

# Key Updates on Russian Economy - July 3 - July 7

Prepared by KSE Institute

## Budget

**Budget deficit decreased significantly in June due to a major decrease in expenditures and recovery in non-O&G revenues.** For Jan-Jun 2023, the budget deficit decreased from 3.4 trln RUB to Jan-May to 2.6 trln RUB – or 89% of the total planned for 2023. Revenues for H1 2023 amounted to 12.4 trln RUB (-11.7% YoY) and expenditures to 14.9 trln RUB (+19.5% YoY). In June, revenues rose to 2.6 trln RUB (+29.8% YoY, +26.1% MoM), while expenditures fell to 1.7 – a record low monthly level since May 2021 (16% YoY, -27% MoM). [Source](#)

**Despite attempts to circumvent oil sanctions, O&G revenues continue to underperform.** In June, they reached 528.6 bn RUB. This is -26.4% YoY and -7.4% MoM. For Jan-Jun 2023, O&G revenues were 3.4 trln RUB – -47% YoY. [Source](#)

**Oil and gas revenues were half a trillion less than the minimum.** For the first half of 2023, the federal government collected 554 bn RUB in basic O&G revenues, the minimum required by the government to support spending. [Source](#)

**RF prepares to cut budget expenditures in 2024.** According to media reports, the RF Minister of Finance has proposed a radical reduction in budget expenditures in 2024 due to concerns over persistent deficits. The Minister deems it necessary to cut spending by 10% on all items, except social and "protected" ones. [Source](#)

**RF Chamber of Accounts admitted a shortfall in revenues in Q1 23.** The federal budget received only 22% of revenues projected for the full year - 5.7 trln RUB. O&G revenues accounted for 1.6 trln RUB, while non-O&G revenues accounted for 4 trln RUB. [Source](#)

**RF Chamber of Accounts admitted inefficiency of budget expenditures in 2022.** By the end of 2022, the volume of government procurement, for which the RF Gov spent taxpayers' money, but did not receive goods or services, reached 772 bn RUB. [Source](#)

## NWF

**NWF continues to surge, primarily due to evaluation effects.** As of July 1, 2023, the NWF equaled 12.7 trln RUB (8.4% of GDP) or \$145.6 bn, with liquid assets standing at 6.8 trln RUB (4.5% of GDP in 2023) or \$78.3 bn. In dollar terms, NWF lost 30% YoY, while NWF liquid assets lost 46%. [Source](#)

**So far in 2023, RF Minfin cautiously relied on NWF.** For the first half of the year, RF MinFin used 807 bn RUB from the NWF to cover the budget deficit, infrastructure projects, and support for individual companies, the ministry reports. [Source](#)

## Ruble dynamics

**After Prygozhin's "coup", ruble's fall accelerated.** Since June 24th, official RUB XE 10% both toward USD and EUR. For the first time since March 2022, the dollar exchange rate exceeded 92 rubles, the euro - 100. [Source](#), [source](#)

**Prygozhin's "coup" also provoked cash withdrawals from banks by Russians.** In the two weeks since the June 23-24 events, the amount of cash in circulation (outside the Central Bank) has jumped by 243.4 bn RUB - a record withdrawal amount since September 2022 (when mobilization was announced). On the first day of the Prigozhin riot, banks asked the Central Bank for 105.3 bn RUB to replenish ATMs and cash registers. The amount of cash in circulation then slowly declined (by 27.5 b RUB by June 28), and then started to grow sharply again. During the week of June 29 to July 6, the demand for cash amounted to an additional 165.4 bn RUB. [Source](#)

## Energy sector

**Exports of Russian gas to Europe have collapsed to a minimum in almost 50 years.** According to the results of the first half of 2023, Gazprom pumped only 12.1 billion cubic meters of gas to European countries and for 2022 they amounted to 62 billion cubic meters. Source.

**Russian gas production is declining at a double-digit rate.** Gas production volumes collapsed by 24% compared to pre-war levels - Rosstat. In May, according to official data, the country produced 48.2 billion cubic meters of gas, although in the same month of 2022 it was 57.5 billion cubic meters, and in pre-war May 2021 - 63.1 billion cubic meters. Rosstat recorded such a collapse only in 2009 against the backdrop of the global financial crisis. Source.

## External borrowings

**The international loan market remains closed to Russia.** In 2022, Russia attracted only 3% of planned external loans from international financial institutions (IFIs), investing \$35.2 mln in four of nine projects Source.