

# Key Updates on Russian Economy - Aug 5 - 11

Prepared by KSE Institute

## Budget

**Budget returns to deficit despite weaker ruble.** For 7M 2023 federal budget deficit equaled 2.8 trln RUB or 1.8% of GDP (close to the planned level for the year is 2% of GDP). Total revenues for 7M 2023 are lower by 7.9% YoY and equal 14.5 trln RUB – O&G revenues are down by 41.4% YoY, while non-O&G revenues are higher by 17.8% YoY. Total expenditures for 7M 2023 equaled 17.3 trln RUB (+14.0% YoY). Importantly, after 2 months of surplus, in July the federal budget moved back to deficit.

**To finance occupied territories, Russian regions will be deprived of money for healthcare.** According to media reports, Russian government has decided to cut spending on the state program to modernize primary healthcare in the regions – the total amount allocated to the respective program will be cut by 2.4 bn RUB. The money saved by the authorities will be partially directed to the occupied territories. [Source](#)

Failed August 9th OFZ auction. The Russian MinFin plans to raise 1 trillion RUB through the OFZ market in 3Q-23 over 13 auctions, and has raised 400 bn so far. An August 9 auction for fixed rate bonds failed to attract bids the MinFin would accept, highlighting Russia's challenge in financing its deficit.

## Balance of Payments

**Low exports continue to affect Balance of Payments.** Russian current account surplus in Jan - Jul 2023 amounted to \$25.2 bn, which is 85% lower than in the corresponding period of 2022. Falling exports and growing imports are the main drivers – the trade surplus for 7M 2023 plummeted by 68.4% in year terms. [Source](#)

## Investments

**"Friendly" investors hold record sell-off in Russian stocks since February 2022.** According to CBR, in July "friendly" non-residents got rid of Russian securities for 10.4 bn RUB. The volume of their net sales almost tripled compared to June and became a record since the beginning of the war. As a result, foreigners from "friendly" states dumped four times more shares than all other categories of traders combined, according to the CBR data. [Source](#)

## Ruble

**Ruble continues to fall.** On July 11, EUR / RUB exchange rate on the Moscow Exchange exceeded 108 rubles (for the first time since March 2022), while USD / RUB exchange rate exceeded 98 rubles. As a result of the weaker RUB, the UAH/RUB rate is now back at the prewar level of 2.7. According to Bloomberg, due to strong devaluation since the beginning of the year, ruble is among the three worst emerging-market performers with the Turkish lira and the Argentine peso. In response the falling ruble - and criticism including from sanctioned TV presenter Soloviev - the CBR has now suspended the budget rule which requires the purchase of FX when O&G revenues are above the budgeted level until the end of the year. [Source](#) [Source](#)

## Inflation

**Inflation accelerates in Russia.** According to Rosstat, in July inflation grew to 4.3% YoY. In coming months given RUB weakening and labour shortage, Russian inflation is likely to accelerate. [Source](#)