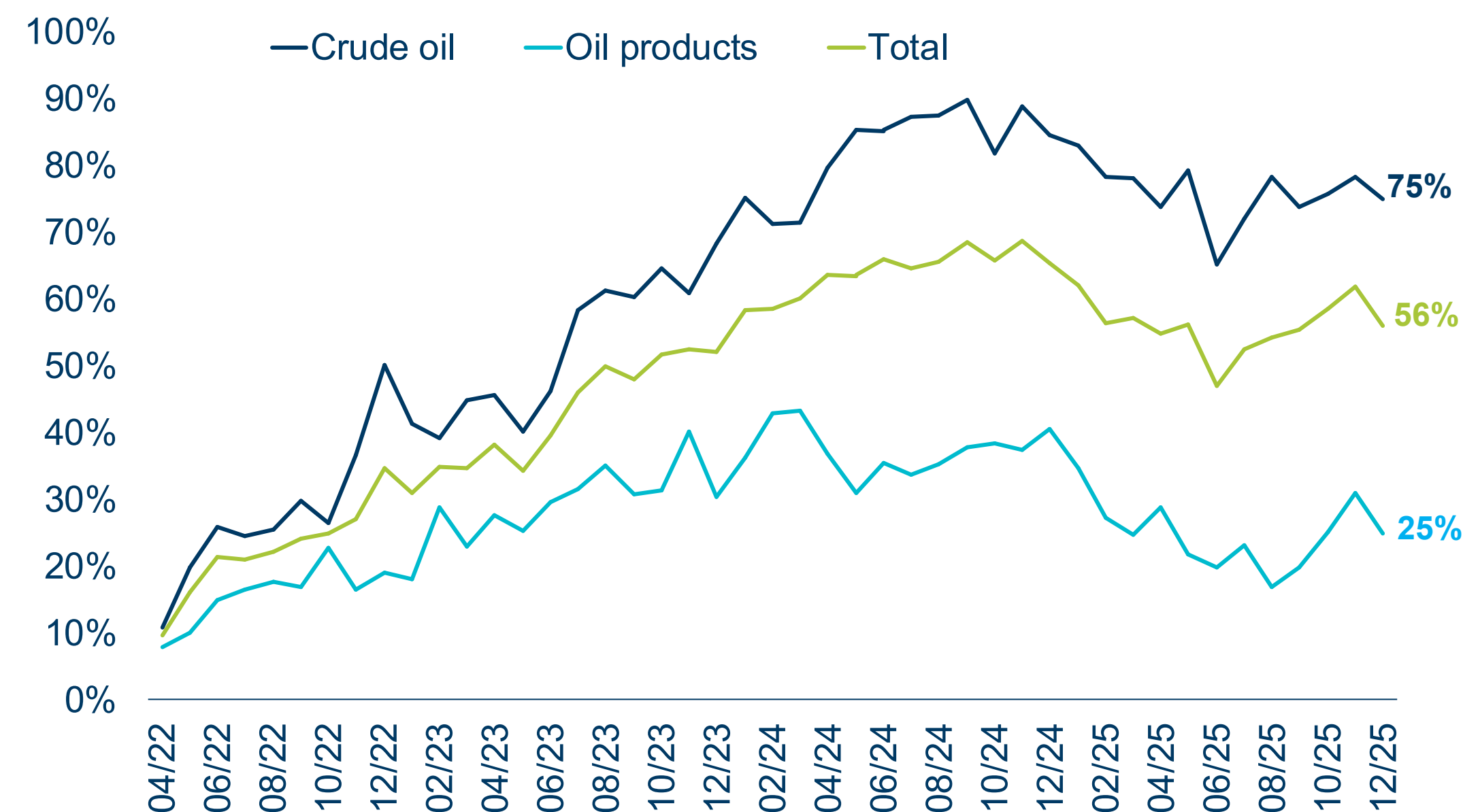


Source: International Energy Agency, KSE Institute

Stepped-up shadow tanker sanctions require tighter enforcement.

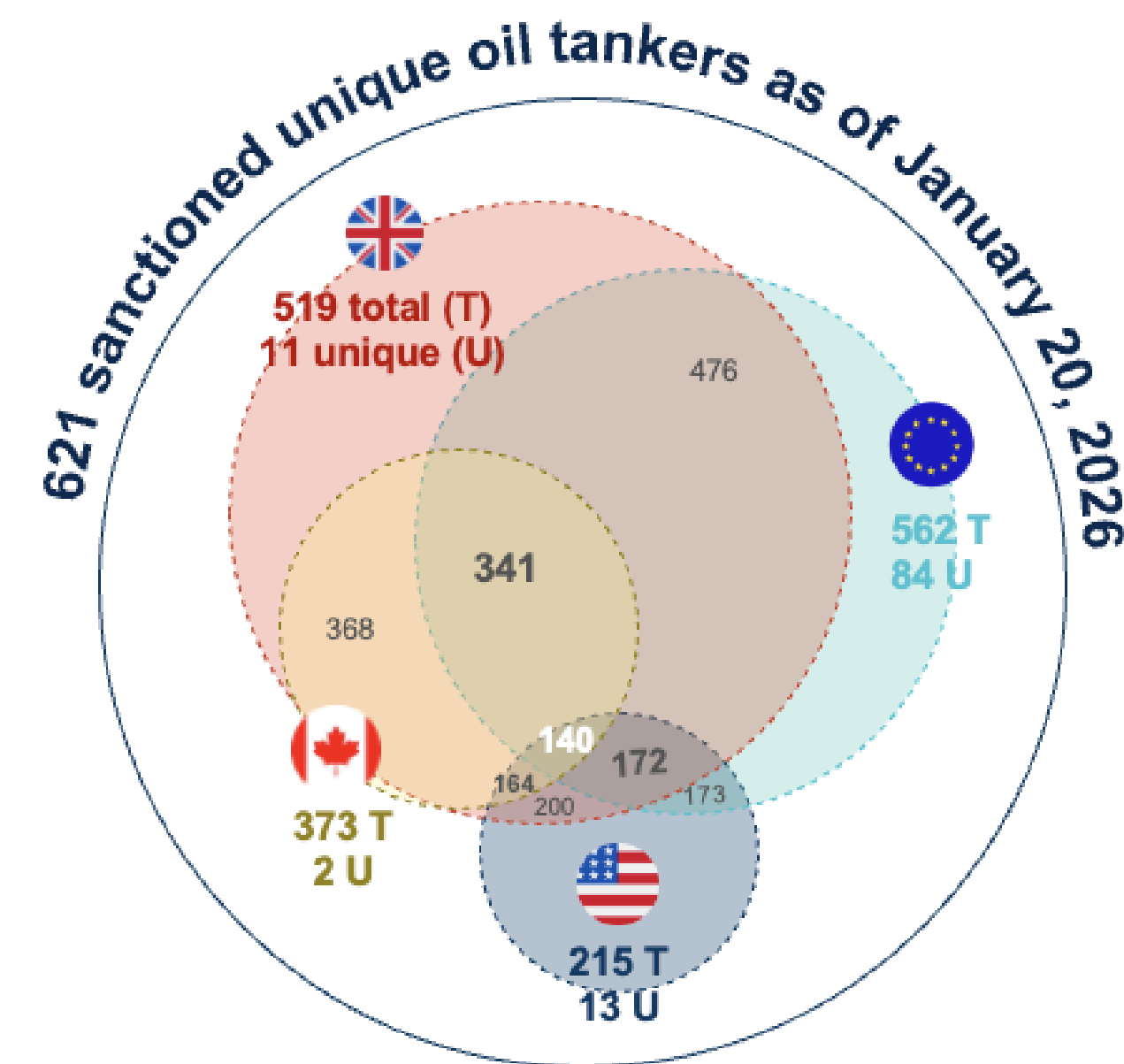
- The total number of sanctioned shadow tankers has reached 621, with 172 listed by the EU, UK, and US.
- With listings reaching ~70% of the shadow fleet, more effective enforcement will need to be in the focus.
- The shadow fleet's share in Russian oil exports declined slightly due to lower prices but remains high.

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction*



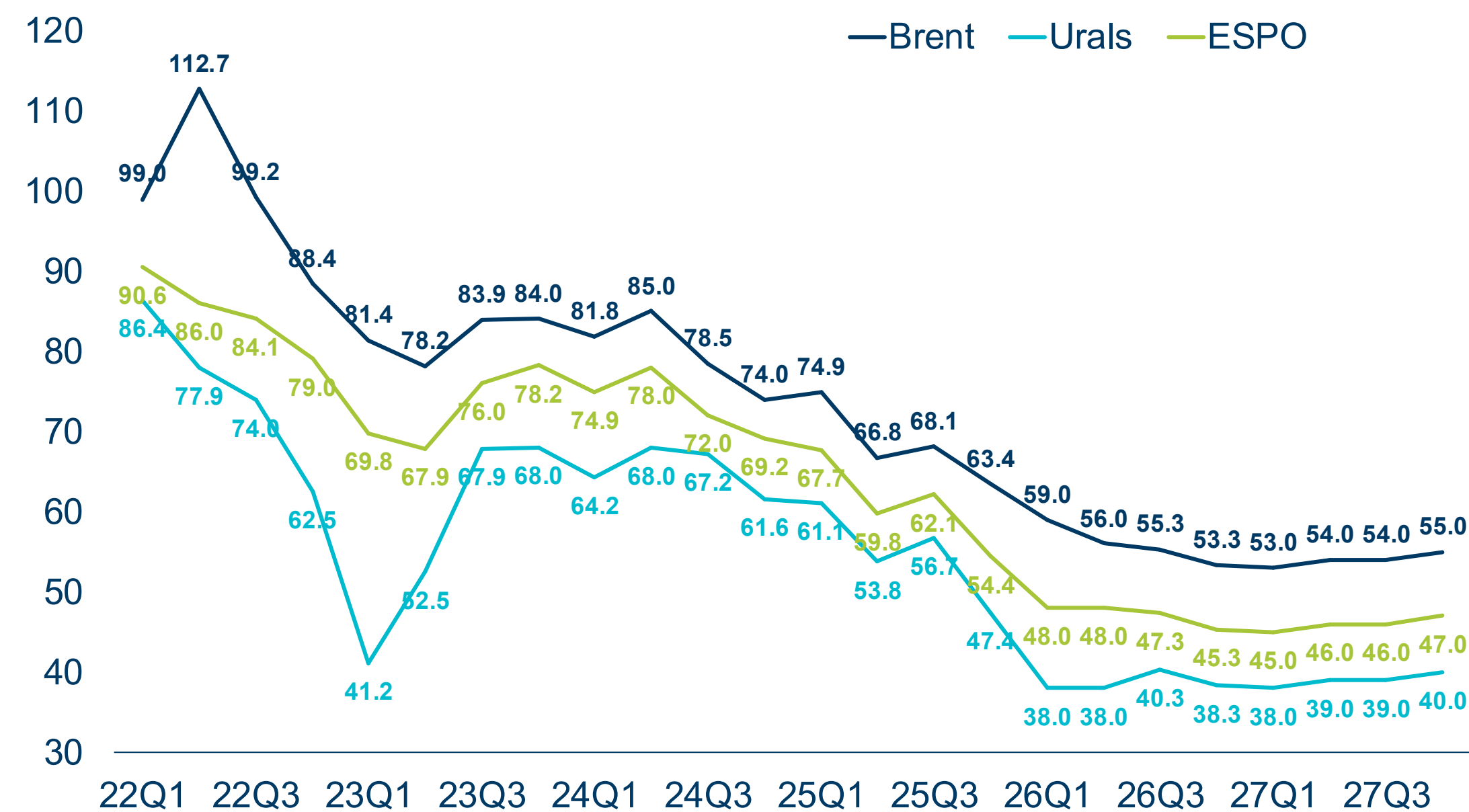
Source: European Commission, OFAC, OFSI, KSE Institute.

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.

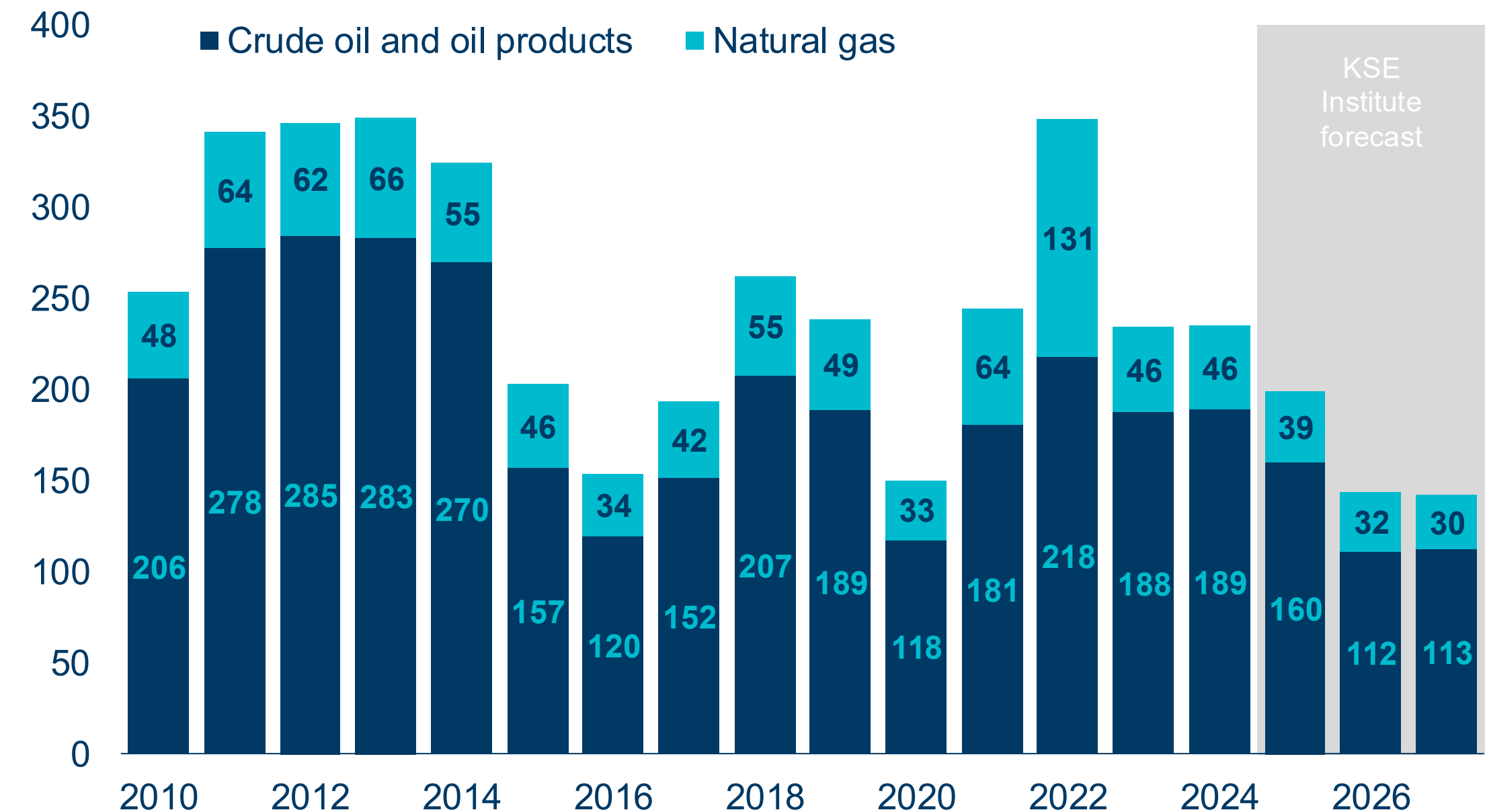
- Due to the significant supply glut in the oil market, Brent prices are expected to be around \$55/bbl for most of 2026.
- At the same time, a wider discount on Russian crude oil will likely bring Urals to the high-30s and ESPO to the mid-40s.
- As a result, total oil export earnings will decline to \$112-113 billion in 2026-27; gas exports will drop to \$30-32 billion.

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

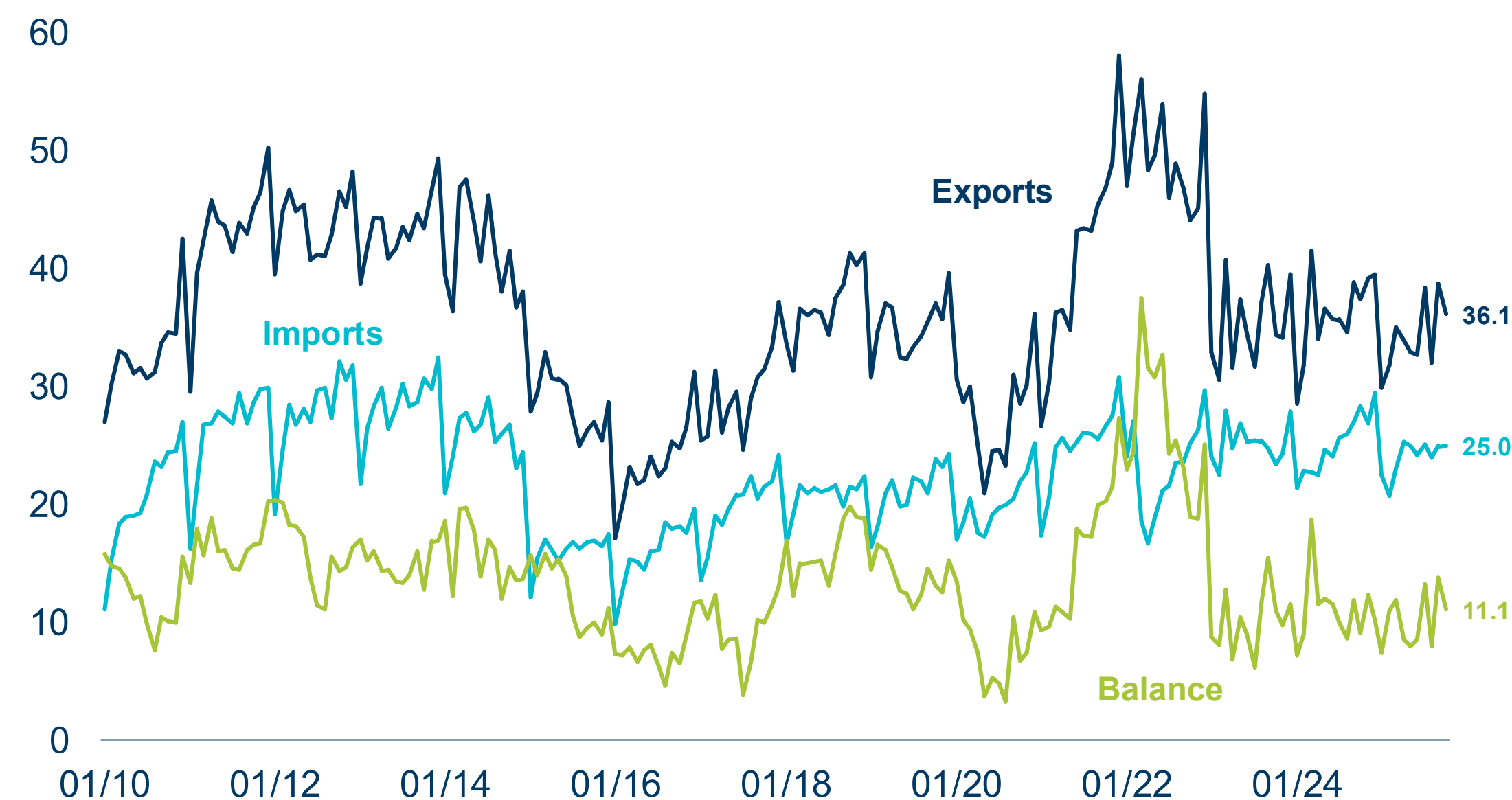


Source: Bank of Russia, KSE Institute

Current account surplus increased on the back of stronger exports.

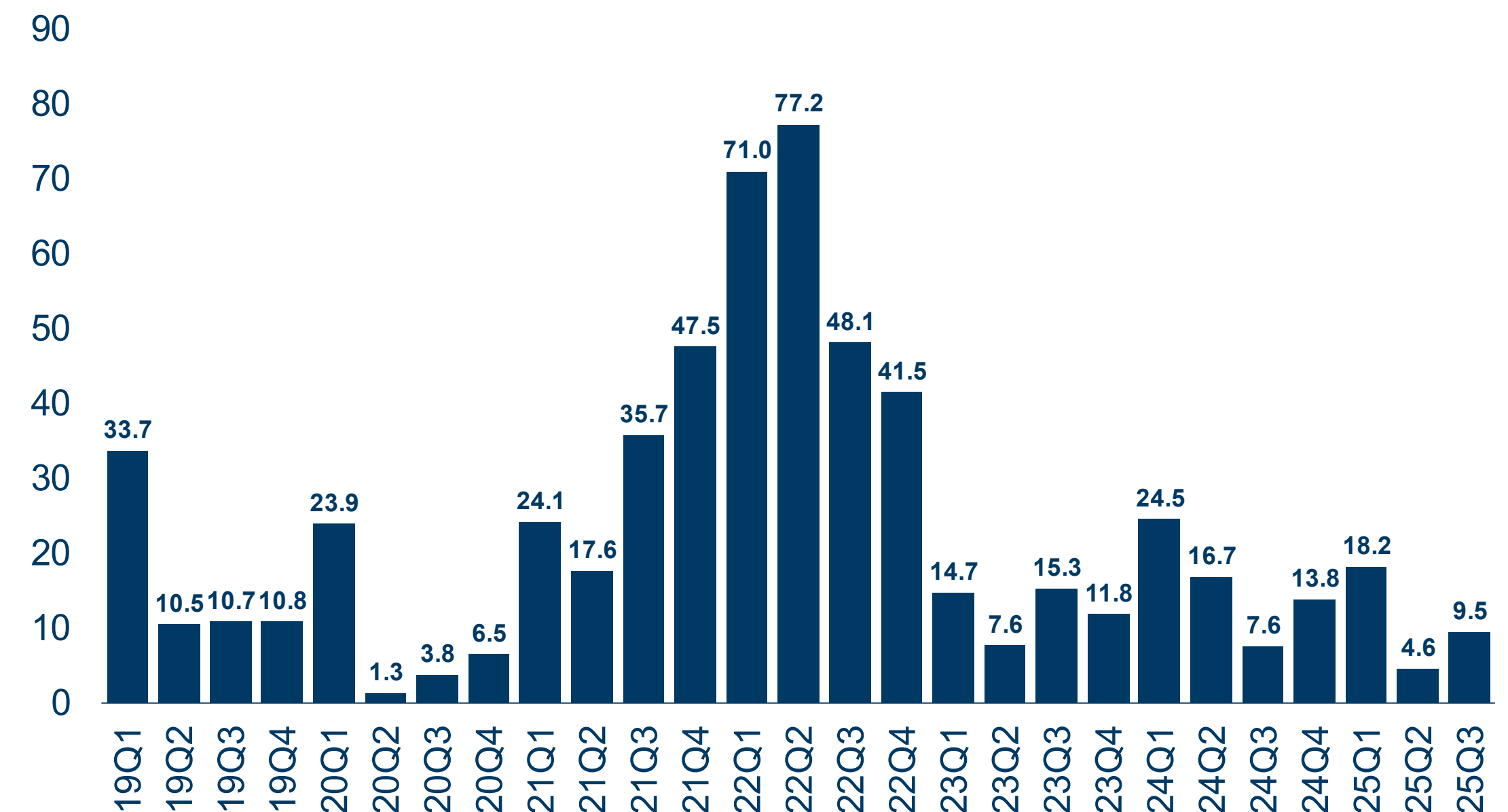
- Exports weakened marginally in Oct., while imports remained broadly stable, leading to a smaller surplus.
- The current account surplus improved to \$9.5 billion in Q3 but remains much weaker than in Q1 2025.
- The change is largely a result of much stronger goods exports, while services and income 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

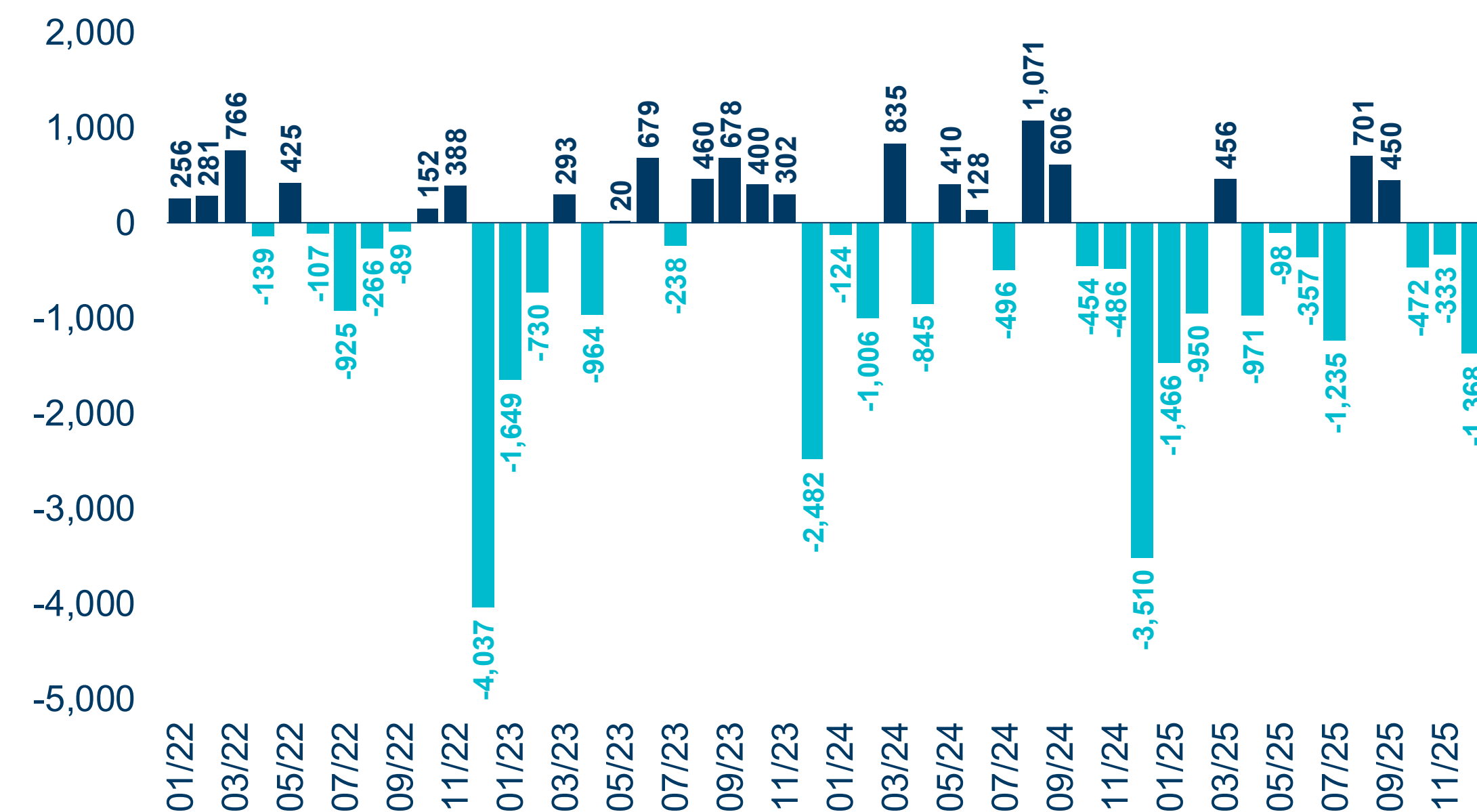


Source: Bank of Russia, KSE Institute

Deficit meets revised target; significant spending could shift to 2026.

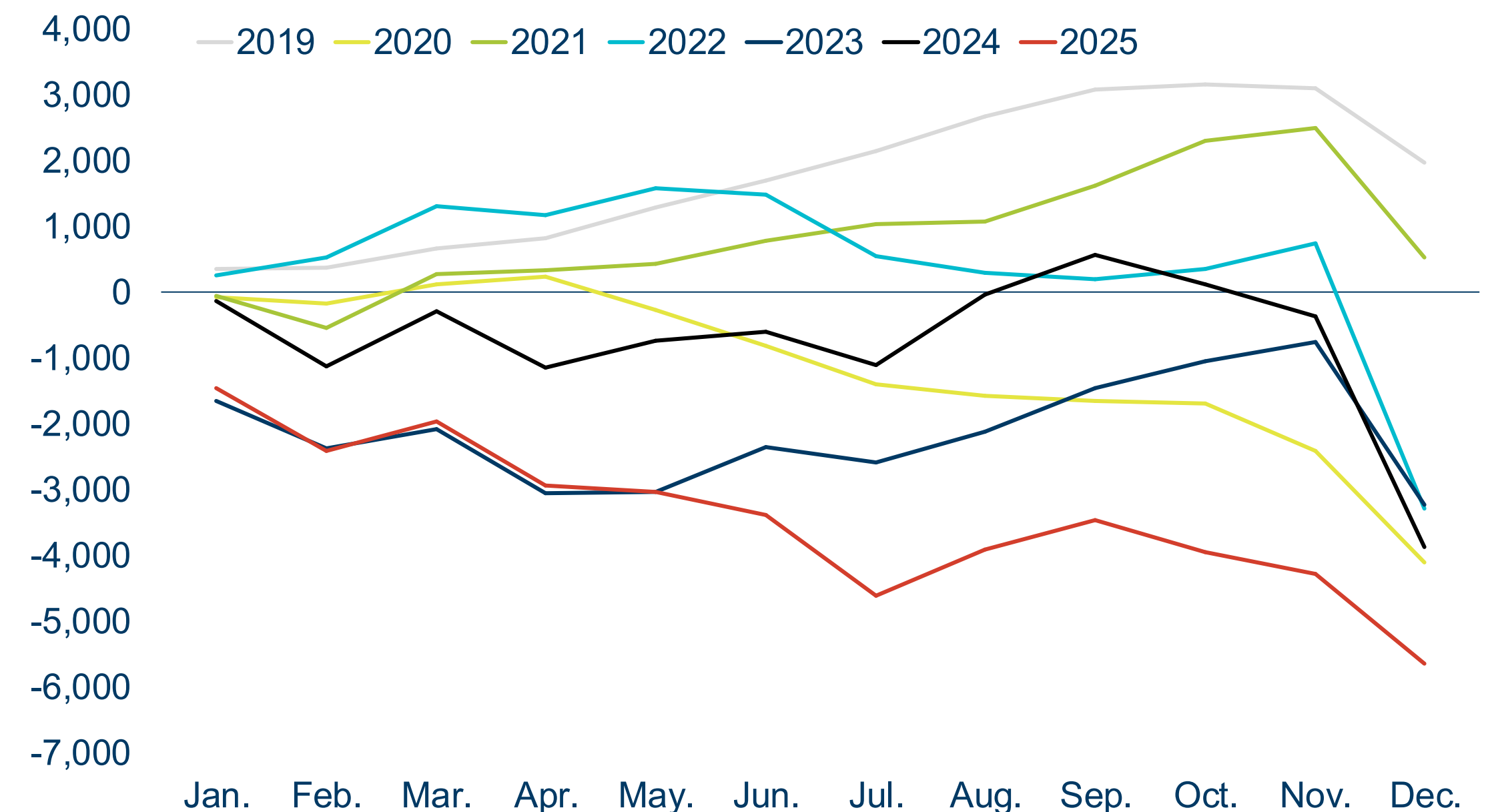
- The federal budget deficit for 2025 reached a record 5.6 trillion rubles, close to the revised annual plan.
- The December deficit was sharply lower than in previous years—60% vs. 2024 and 44% vs. 2023.
- A sharp drop in spending towards the end of the year could mean a significant burden in early 2026.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

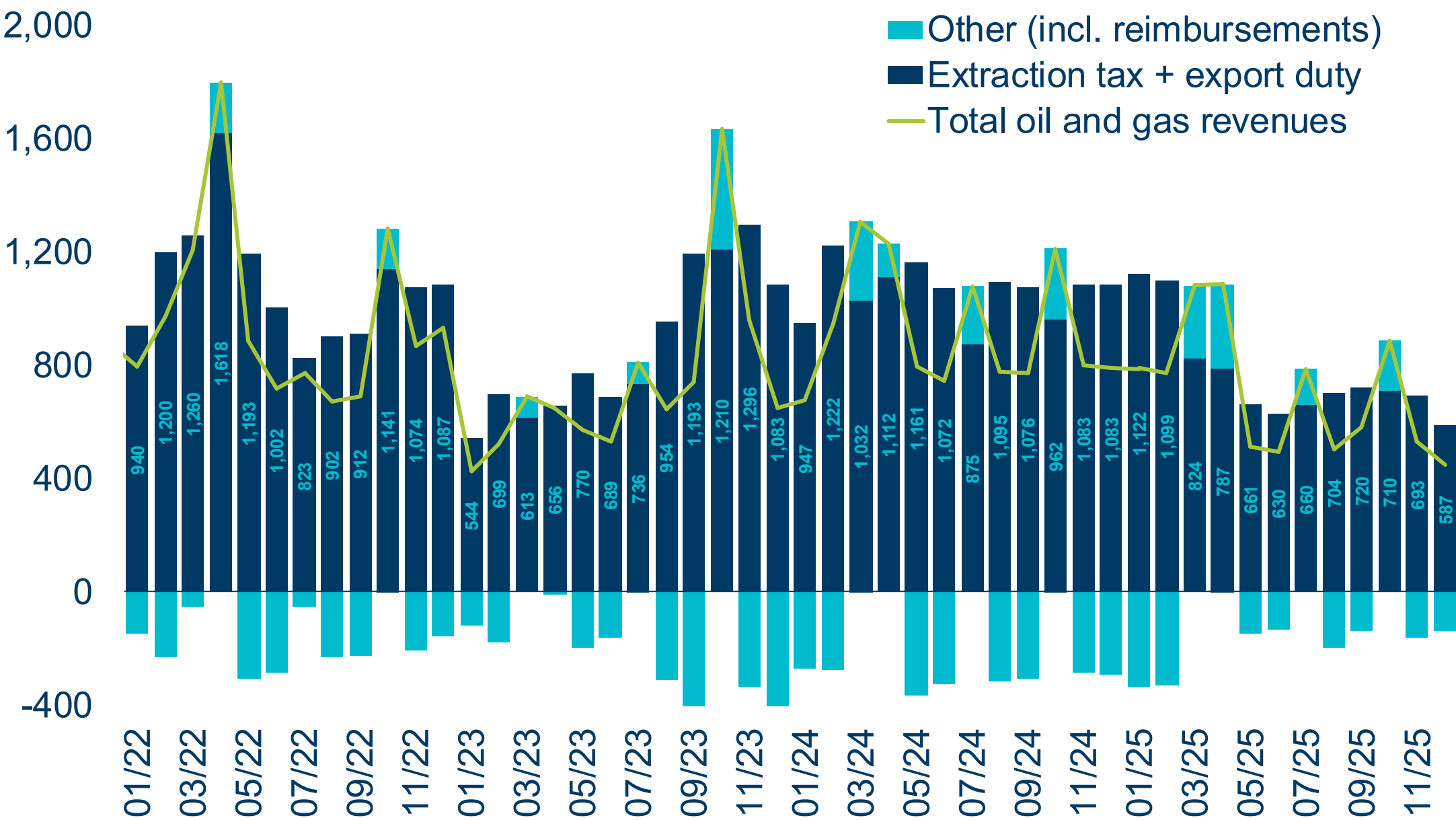


Source: Ministry of Finance, KSE Institute

Target met despite O&G revenues falling to multi-year low.

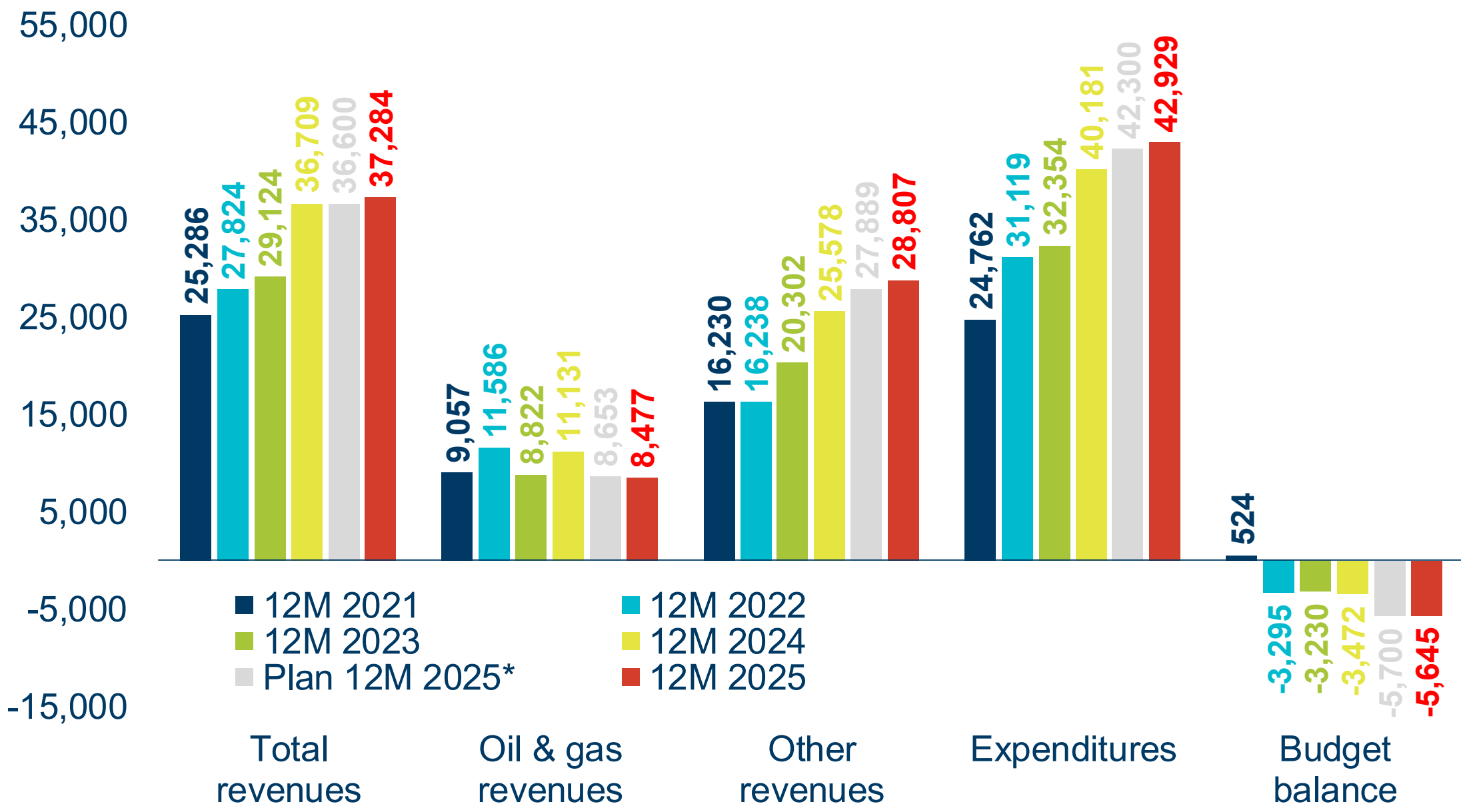
- In 2025, O&G revenues were 24% weaker, non-O&G revenues 13% stronger, and expenditures 7% higher.
- O&G revenues in Dec. dropped to their lowest level since Jan. 2023, slightly less (2%) than in the revised plan.
- Non-O&G could come under additional pressure as the economy stalls, but tax hikes will improve collection.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

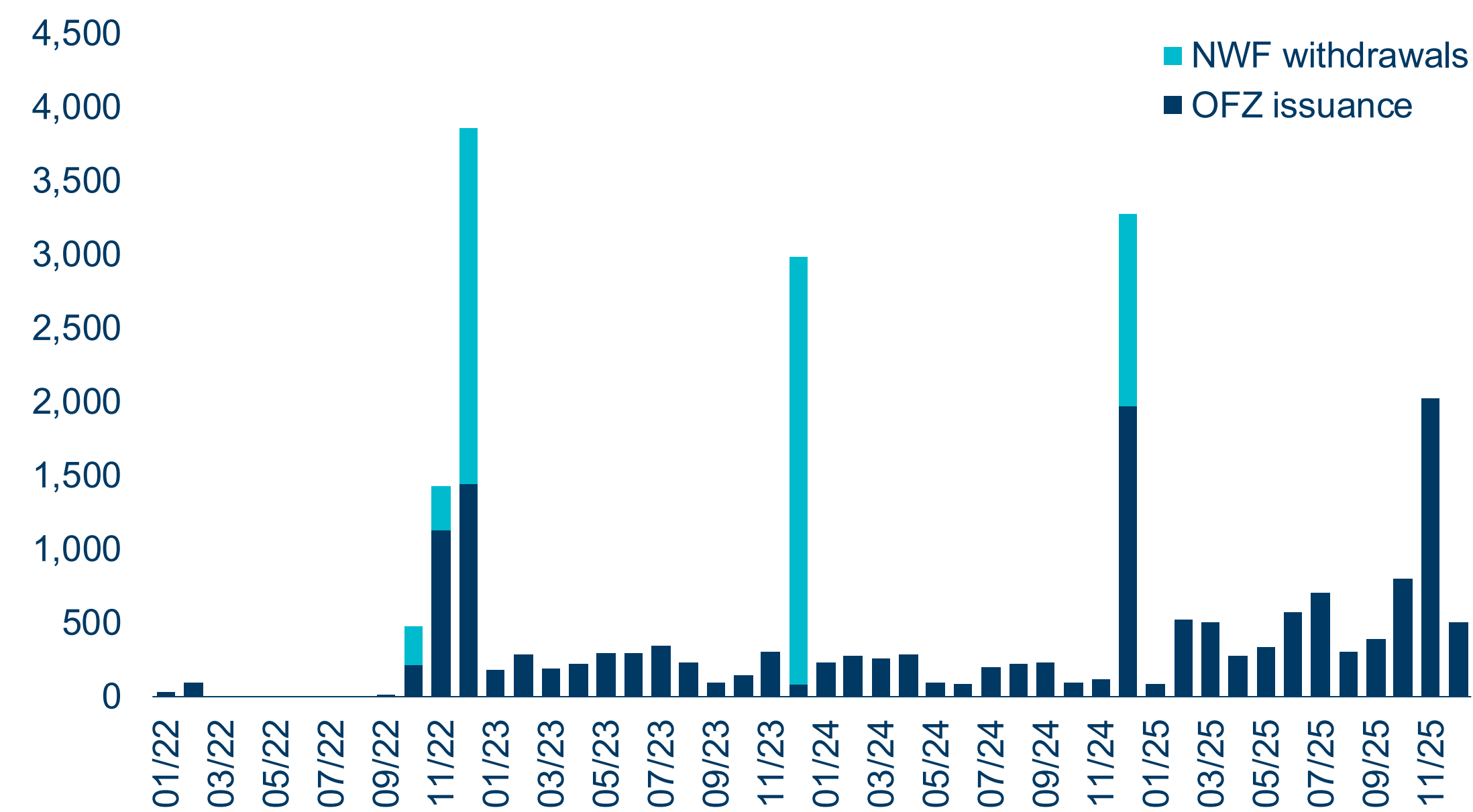


Source: Ministry of Finance, KSE Institute *based on avg. 2019-24 within-year distribution.

Domestic borrowing hits historic high; CBR provides liquidity.

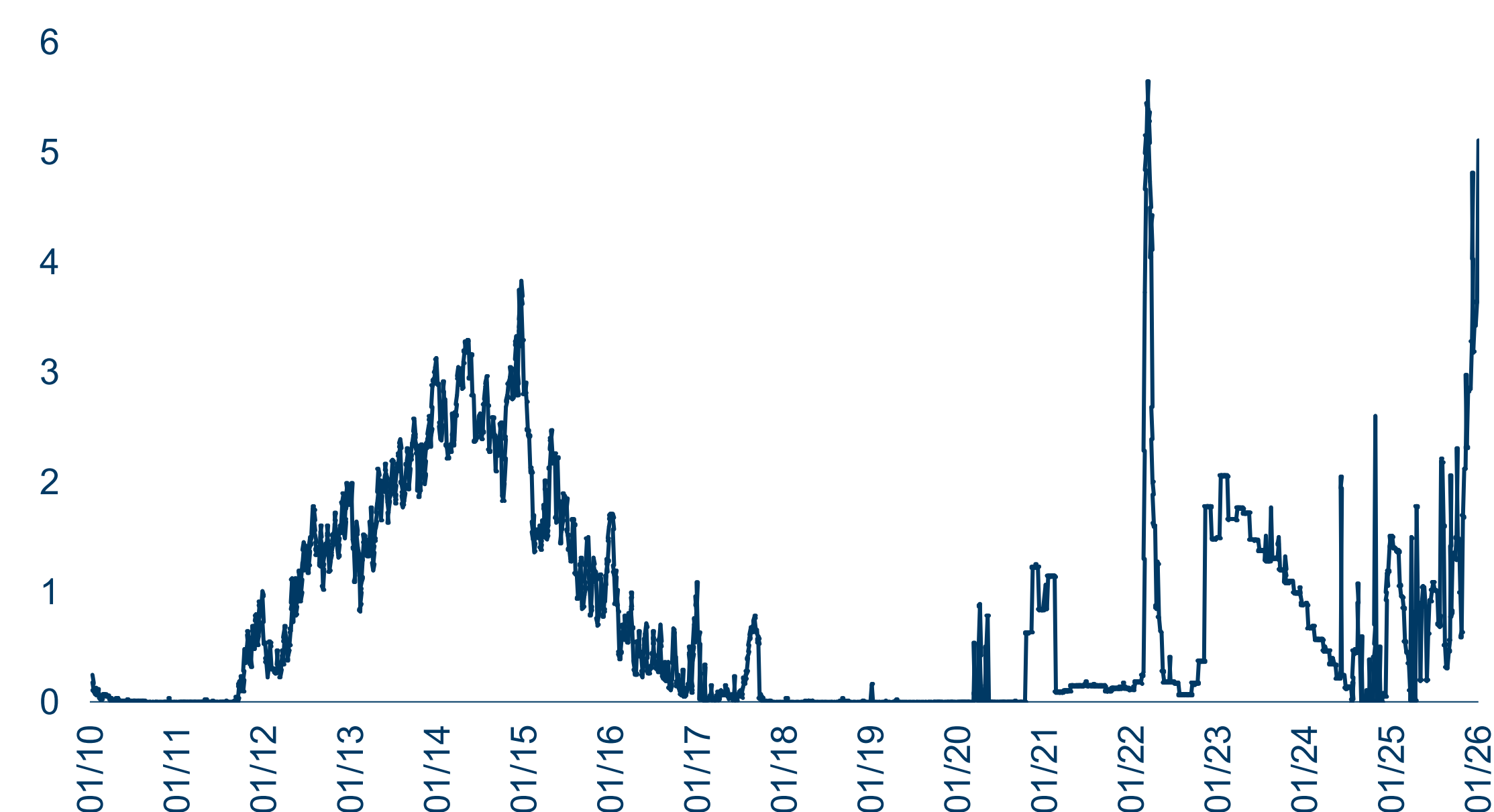
- Due to the larger deficit, OFZ issuance in 2025 reached a record high ~7 trillion rubles (+74% vs. 2024).
- Heavy domestic borrowing—in line with the original plan—meant that no NWF assets needed to be used.
- The CBR supported domestic banks' ability to absorb OFZ issuance through significant repo operations.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

Total outstanding repo loans, in trillion rubles

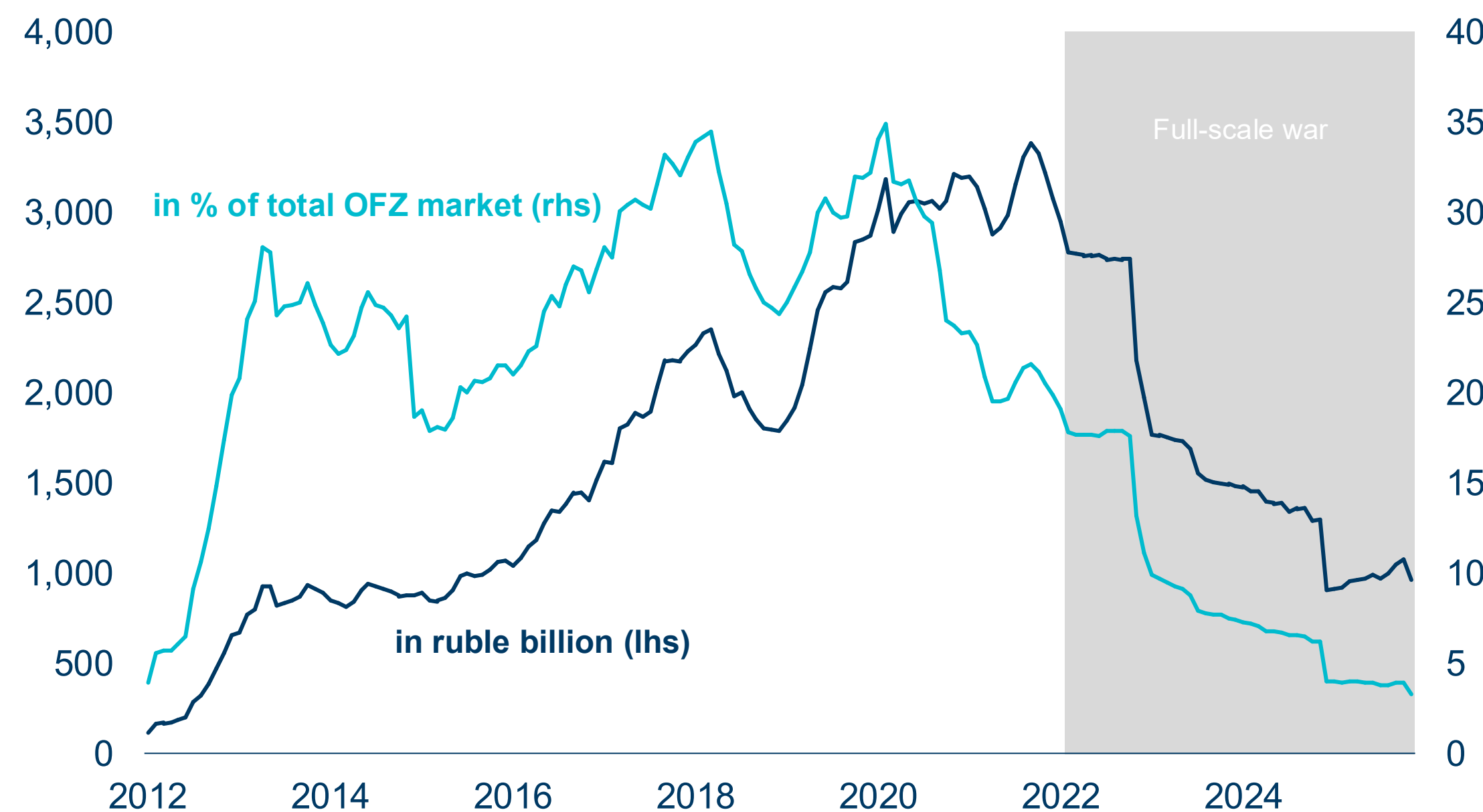


Source: Bank of Russia, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

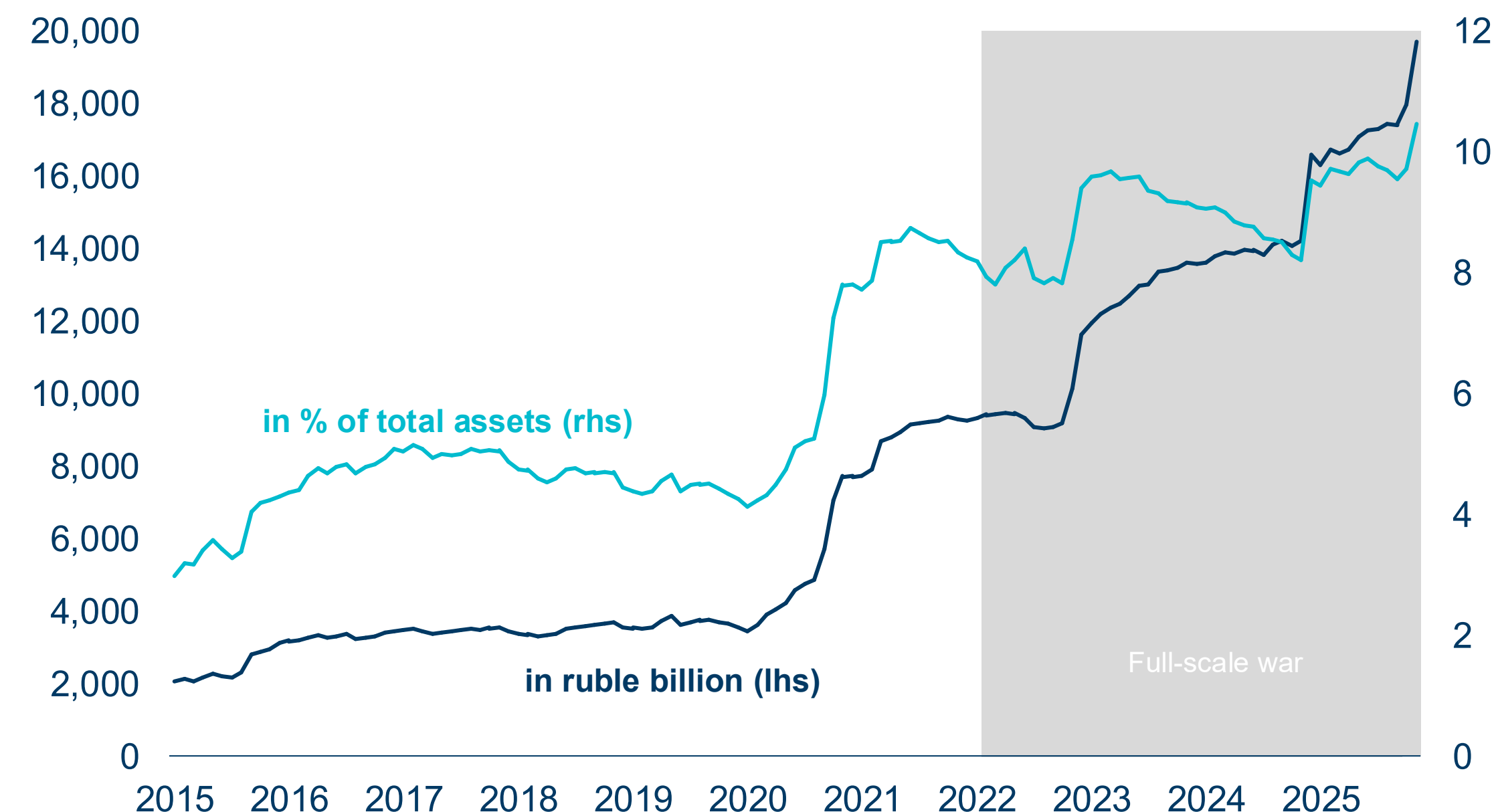
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2 trillion rubles (or 66%) since January 2022 as bonds matured.
- However, in early-Dec., Russia issued Yuan-denominated OFZ for the first time (worth ~220 billion rubles).

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

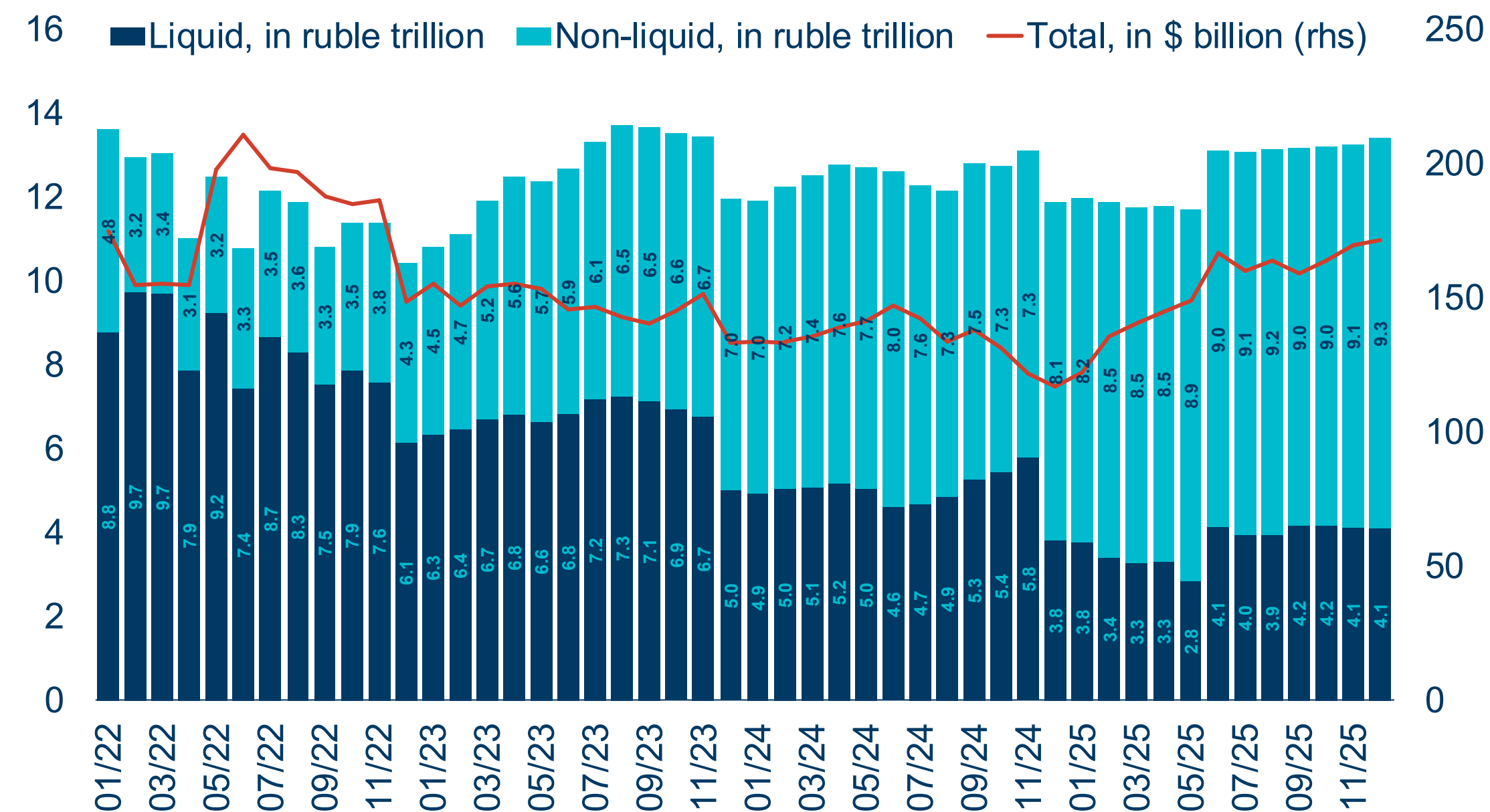


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

MinFin avoids tapping NWF as liquid reserves run low.

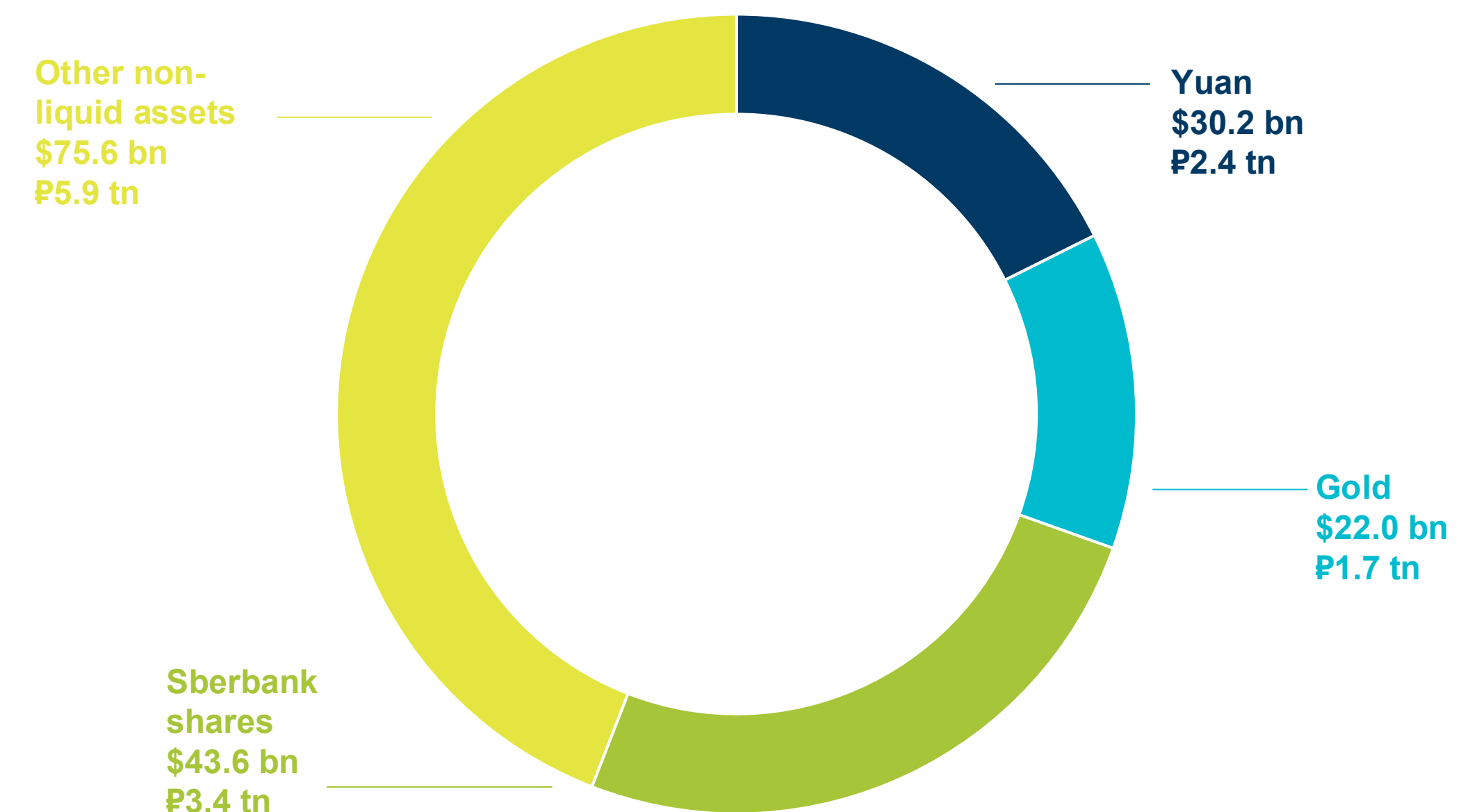
- Total assets of the National Welfare Fund stood at 13.4 trillion rubles (\$171.5 billion, 6.2% of GDP) in Dec. 2025.
- Liquid assets have declined by 58% since early-2022 and only account for 30% of the total (vs. 75% in Feb. 2022).
- Depending on policy choices regarding budget financing, this critical macro buffer could be fully depleted in 2026.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of January 1, 2026*

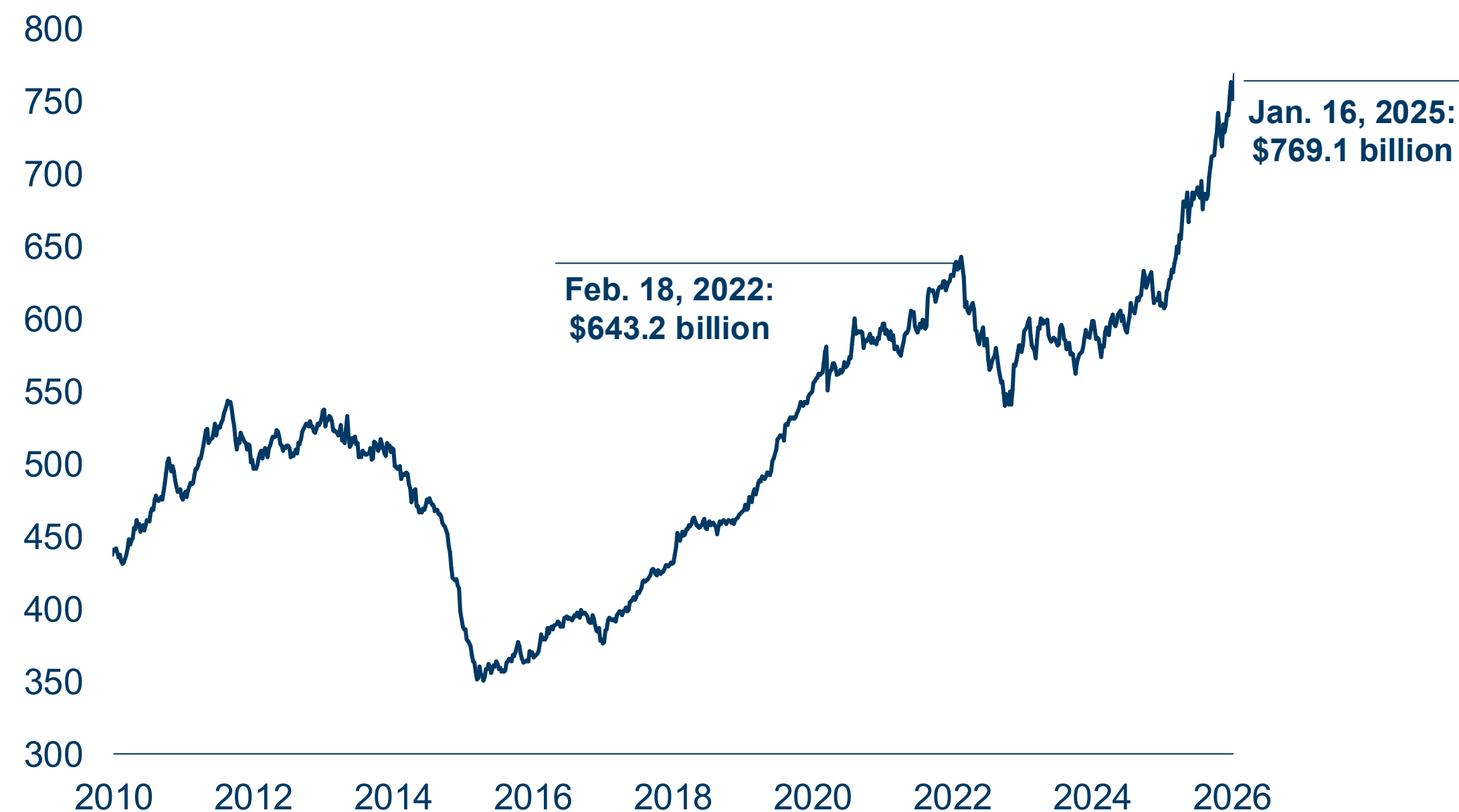


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

Reserves continue to grow due to valuation effects.

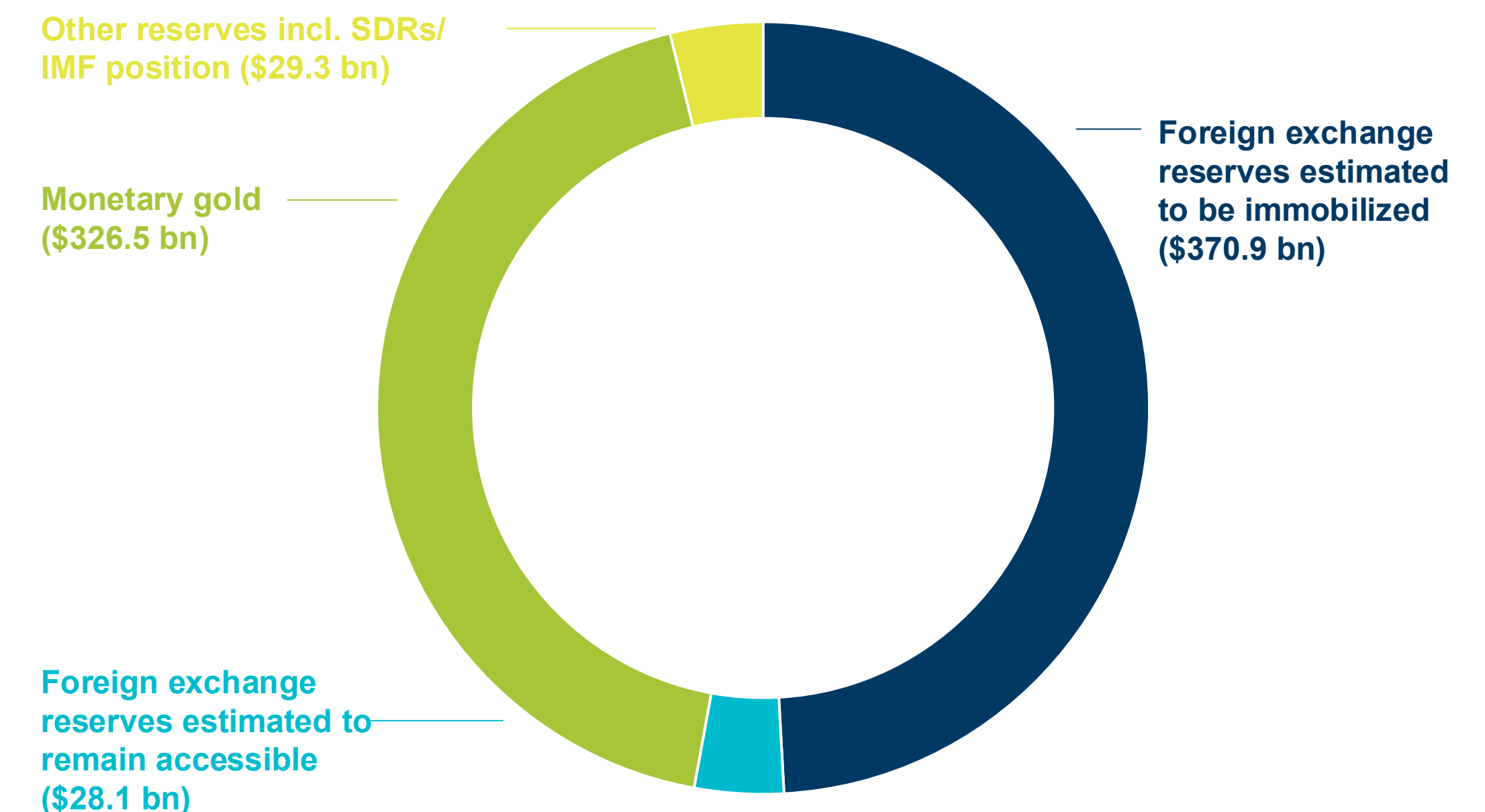
- Russia's total international reserves stand at \$752.5 billion vs. \$643 billion before the start of the full-scale war.
- The increase is largely the result of soaring gold prices as well as the U.S. dollar's moderate depreciation.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves had a value of ~\$371 billion at end-Dec.

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*

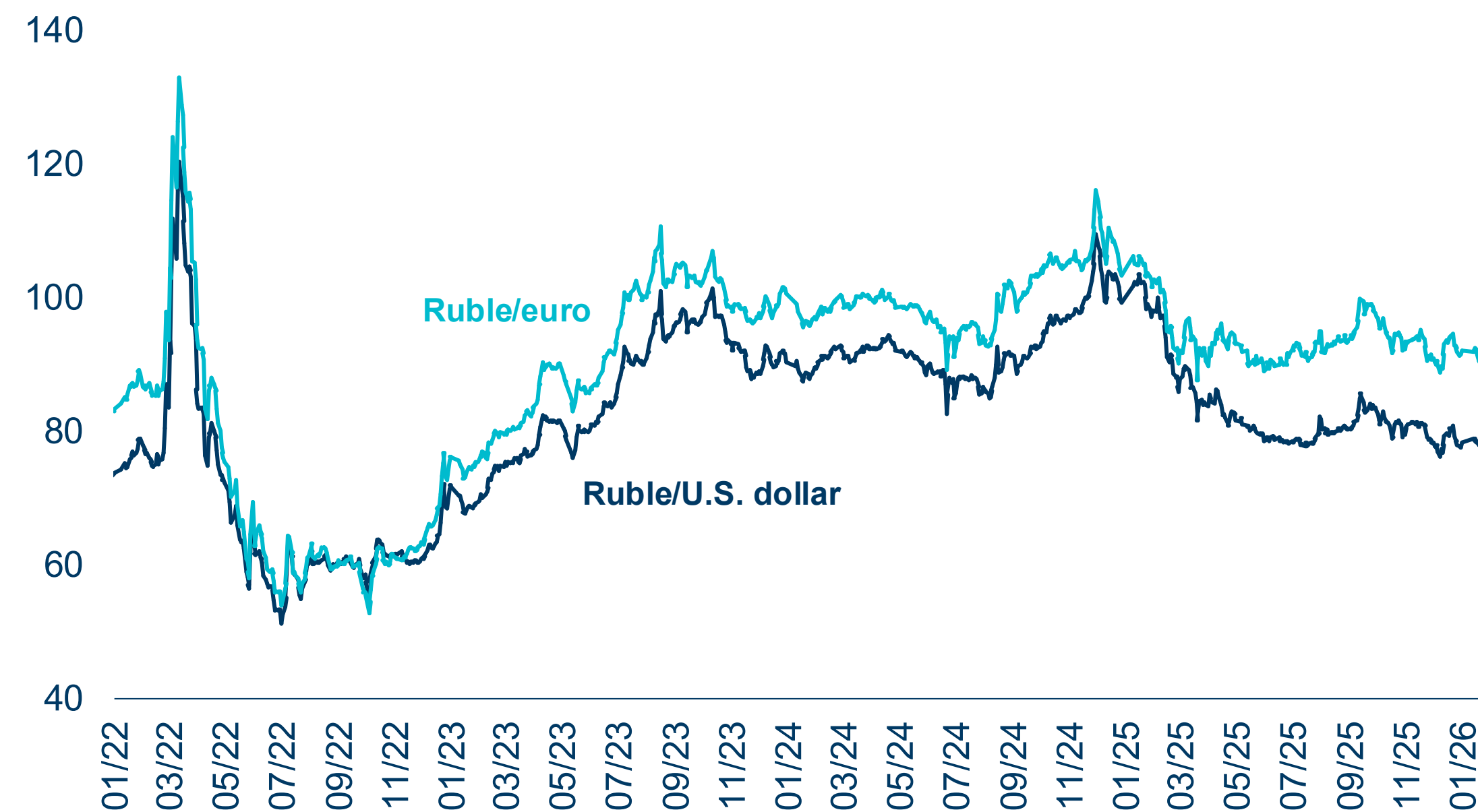


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

Tight monetary policy curbs inflation as ruble holds steady.

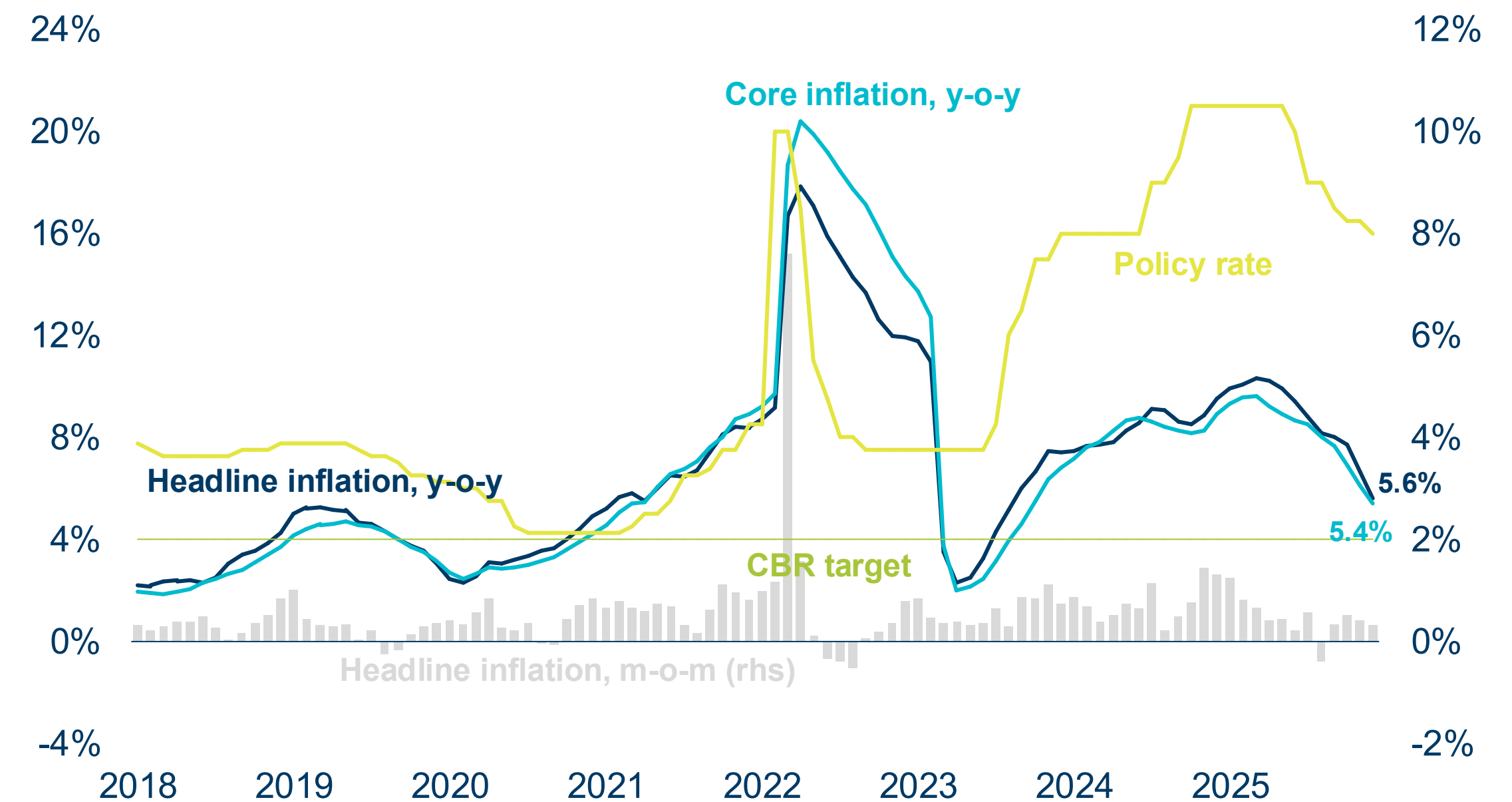
- The ruble remained stable throughout December, hovering around 80 vs. the dollar and 90 vs. the euro.
- Inflation continues to moderate, falling from 6.7% y-o-y in November to 5.6% in December (5.4% for core inflation).
- The CBR's tight monetary policy is finally showing results, albeit at the high 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 %

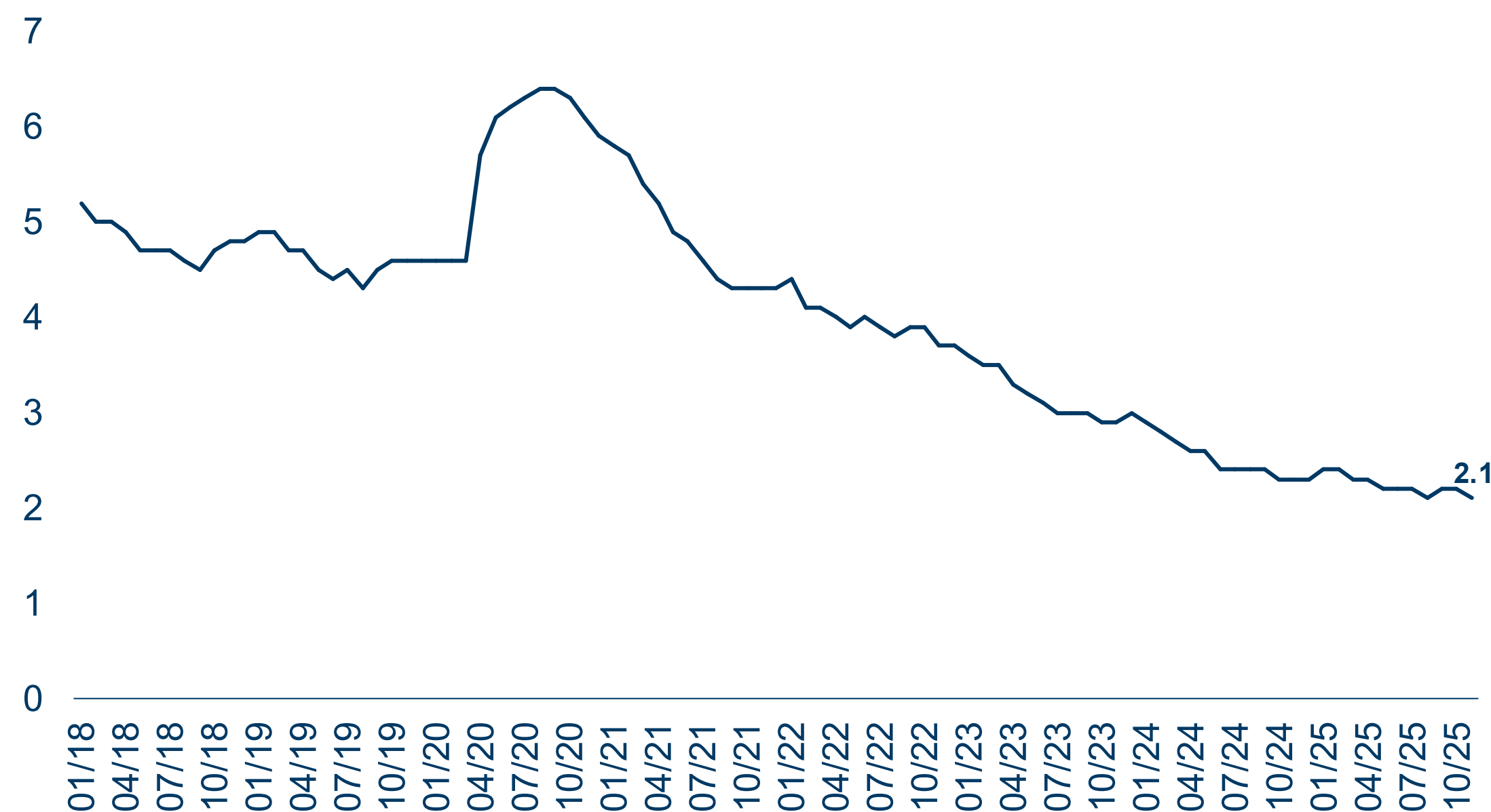


Source: Bank of Russia, KSE Institute

Severe labor shortages continue to cap economic growth potential.

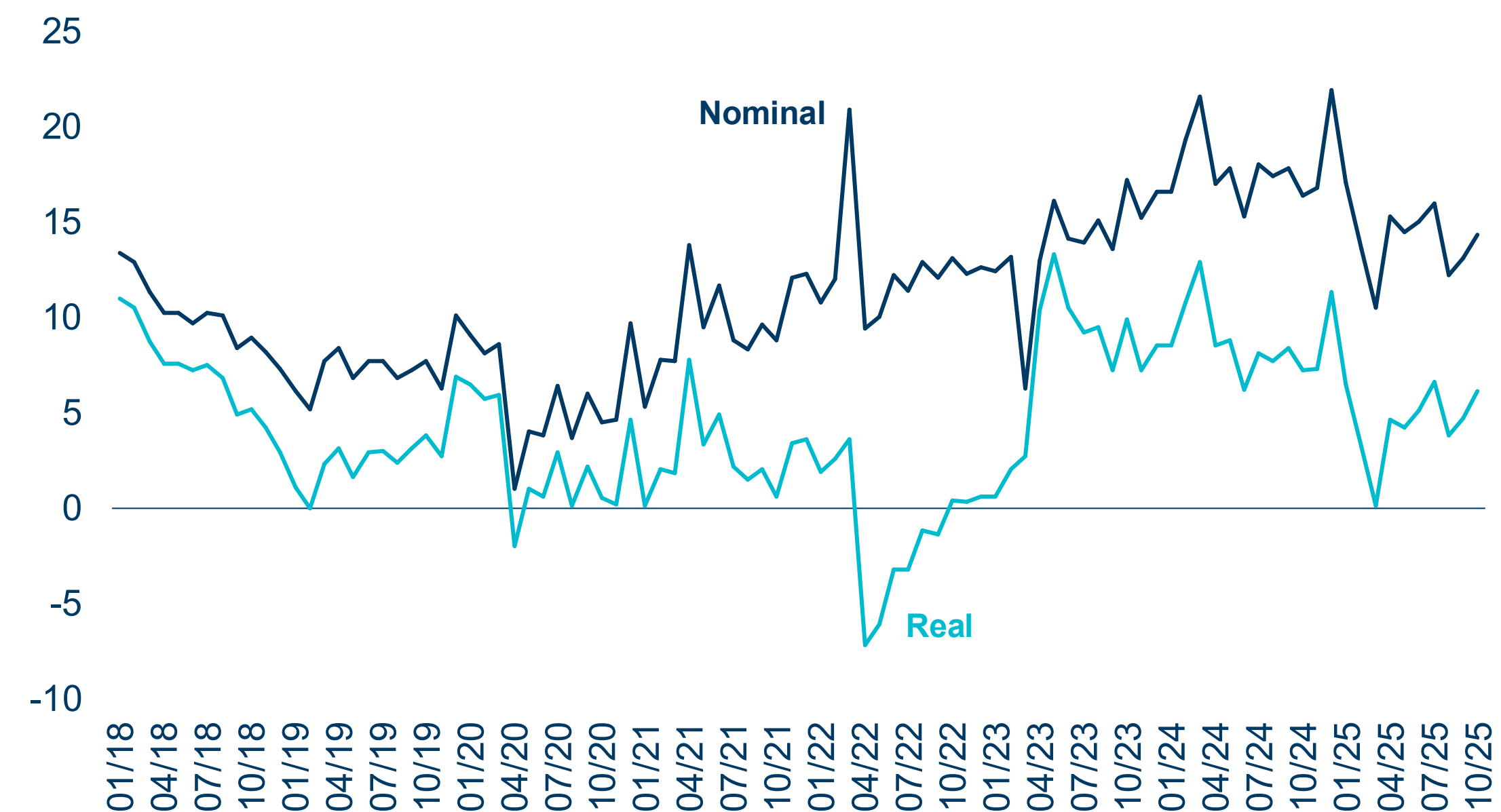
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from now.
- Wage growth has been noticeably weaker throughout 2025 vs. 2024 and stood at 14.3% y-o-y in October.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

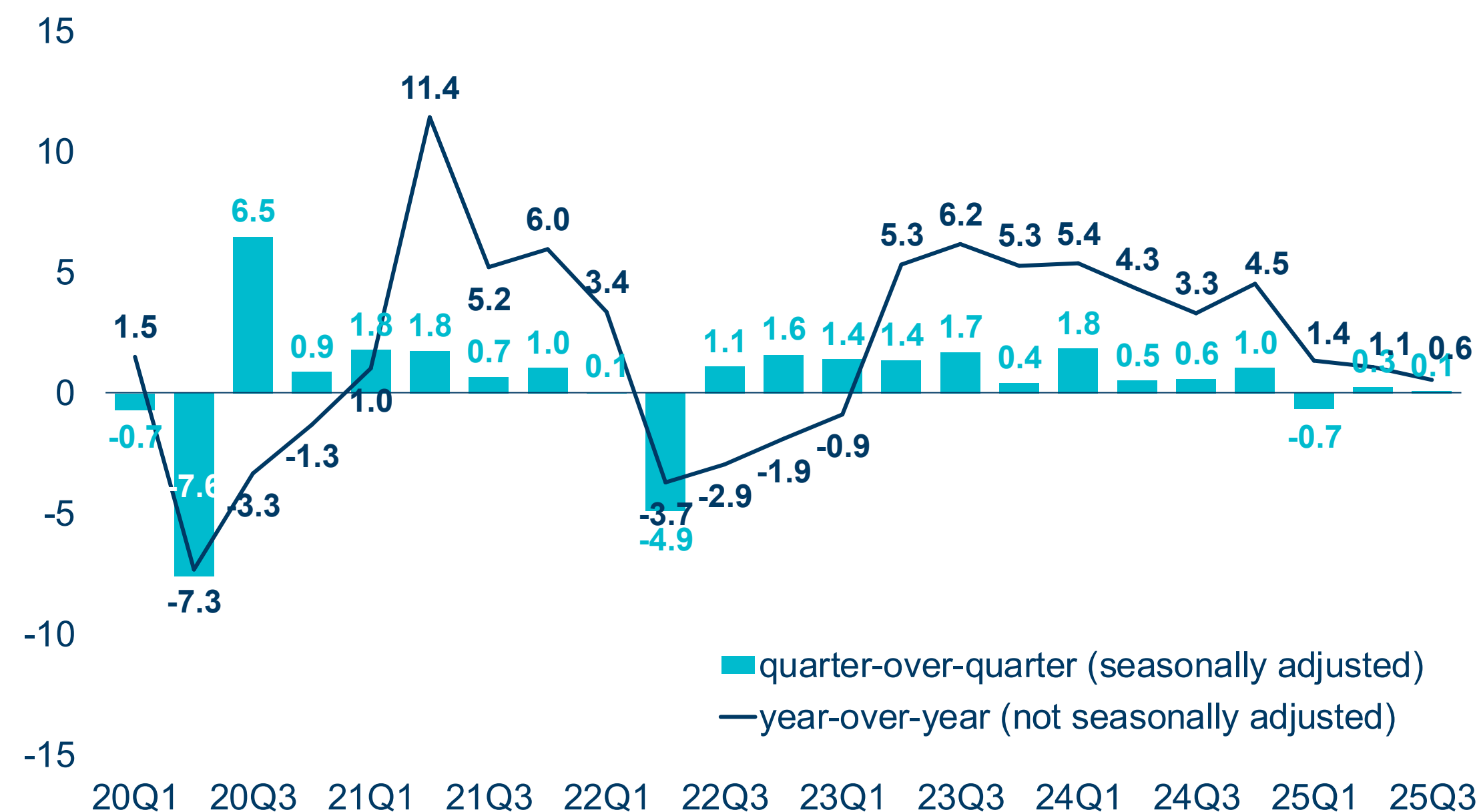


Source: Rosstat

Economy stalls in Q3, with prospects seriously constrained.

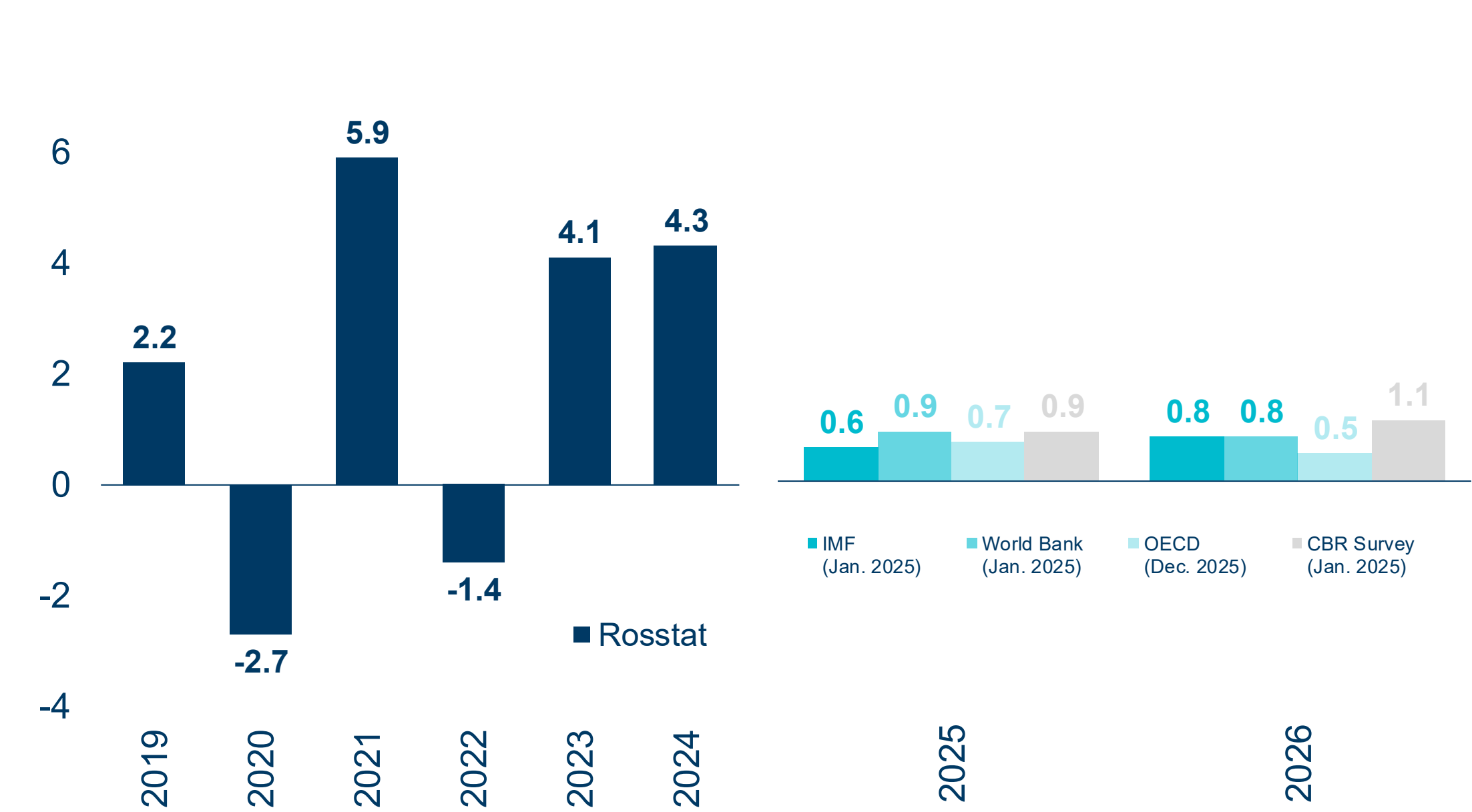
- Growth slowed further in Q3, with Rosstat's preliminary estimate showing a deceleration to 0.6% year-over-year.
- Quarter-over-quarter figures illustrate that the economy essentially stalled in Q3, with growth reaching only 0.1%.
- All key international and national institutions have sharply cut their 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

Previous editions of KSE Institute's Russia Chartbook

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| ▪ <u>December 2025</u> | ▪ <u>December 2024</u> | ▪ <u>December 2023</u> |
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