

KSE INSTITUTE RUSSIA CHARTBOOK

RUSSIA UNLIKELY TO FACE SERIOUS CONSTRAINTS IN THE CURRENT ECONOMIC ENVIRONMENT

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Executive Summary

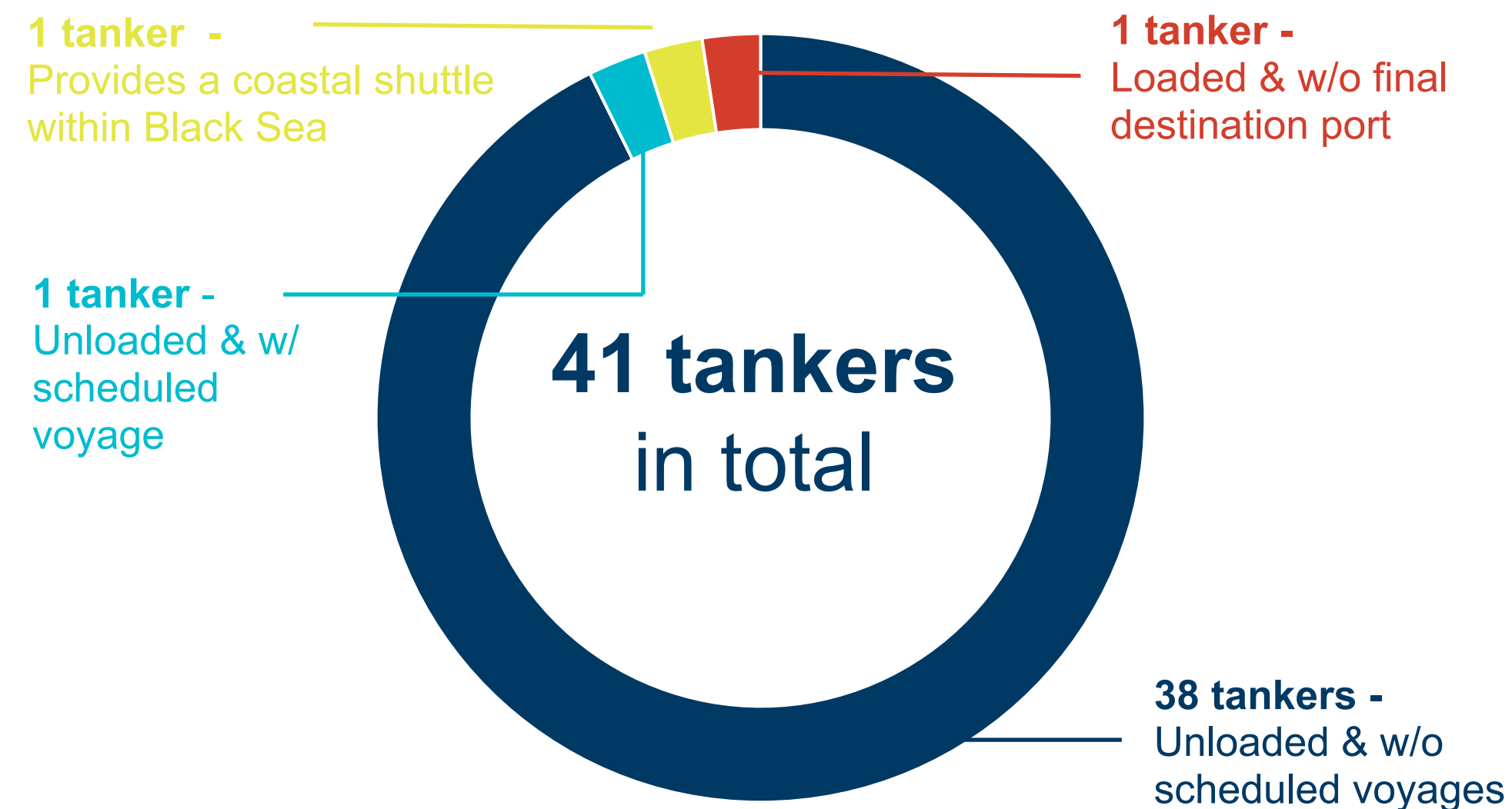
- 1. Higher oil prices support Russian export earnings.** Global oil prices continued to rise in April with Brent reaching an average of \$90/barrel. As the U.S. Treasury's vessel designation campaign remained on hold, the discount on export prices was essentially unchanged. Altogether, Russia has been generating substantial extra earnings due to these price dynamics. In the first four months of 2024, exports of crude oil and oil products reached \$570 million per day—a 22% increase over the same period of 2023 when energy sanctions were most effective. At their current rate, oil and gas revenues will effectively cover the entire military budget this year.
- 2. Improved external dynamics help stabilize the ruble.** Russia's trade surplus declined by half in April (vs. March) on the back of weaker exports, especially non-oil ones. Monthly fluctuations aside, however, the external environment is significantly more supportive than a year ago. The trade surplus grew by 14% from \$37.2 billion in Jan.-Apr. 2023 to \$43.7 billion in Jan.-Apr. 2024 and the current account surplus by more than 100% from \$15.6 billion to \$31.7 billion as services as well as income and transfers deficits declined. Together with policy actions taken by the CBR, improved foreign currency inflows have allowed for ruble stabilization.
- 3. Fiscal situation remains stable due to strong revenues.** Over the first four months of the year, Russia's federal budget deficit reached 1.5 trillion rubles—92% of the full-year target but less than half of the corresponding number in 2023. Sharply higher revenues (+50%)—both O&G (+82%) and non-O&G (+37%)—more than offset higher spending (+22%) as Russia is executing higher war expenditures. While the budget swung to a ~900 million rubles deficit in April, the country is on track to reach its 2024 target. At current oil export prices, it is unlikely that Russia will experience any meaningful external imbalances or budgetary constraints.
- 4. Vulnerabilities exist due to reduced macro buffers.** Should stepped-up economic sanctions succeed at reducing energy revenues in the coming months, Russia's underlying vulnerabilities could resurface quickly. After spending almost \$54 billion of the NWF's liquid assets since the start of the full-scale invasion, only gold and yuan remain, which cannot easily be used at scale to finance the budget. This would force the regime to rely on higher domestic debt issuance and further drive-up borrowing costs. At the same time, immobilization of close to \$300 billion in CBR reserves seriously constrains the authorities' policy space to manage the economy.

**Energy: further action is critical to
constrain Russia's energy revenues.**

Vessel designation strategy requires scaling up to increase pressure.

- The U.S. Treasury Department has listed 41 vessels as assets of sanctioned entities in recent months.
- 38 out of 41 sanctioned tankers are drifting empty; one is still trying to get Russian crude oil unloaded.
- This enforcement strategy can and should be scaled up to increase pressure on Russia's shadow fleet.

OFAC-designated vessels remain out of the market



Source: Kpler, KSE Institute

Designated vessel to monitor: the Scf Primorye

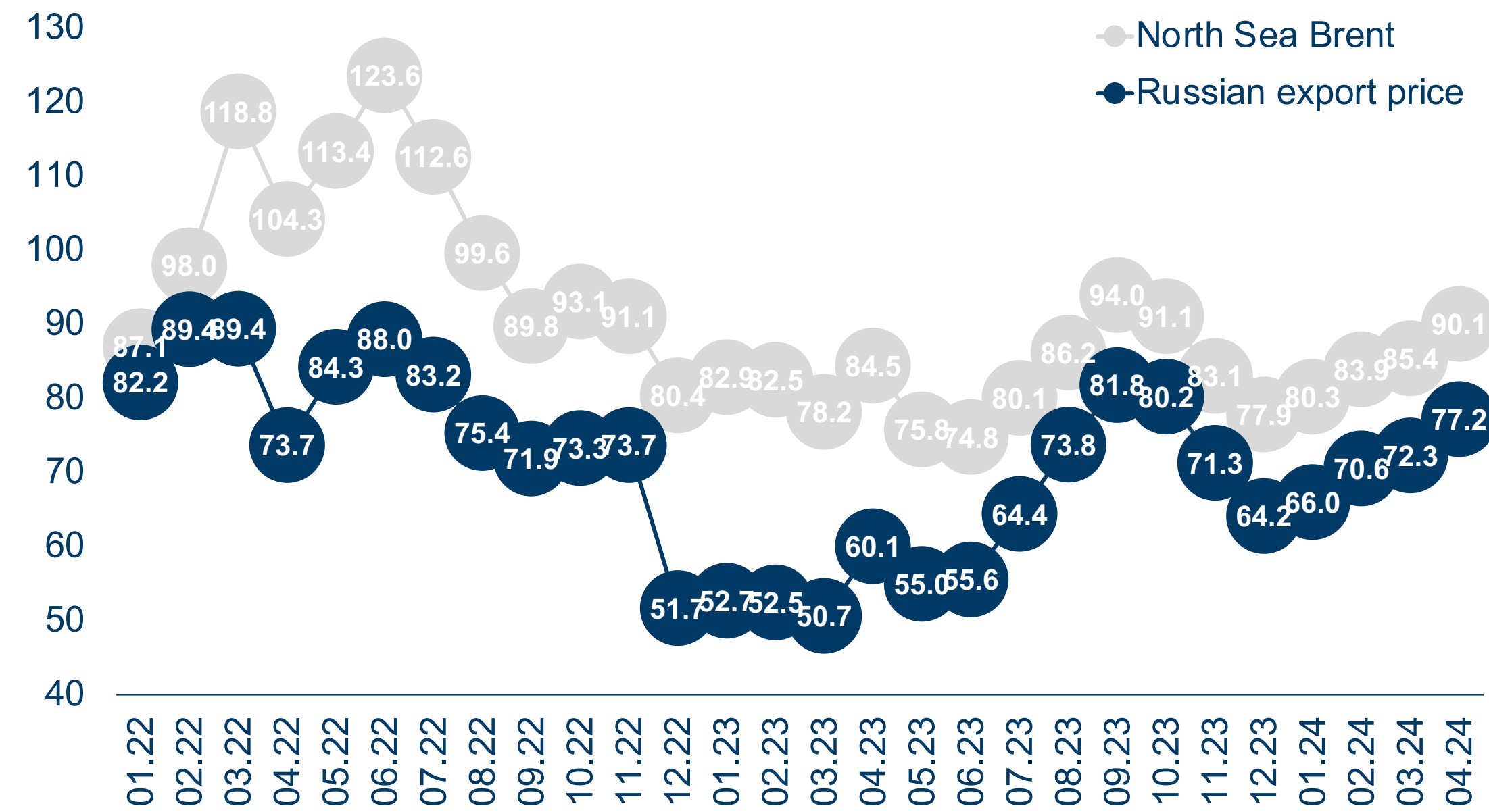


Source: Kpler, KSE Institute

Rising global prices mean that more decisive enforcement action is needed.

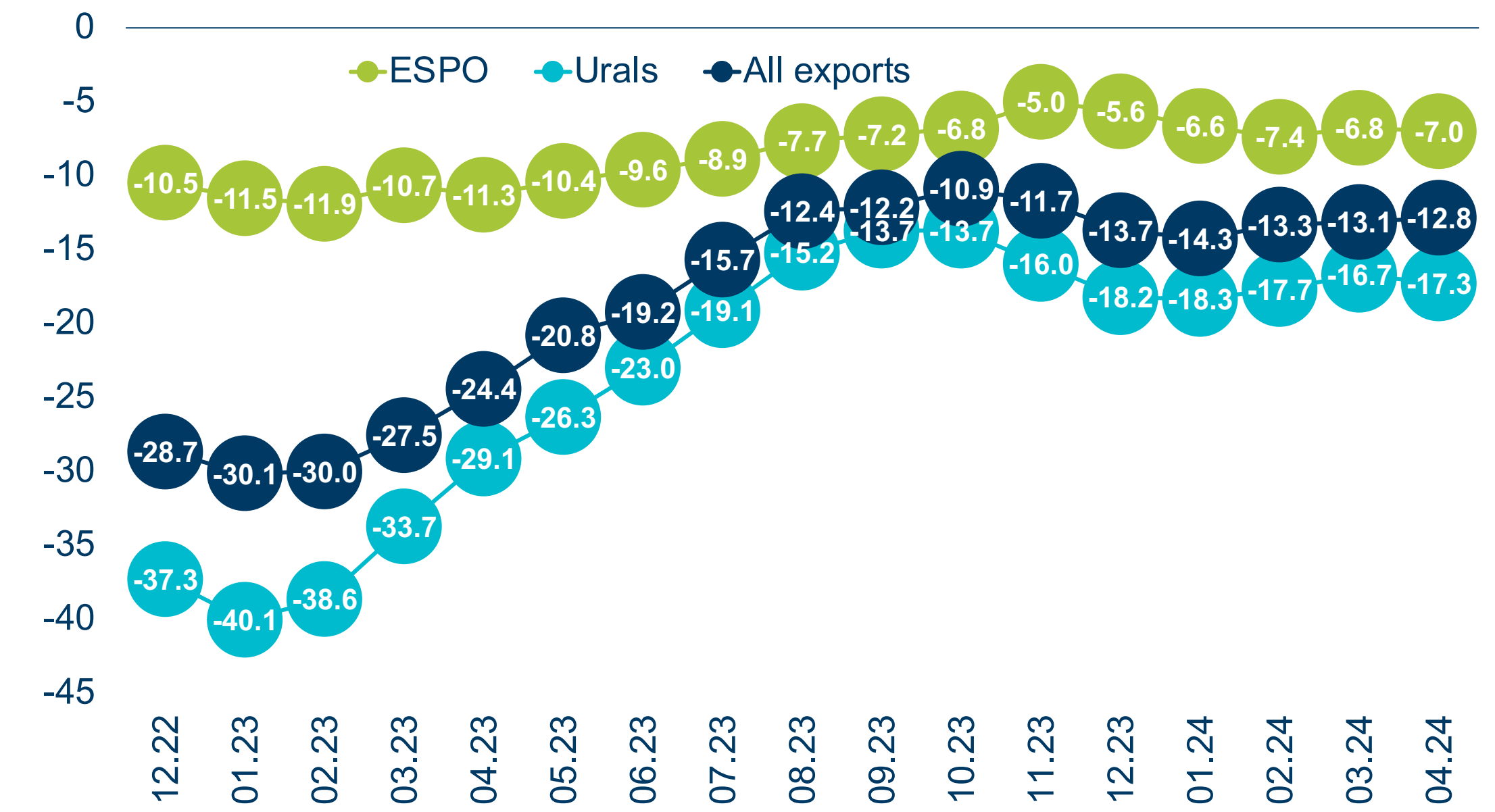
- Energy sanctions, particularly the EU embargo, weighed on Russian export earnings via wider price discounts.
- Recent G7/EU enforcement efforts are having an impact, with the Urals discount widening to ~\$16-18/barrel.
- However, these carefully-calibrated enforcement actions have been more than offset by higher global oil prices.

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



Source: Federal Customs Service, International Energy Agency, KSE Institute
 *export price until November 2022 from Russian customs, all other numbers from IEA

Discount of Russian export prices vs. Brent, in U.S. dollar/barrel

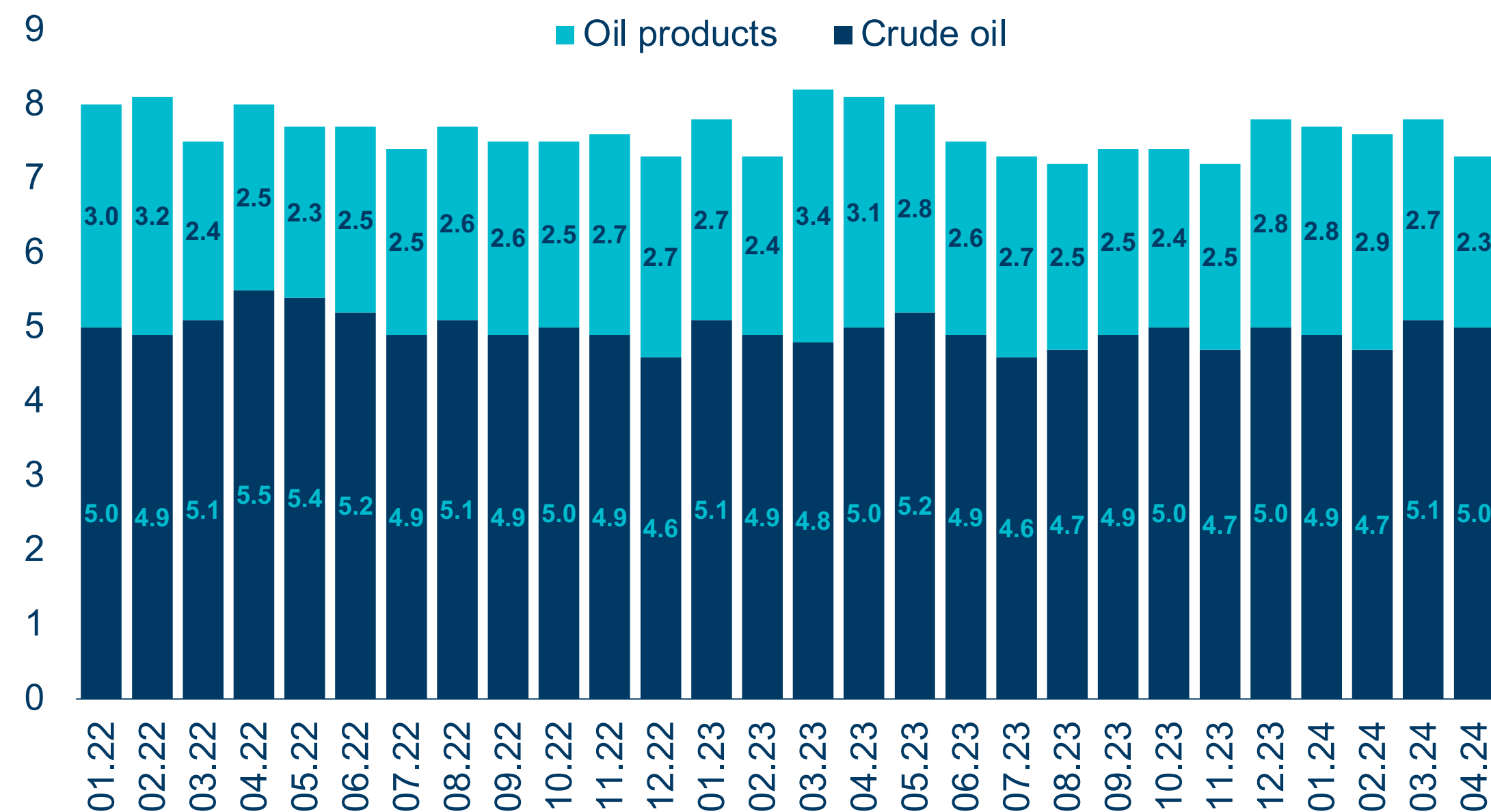


Source: International Energy Agency, KSE Institute

Russia boosted crude oil exports to compensate for loss in oil products.

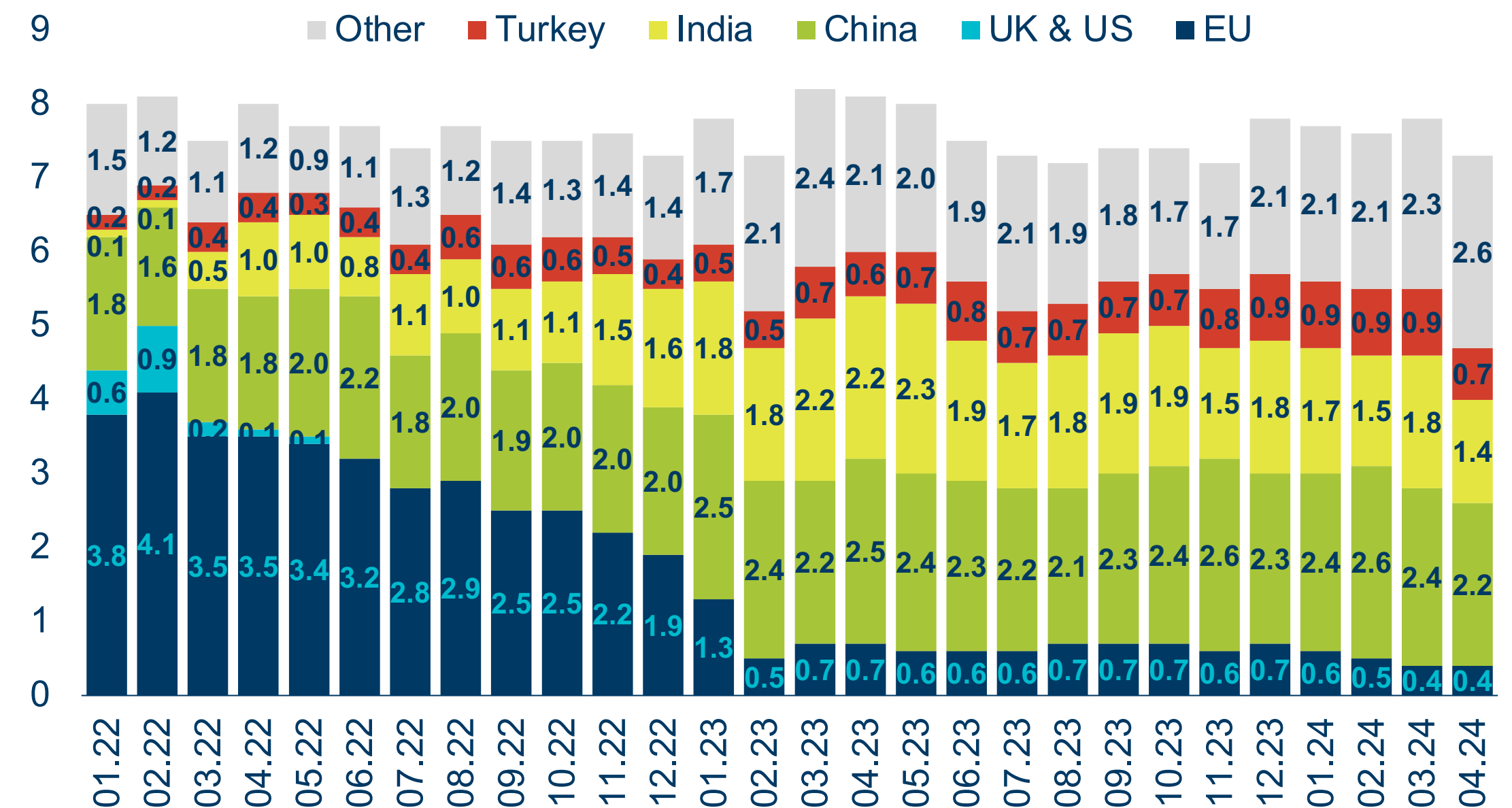
- Russian oil export volumes have been remarkably steady over the course of the last two years despite sanctions.
- This means that the price cap has succeeded at keeping Russian oil on the market and prevent supply issues.
- Oil products exports have declined somewhat in recent months because of Ukrainian drone attacks on refineries.

Russian oil export volume by type, in million barrels/day*



Source: International Energy Agency, KSE Institute *March 2024 = KSE Institute estimate

Russian oil export volume by destination, in million barrels/day*

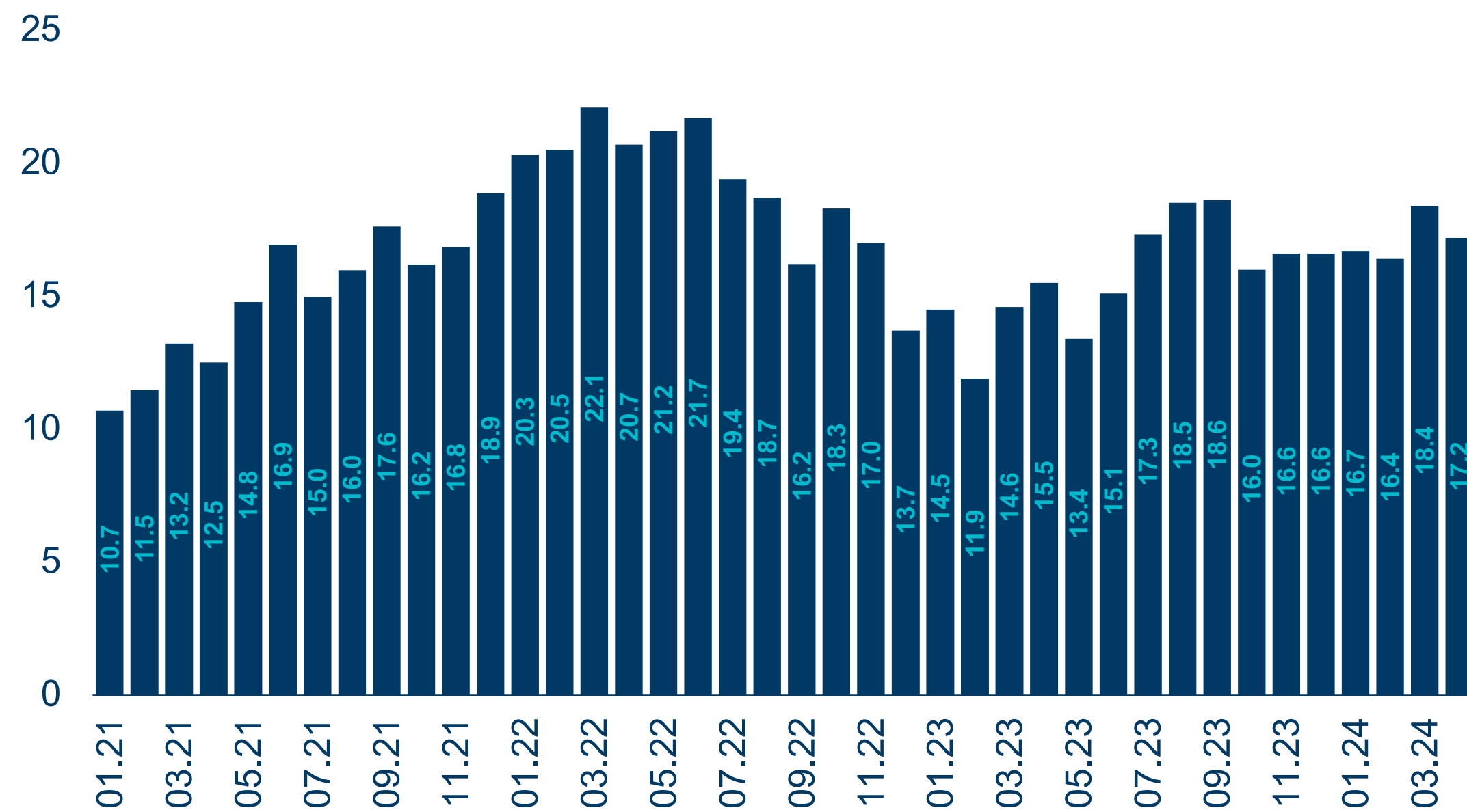


Source: International Energy Agency, KSE Institute *no March data from IEA

Higher prices continue to support exports and budget revenues.

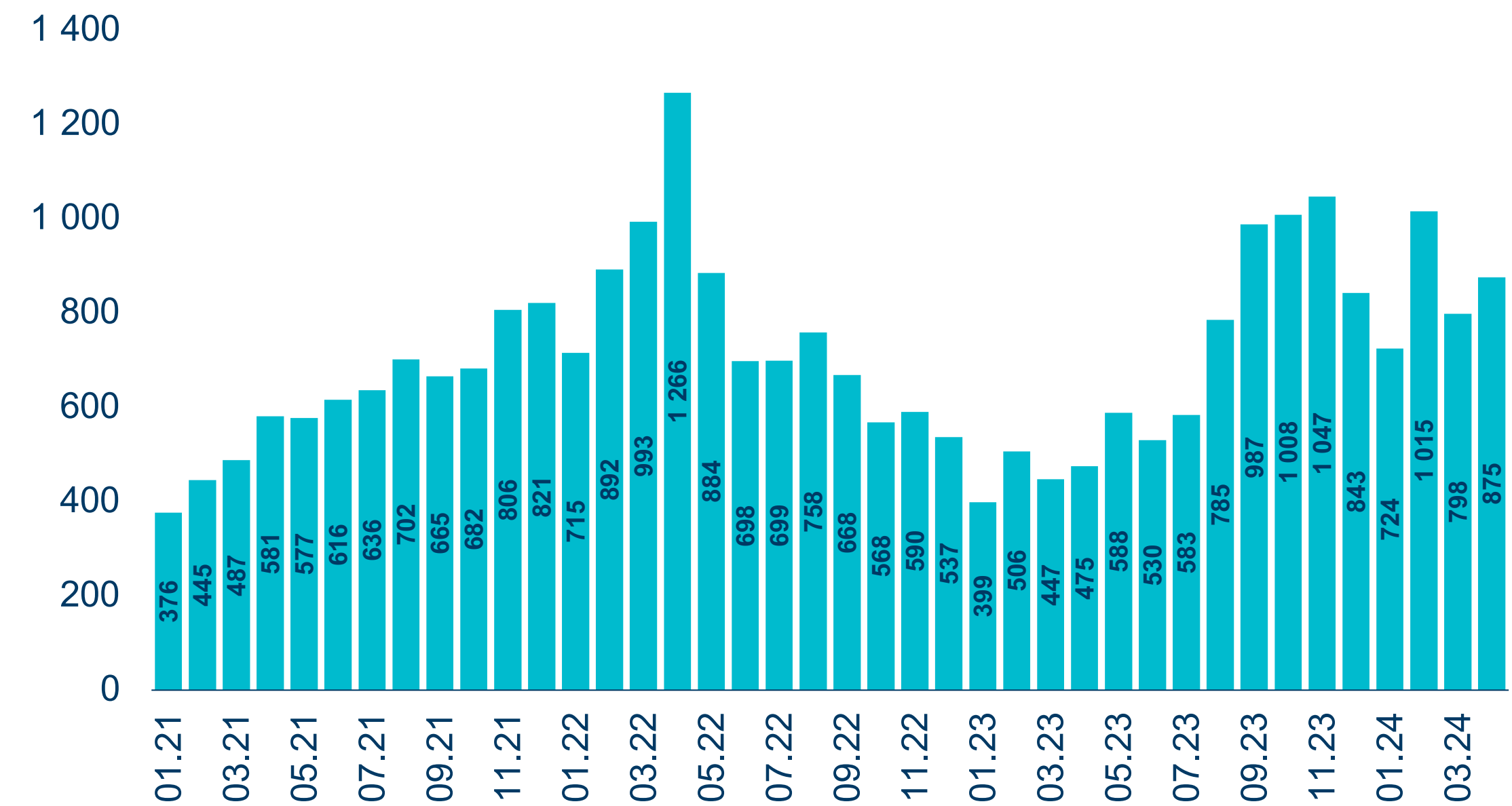
- Since summer 2023, Russian oil exports have averaged \$17.2 billion (vs. \$14.1 billion in December 2022-H1 2023).
- This change has provided Russia with \$30+ billion in additional earnings and is largely a result of smaller discounts.
- Budget revenues from oil have risen even more; in January-April 2024, they were 87% higher vs. January-April 2023.

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

Federal budget oil revenues, in ruble billion*

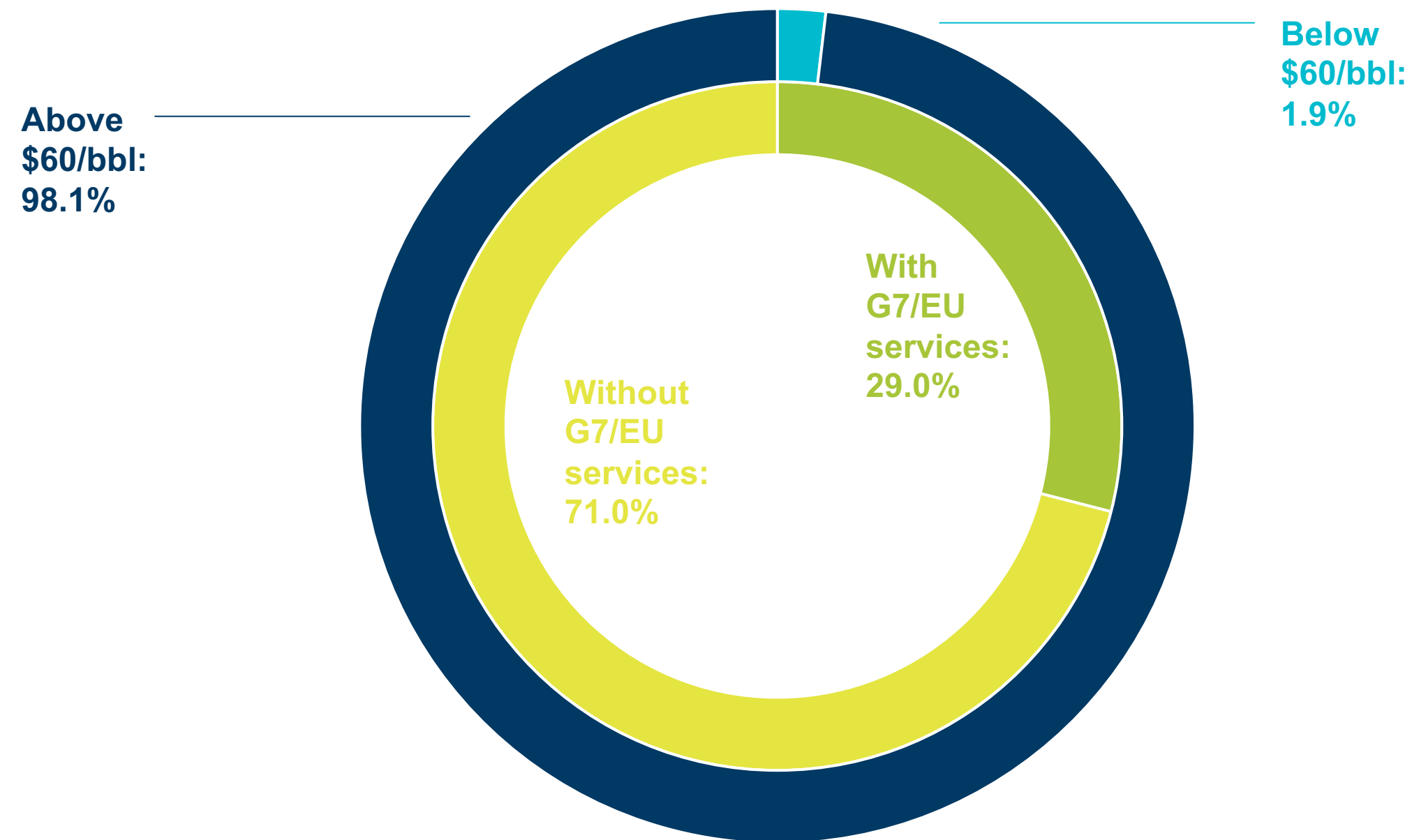


Source: Ministry of Finance, KSE Institute *includes extraction tax and export duty

Price cap challenges: violations and the shadow fleet.

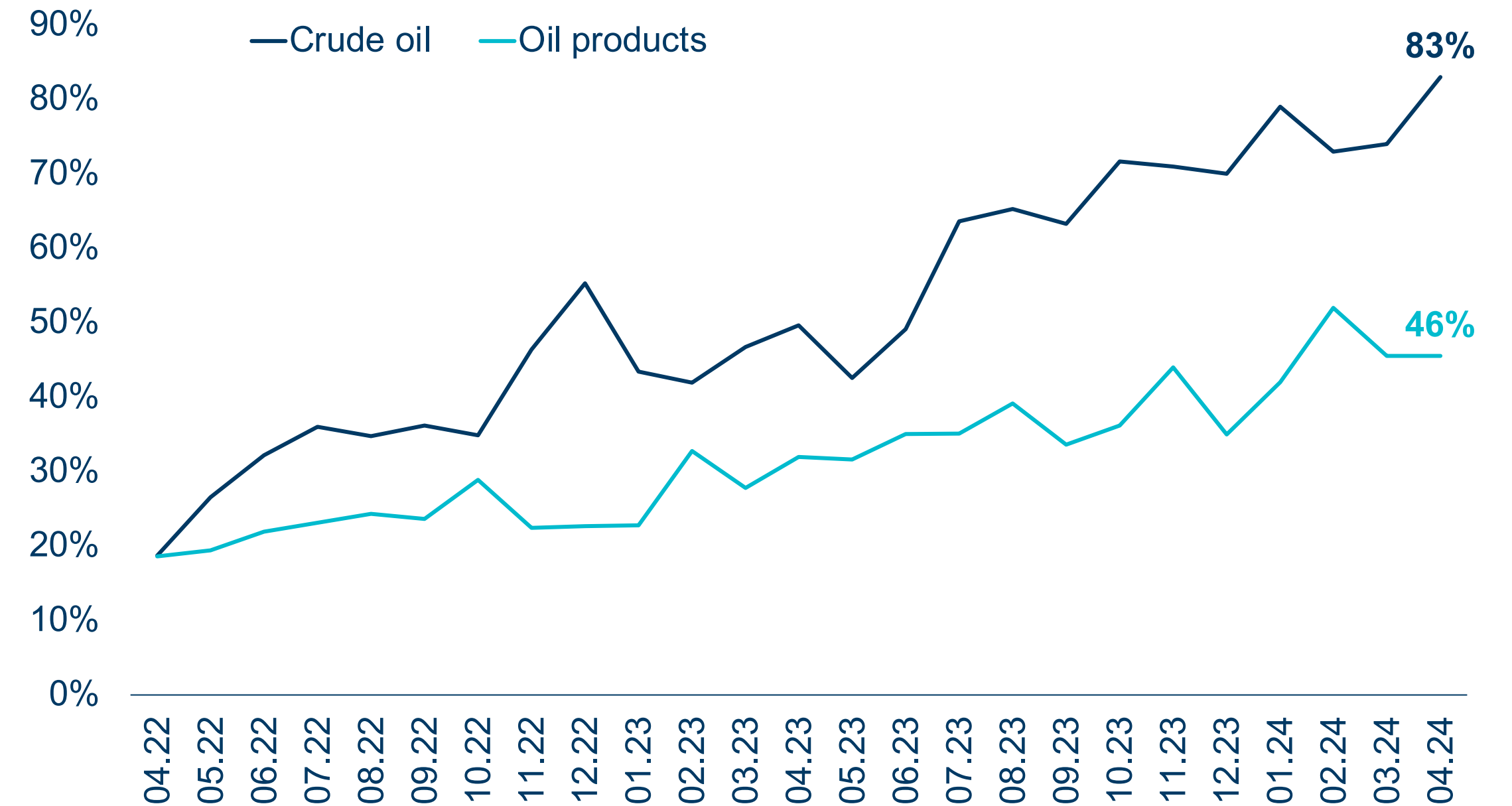
- Price cap compliance was largely absent in Q4 2023, and overall price dynamics indicate this is likely still the case.
- Fundamentally, oil traders//brokers falsify pricing information on the attestations which are required under the regime.
- A more fundamental issues is the Russian shadow fleet, which is increasingly eliminating the price cap’s leverage.

Composition of Russian seaborne crude oil exports in Q4 2023, in %



Source: Kpler, P&I Clubs, KSE Institute

Volume share of the Russian shadow fleet, in %



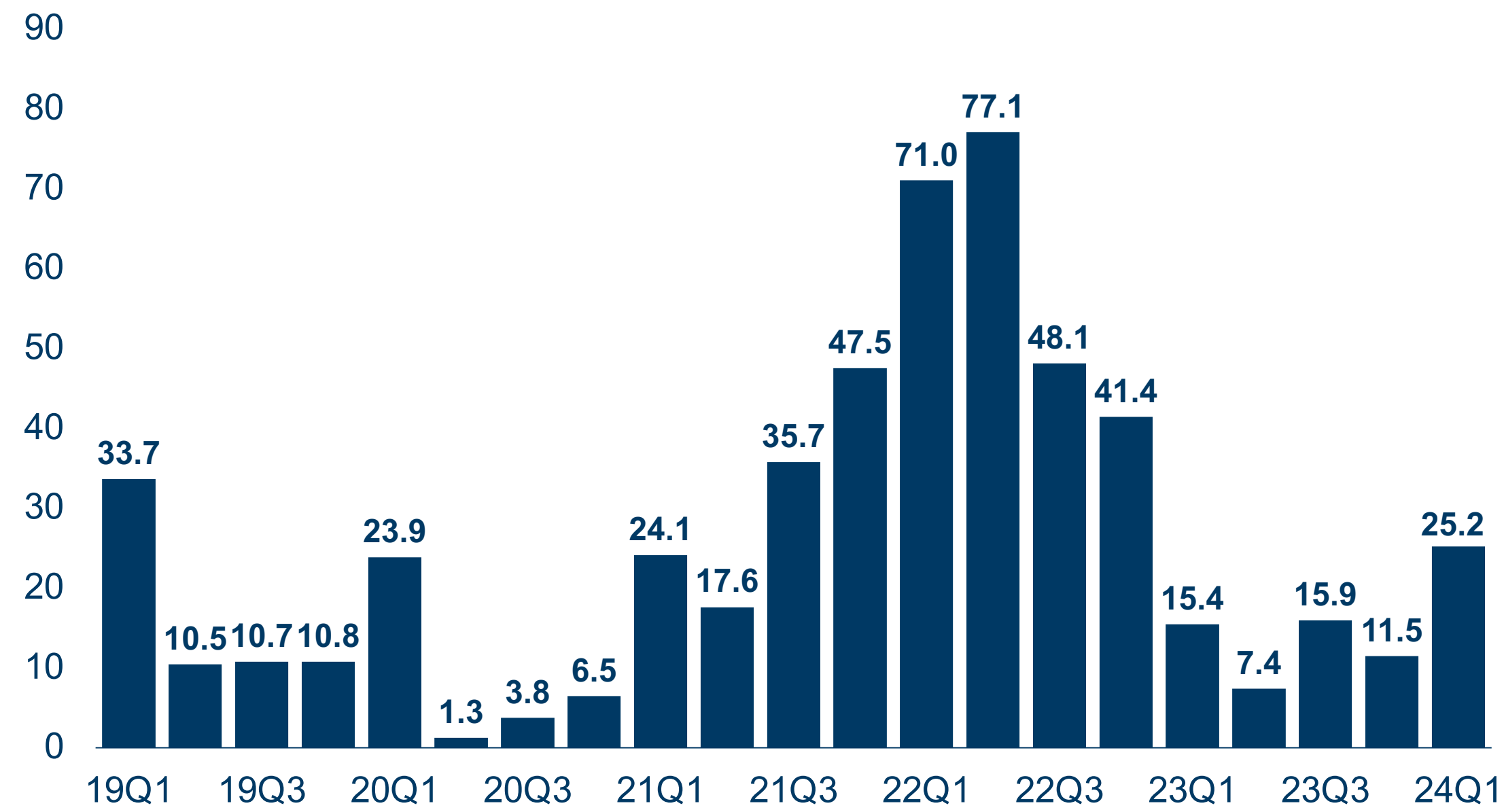
Source: Kpler, P&I Clubs, KSE Institute
Read KSE Institute’s March 2024 [Russian Oil Tracker](#).

Trade: improved external environment means that Russia could earn more than expected.

External environment has become more supportive in 2024.

- In Q1 2024, the current account surplus reached \$25.2 billion—the highest reading since Q4 2022.
- At the rate of January-April, the full-year surplus would reach ~\$100 billion (vs. ~\$51 billion in 2023).
- Supportive global oil prices and insufficient sanctions enforcement mean that risks are to the upside.

Quarterly current account balance, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

Composition of the current account, in U.S. dollar billion

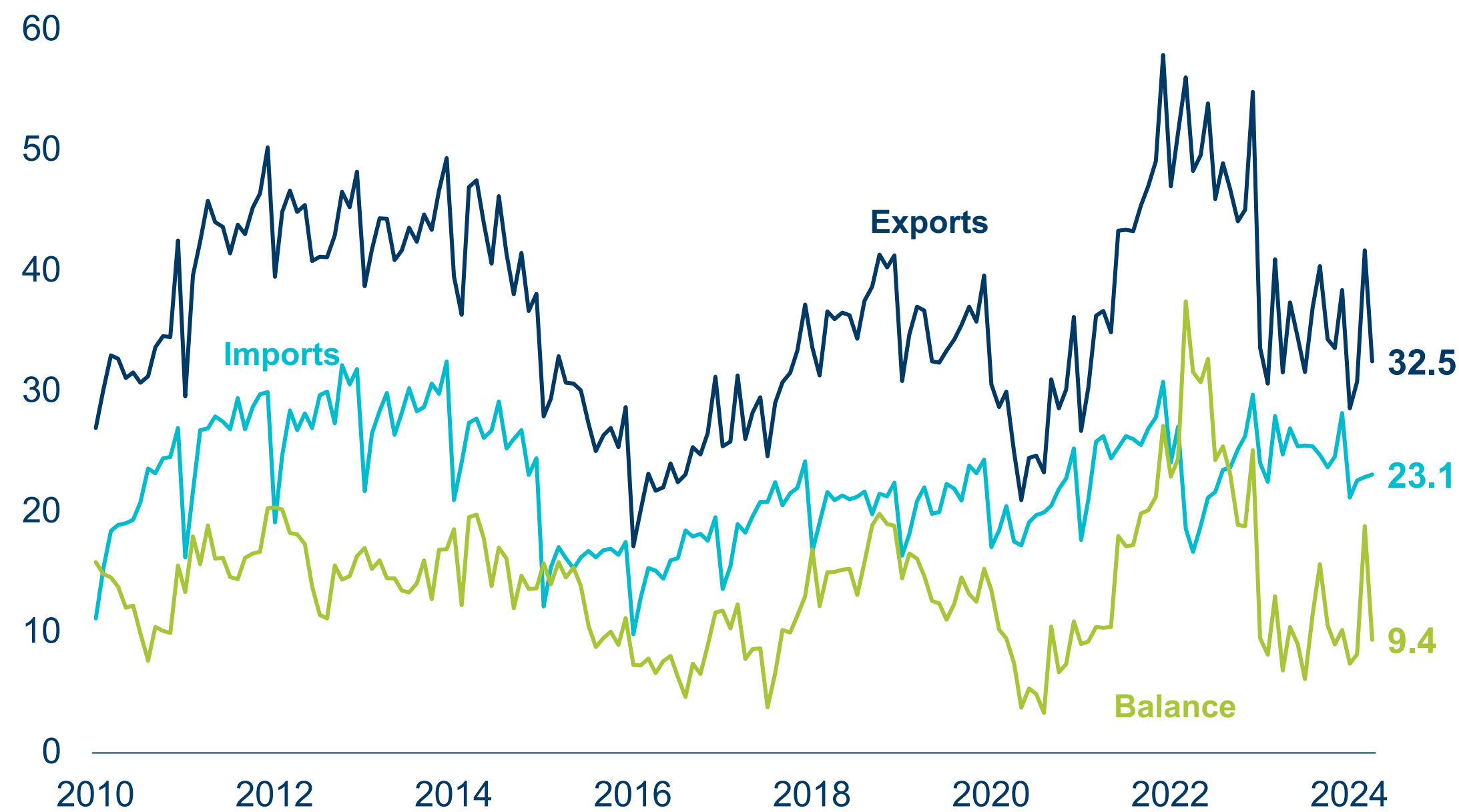
Time period	C/A		Goods		Services			Income & transfers		
	Bal.	Bal.	Exp.	Imp.	Bal.	Cred.	Deb.	Bal.	Cred.	Deb.
Jan. 2024	3.8	7.4	28.6	21.2	-2.2	3.3	5.5	-1.4	3.2	4.6
Feb. 2024	5.3	8.2	30.8	22.6	-1.2	3.6	4.7	-1.7	2.9	4.6
Mar. 2024	16.0	18.8	41.7	22.9	-1.5	3.9	5.4	-1.2	3.7	5.0
Apr. 2024	6.6	9.3	32.5	23.1	-1.6	3.7	5.3	-1.1	3.4	4.5
Q1 2024	25.2	34.4	101.2	66.8	-4.9	10.7	15.6	-4.3	9.9	14.2
Jan.-Apr. 2024	31.7	43.7	133.6	89.9	-6.5	14.4	20.9	-5.5	13.2	18.7
2021	122.1	190.3	494.4	304.0	-20.4	55.6	75.9	-47.8	96.3	144.1
2022	238.0	315.6	592.1	276.5	-22.2	48.6	70.9	-55.3	51.5	106.8
Memorandum Q1 2023	15.4	30.4	105.1	74.7	-7.6	9.8	17.6	-7.4	11.4	18.7
Jan. 2023	5.2	9.4	33.6	24.1	-2.4	3.2	5.6	-1.9	3.5	5.4
Feb. 2023	2.9	8.0	30.6	22.5	-2.1	3.2	5.3	-3.0	3.8	6.9
Mar 2023	7.3	12.9	40.9	28.0	-3.1	3.4	6.5	-2.5	4.0	6.5
Apr 2023	0.2	6.8	31.6	24.8	-2.5	3.3	5.8	-4.1	4.1	8.2
Q1 2023	15.4	30.4	105.1	74.7	-7.6	9.8	17.6	-7.4	11.4	18.7
Jan.-Apr. 2023	15.6	37.2	136.7	99.5	-10.1	13.2	23.3	-11.5	15.5	26.9

Source: Bank of Russia, KSE Institute

Foreign trade has settled in at a new post-full scale invasion baseline.

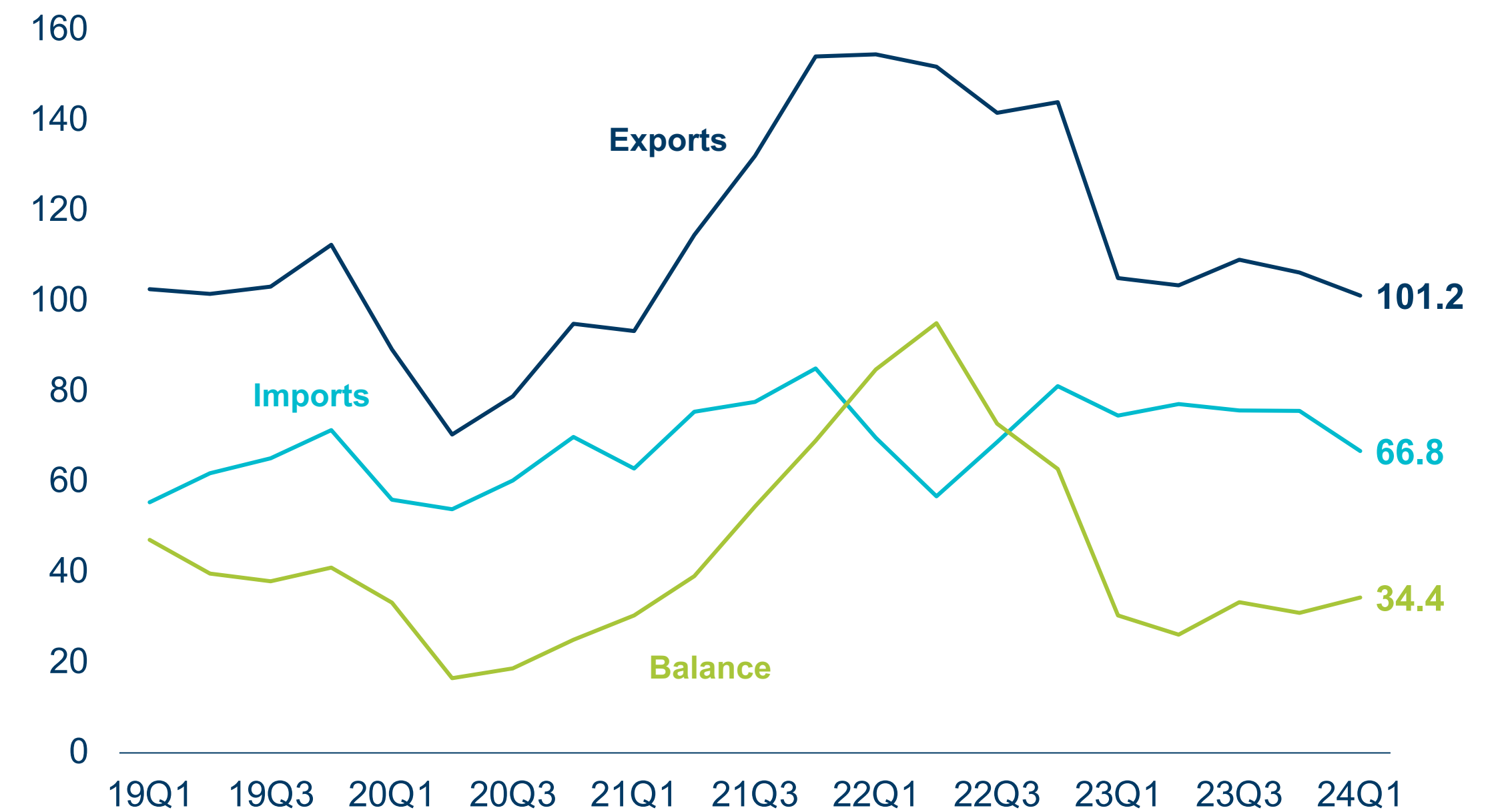
- Russia’s foreign trade has stabilized at a new baseline of ~\$100 billion in exports and ~\$75 billion in imports per quarter.
- Fundamentally, sanctions and moderating commodity prices have fully reversed the exports boom late 2021 and 2022.
- Somewhat weaker imports in Q4 2023 (of \$66.8 billion) led to a marginal increase in the trade balance (to \$34.4 billion).

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

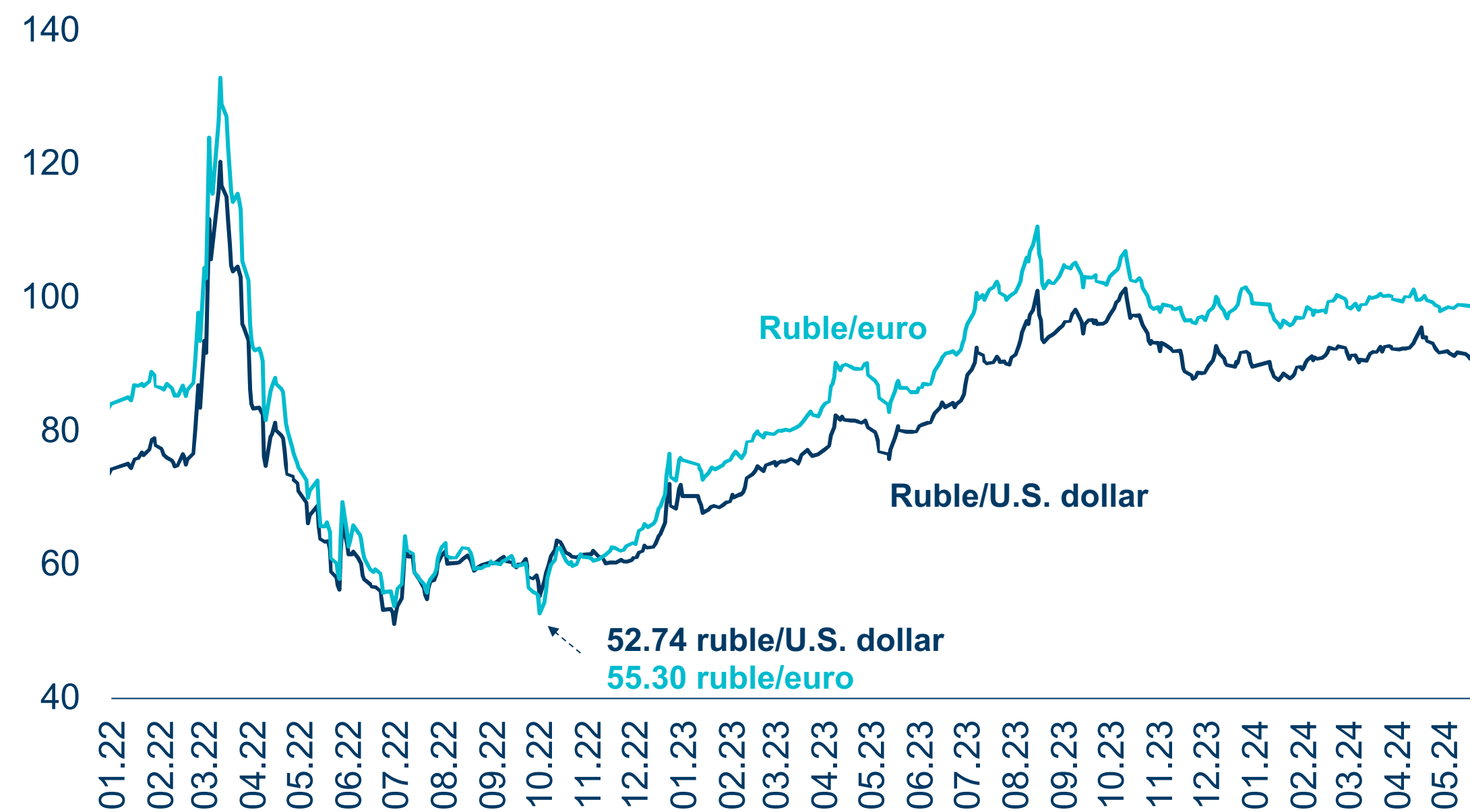


Source: Bank of Russia, KSE Institute

Ruble has stabilized, but future CBR approach unclear.

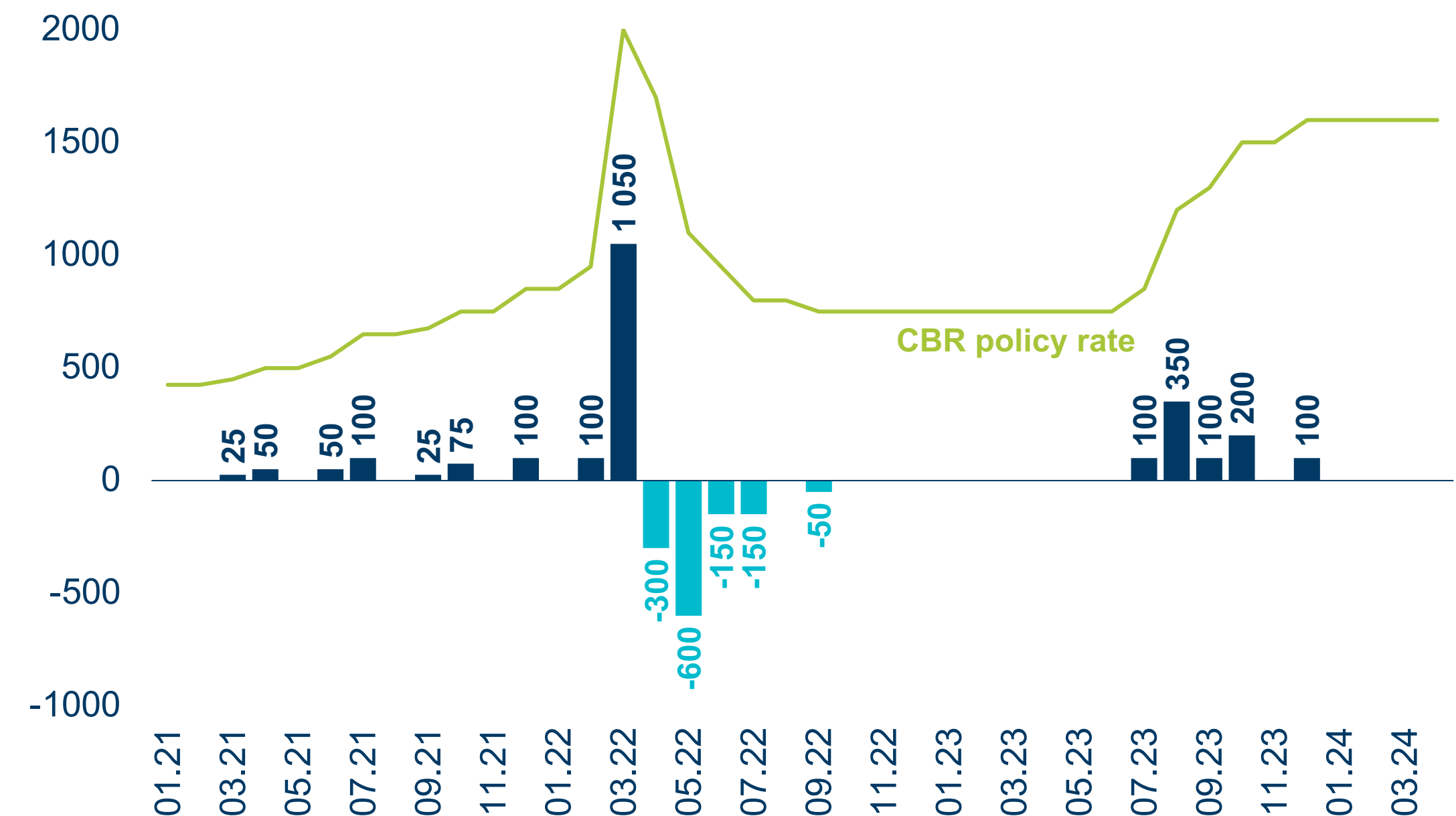
- Since October 2022, the ruble has lost 42% of its value against the U.S. dollar and 44% against the euro.
- Interest rate hikes by the CBR and the re-introduction of capital controls have led to some stabilization.
- The central bank has signaled that another interest rate hike could take place at coming MPC meetings.

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



Source: Bank of Russia, KSE Institute

CBR policy rate and MPC decisions, in bps

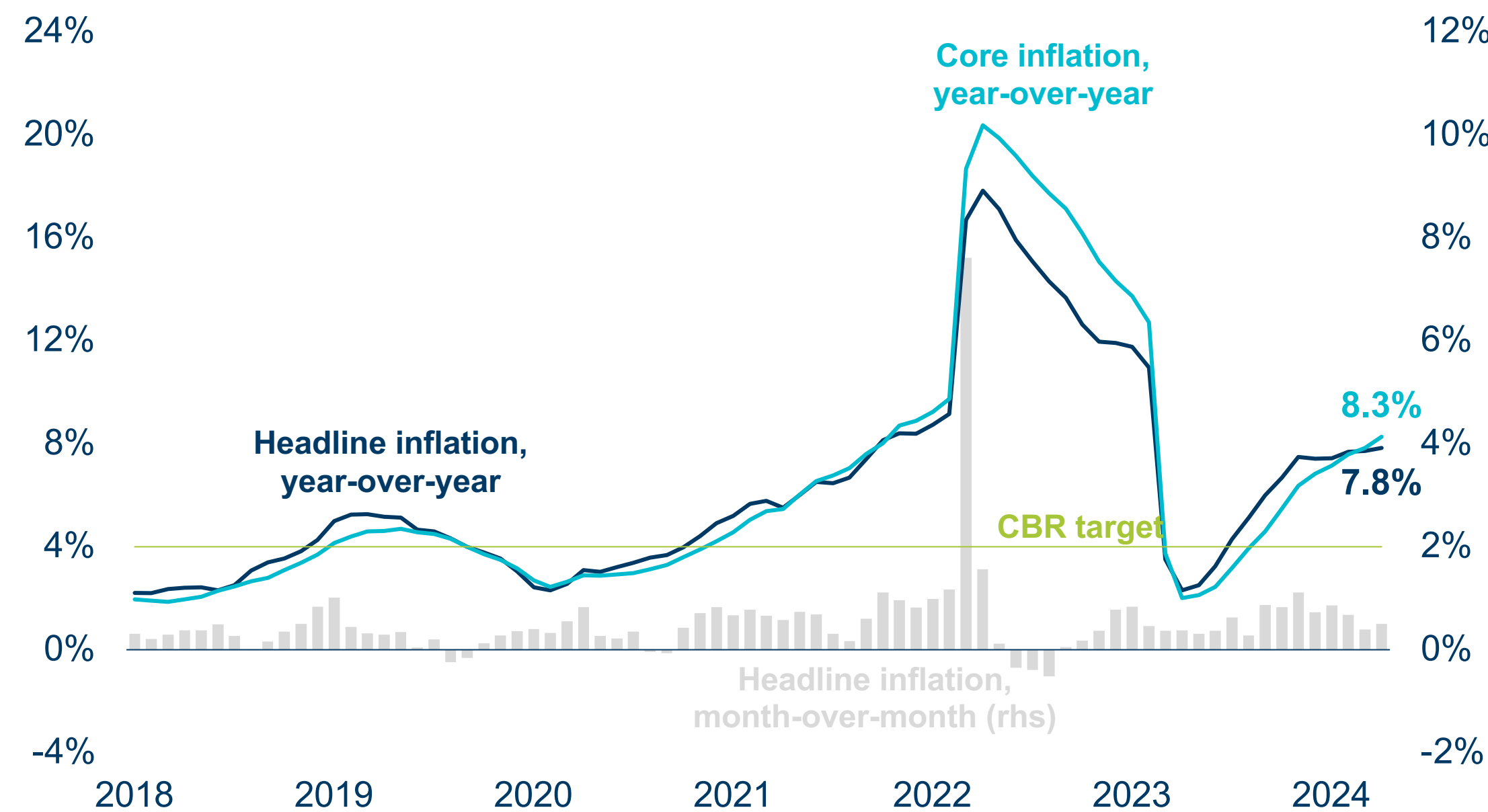


Source: Bank of Russia, KSE Institute

Headline and core inflation remain elevated.

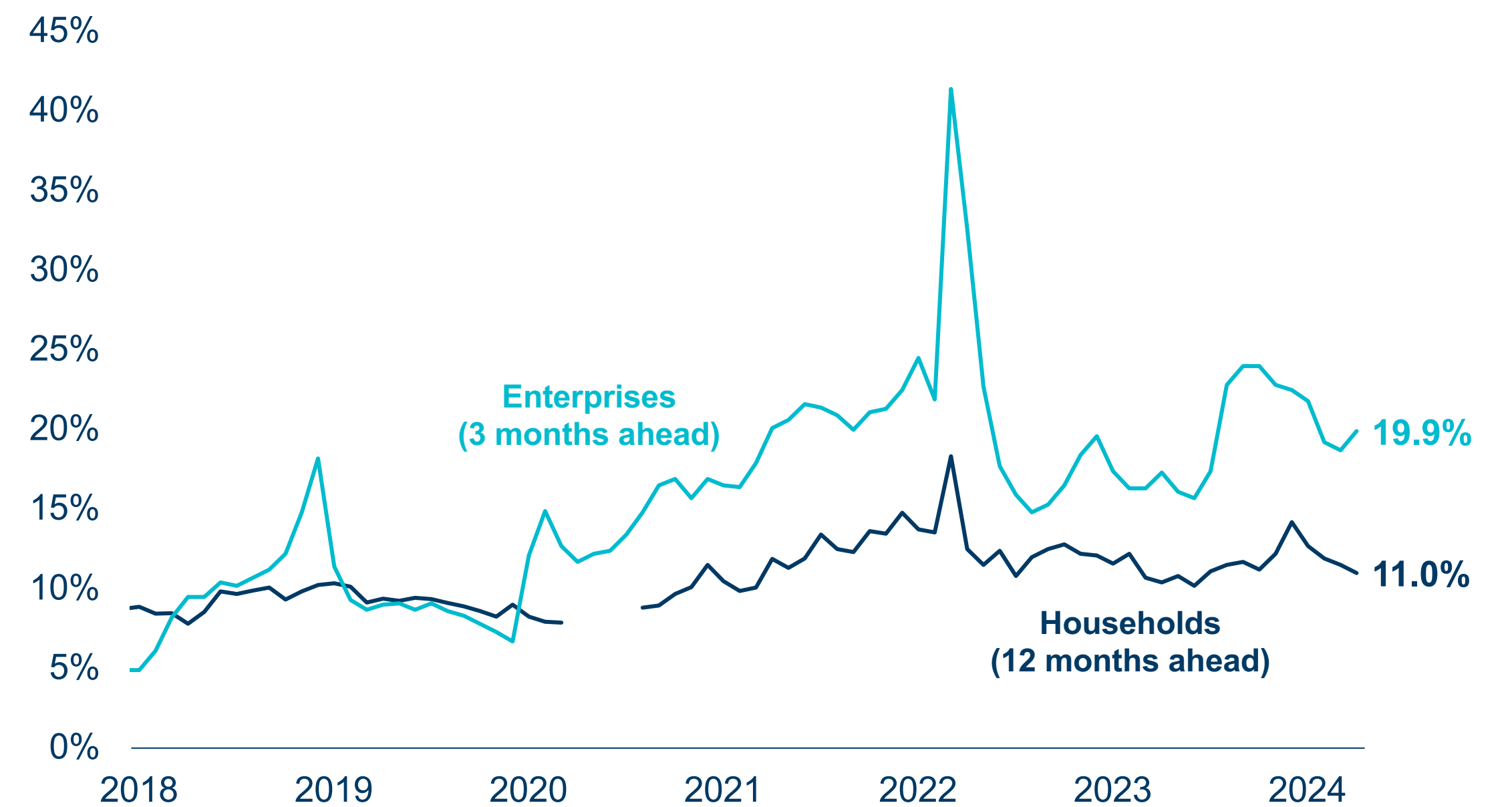
- Following a base effects-driven drop in spring/summer 2023, both headline and core inflation are rising again.
- Based on current month-to-month dynamics, headline inflation could approach double-digits again in the fall.
- Inflation expectations of enterprises have moderated in recent months after a meaningful pickup in late 2023.

Inflation, in %



Source: Bank of Russia, KSE Institute

Inflation expectations, in %

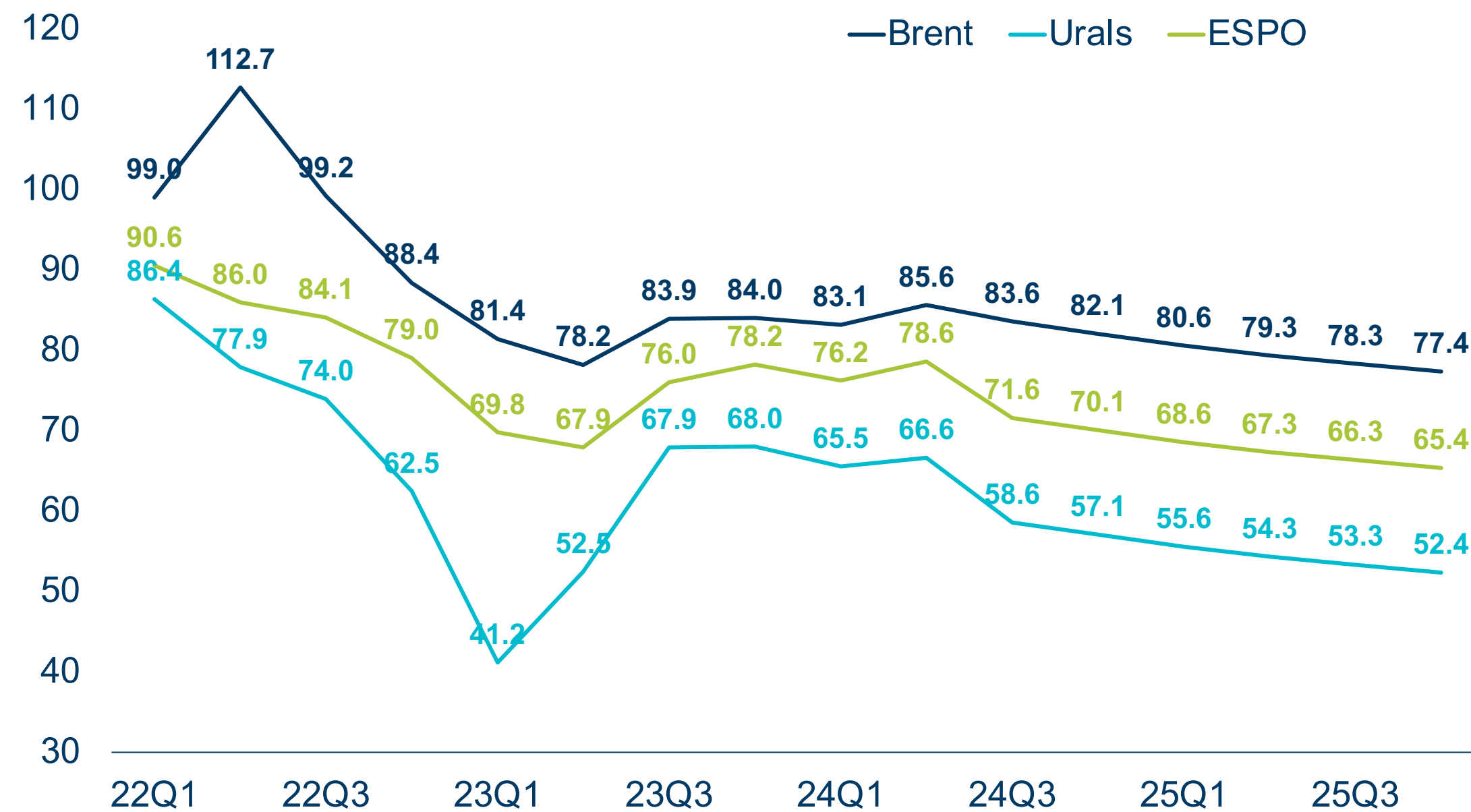


Source: Bank of Russia, KSE Institute

Wider discount on Russian oil to reduce export earnings in H2 2024.

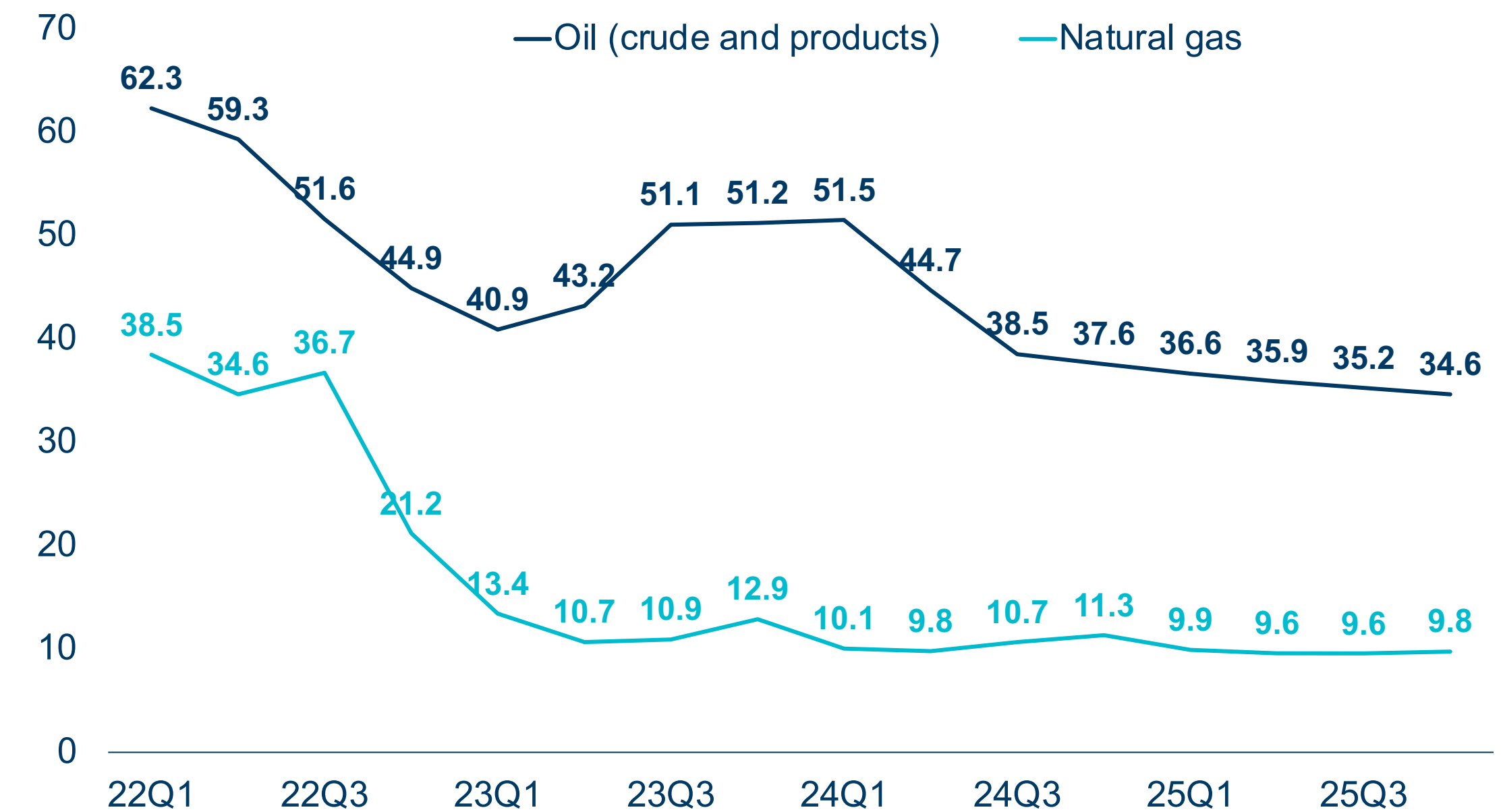
- In our base case, Urals and ESPO discounts vs. Brent will widen somewhat in H2 2024 as enforcement is stepped up.
- This would largely offset higher global oil prices and help constrain Russia's export earnings despite a tighter market.
- Natural gas exports are unlikely to recover from failed weaponization of flows to Europe since the second half of 2022.

Oil prices, in U.S. dollar/barrel



Source: KSE Institute

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

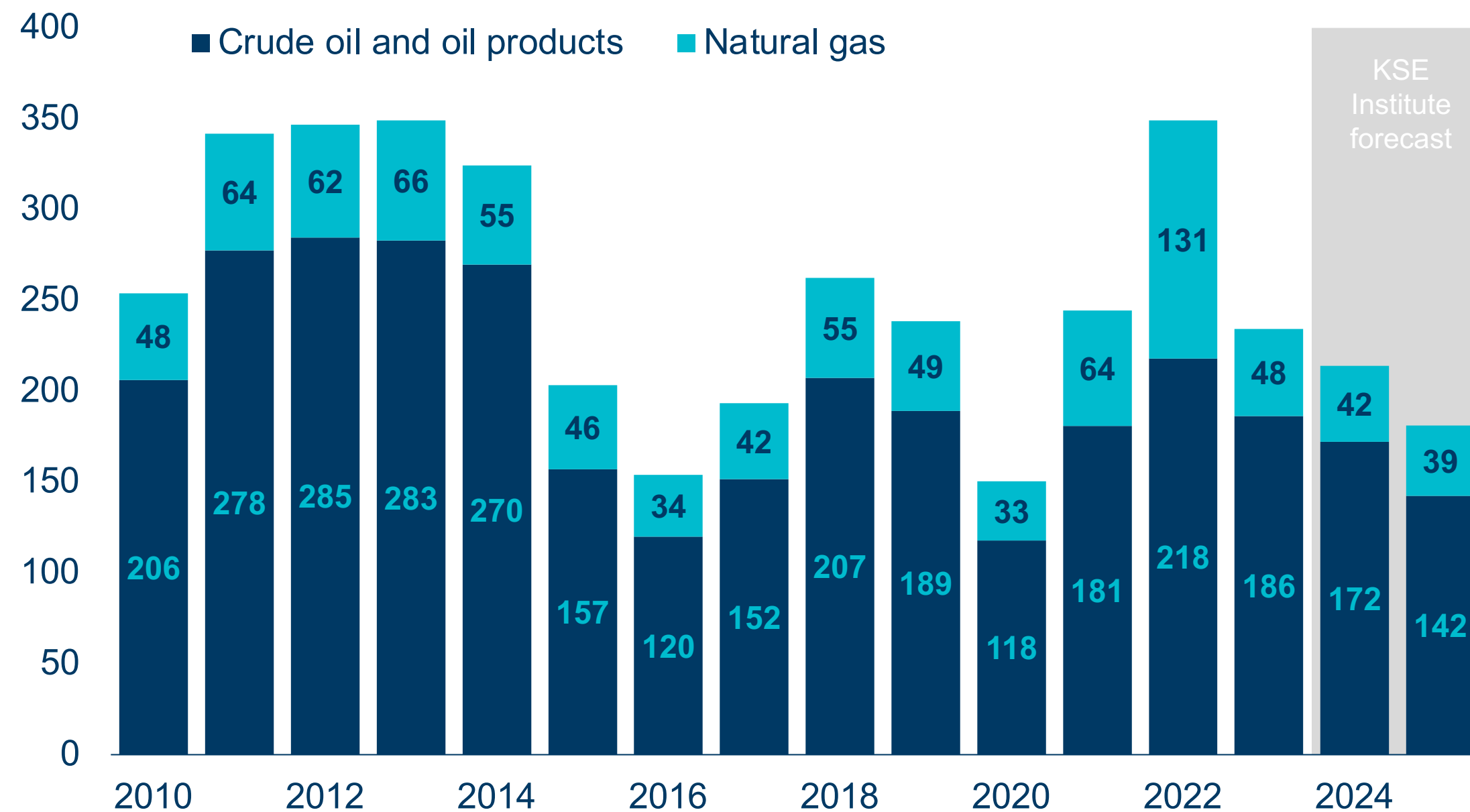


Source: KSE Institute

Current account surplus at suppressed levels in 2024-25 in base case.

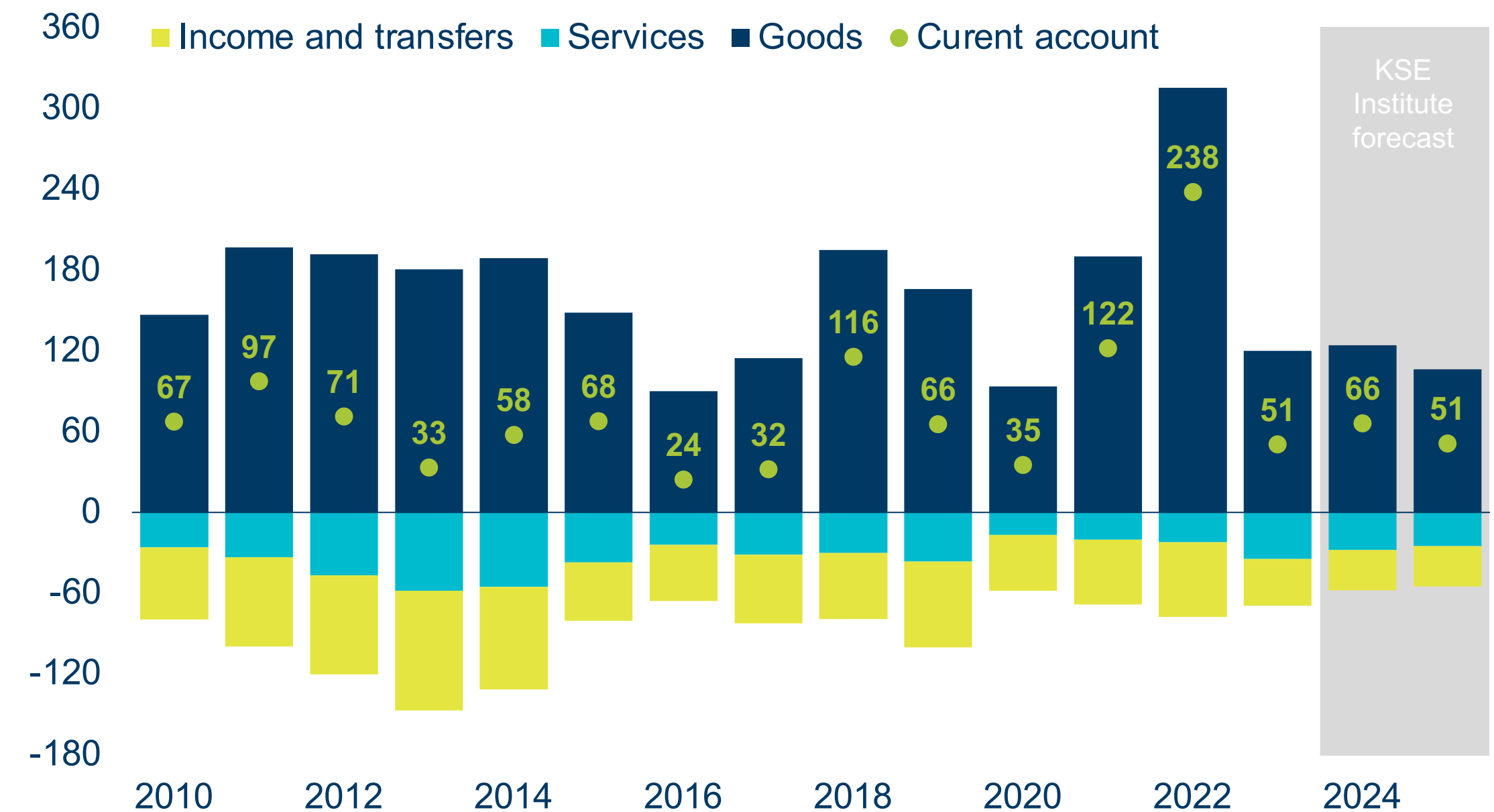
- O&G exports reached \$234 billion in 2023 and are projected to drop to \$214 billion in 2024 and \$181 billion in 2025.
- We project a current account surplus of \$66 billion and \$51 billion in 2024-25, respectively, with risks to the upside.
- Should energy sanctions not be enforced effectively, the surplus could grow to close to \$100 billion for the full year.

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



Source: Bank of Russia, KSE Institute

Current account and components, in U.S. dollar billion



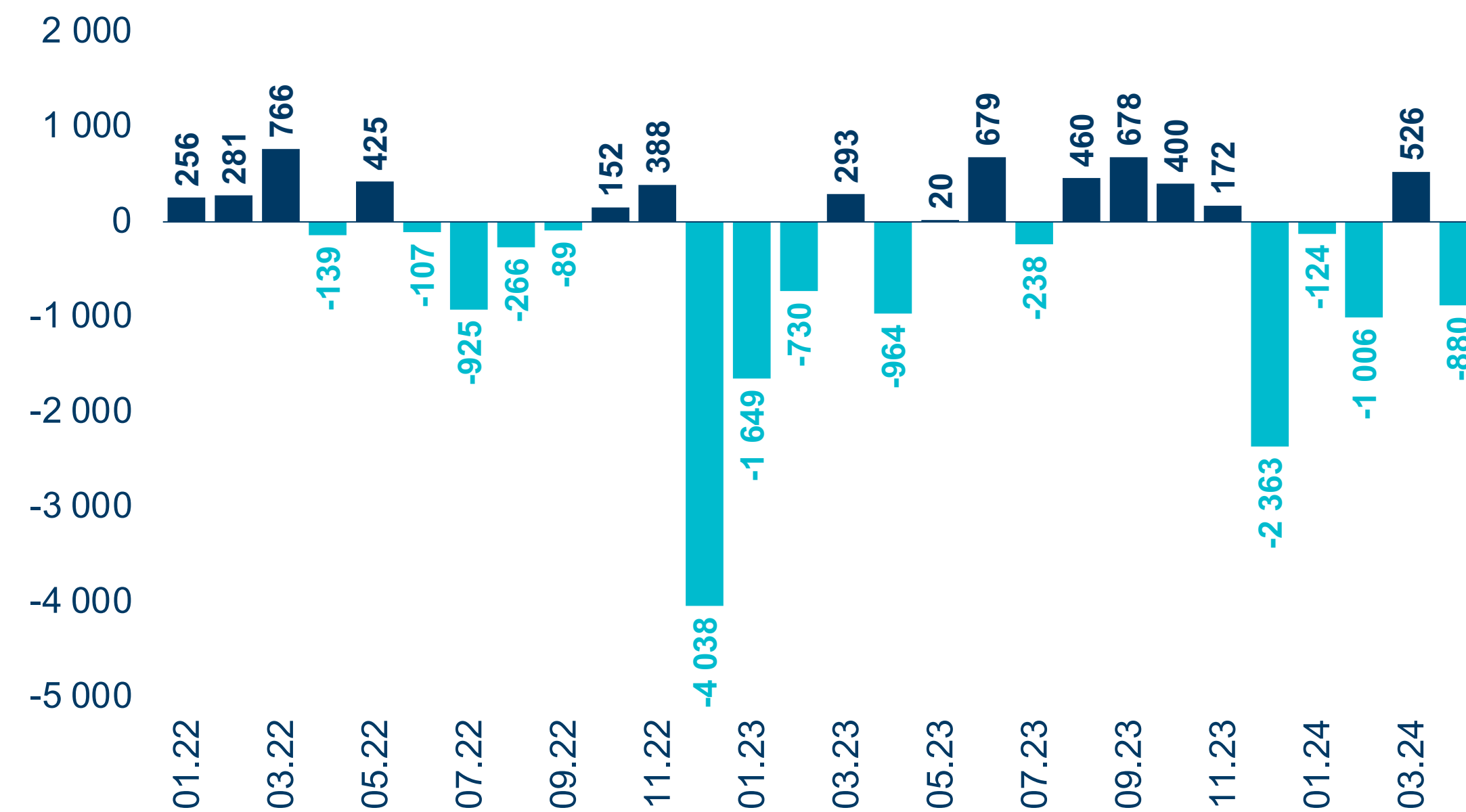
Source: Bank of Russia, KSE Institute

**Budget: Russia is unlikely to
face serious fiscal constraints.**

Sharp rise in revenues significantly improved fiscal situation.

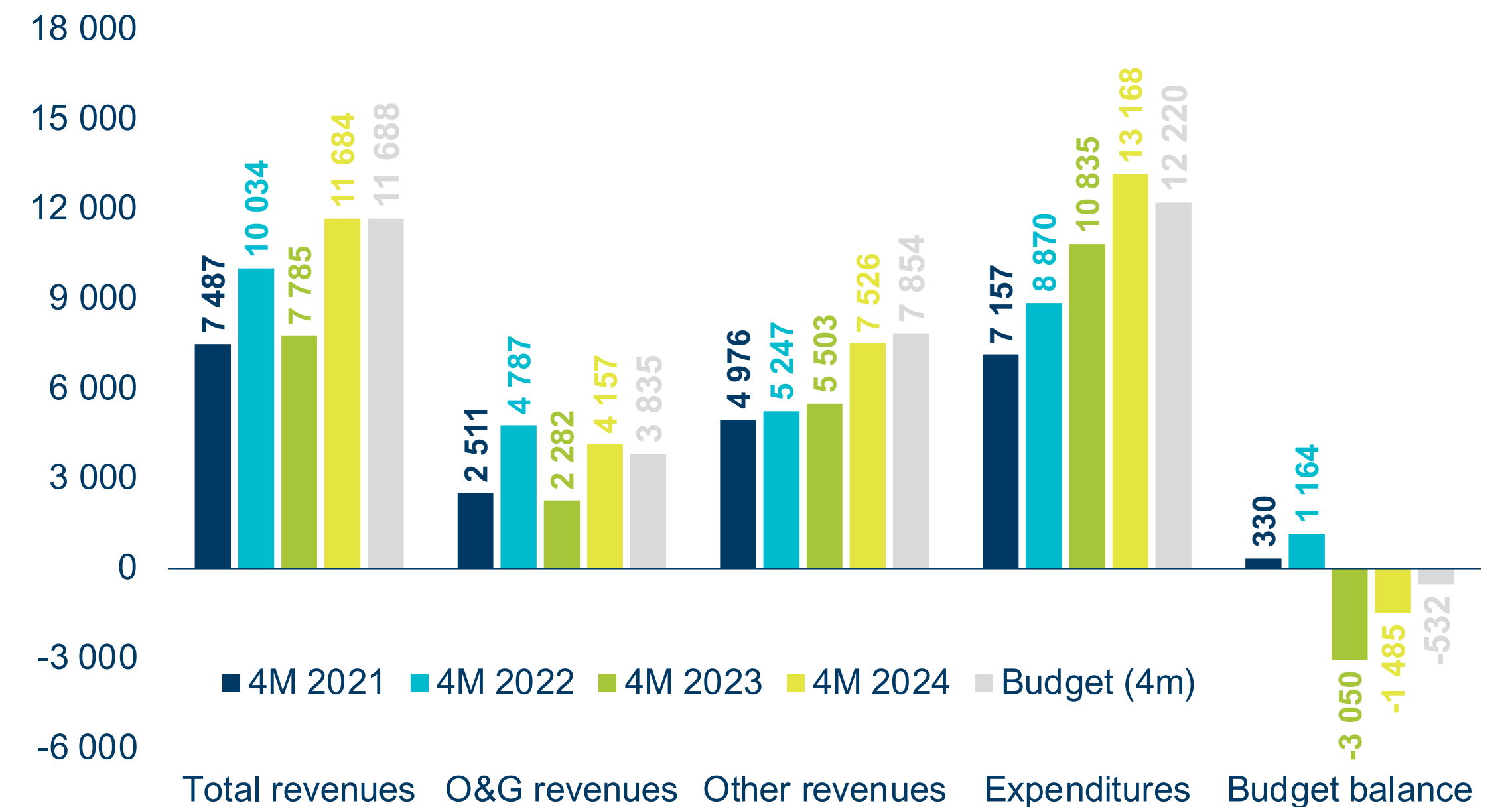
- In January-April 2024, Russia’s federal budget deficit reached 1.8 trillion rubles, 93% of the full-year plan.
- O&G revenues were 82%, non-O&G revenues 37%, and expenditures 22% higher vs. January-April 2023.
- It is unlikely that Russia will face any serious fiscal constraints that would affect planned military spending.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

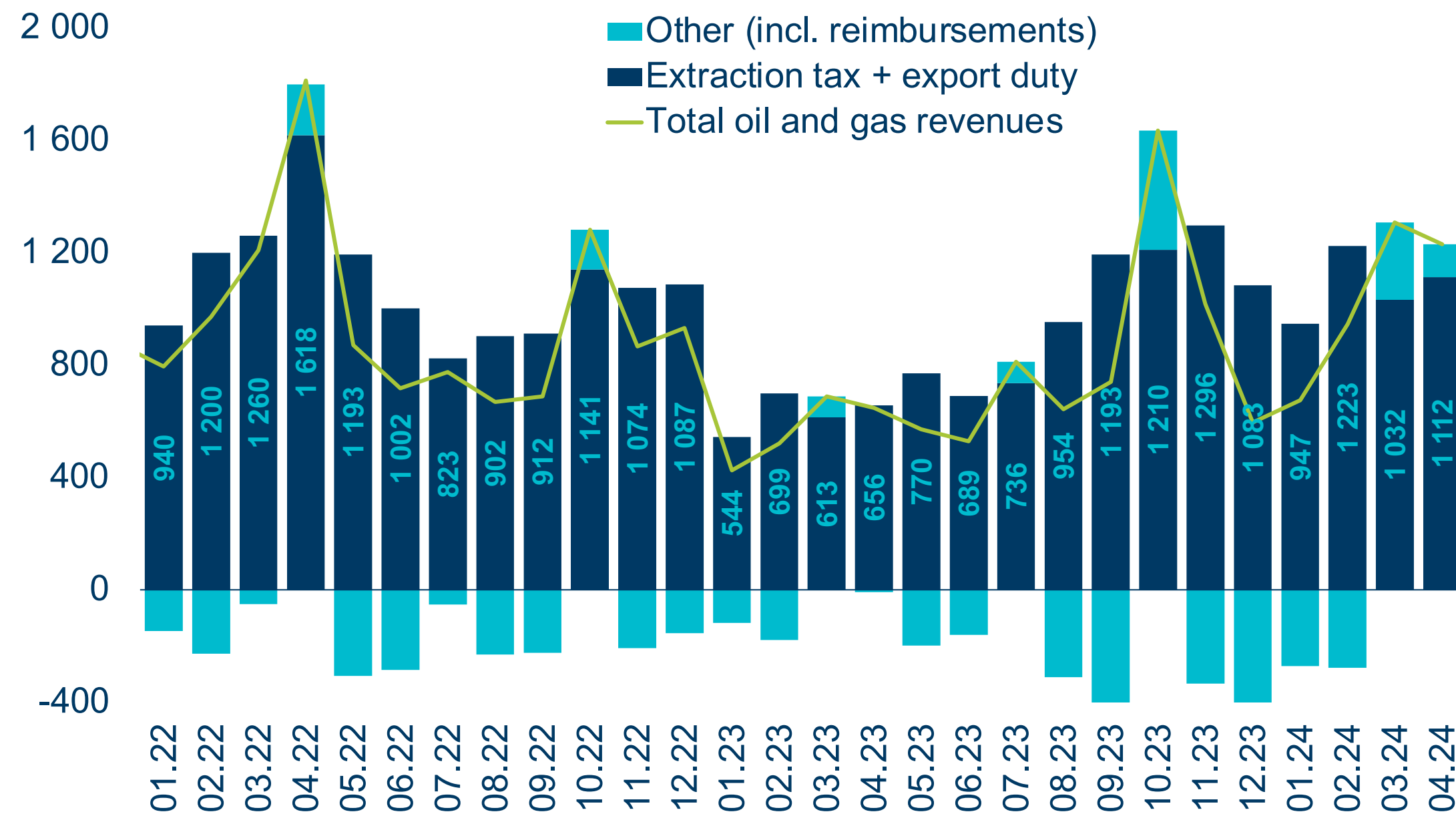


Source: Ministry of Finance, KSE Institute

Russia's oil and gas revenues grew in February-April.

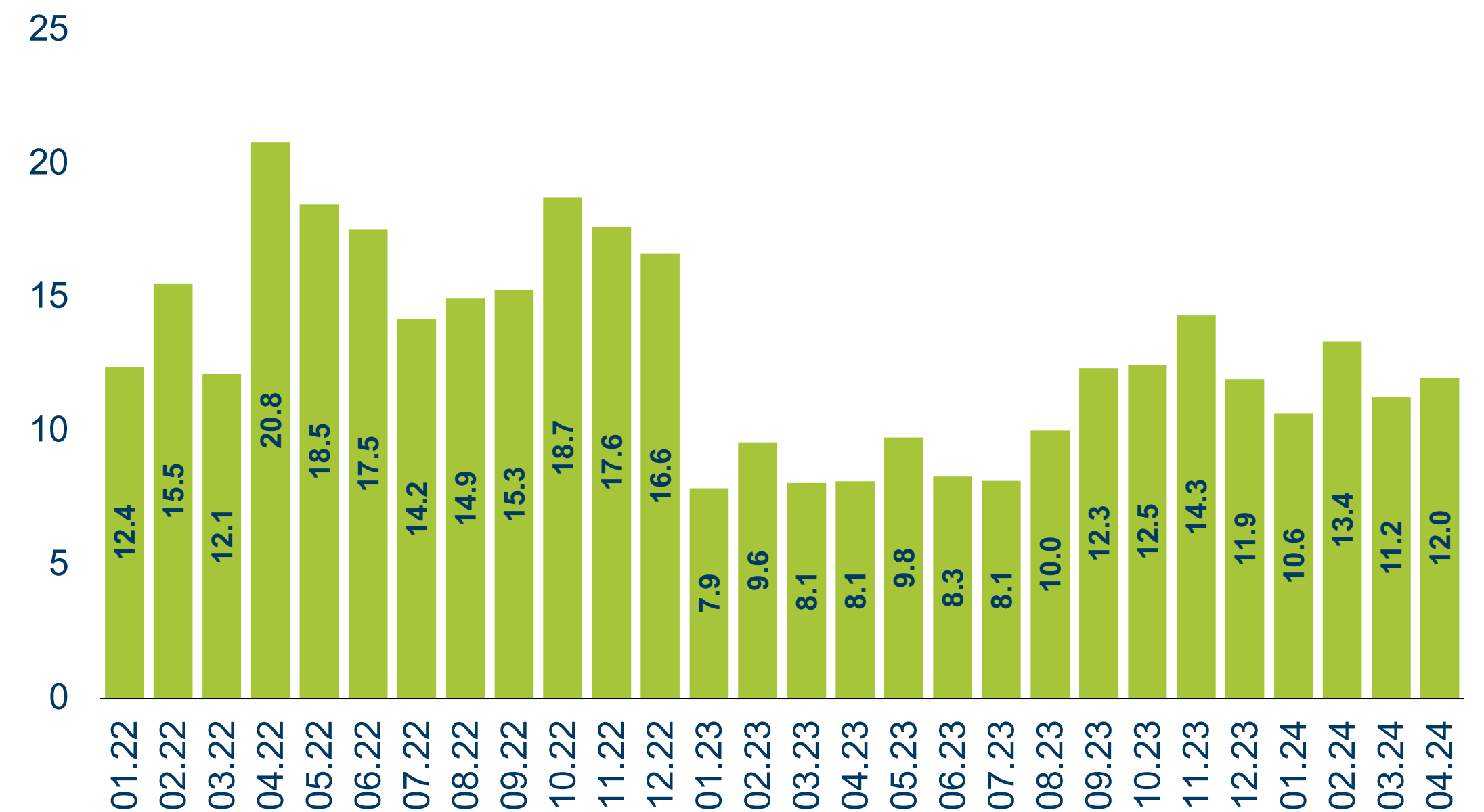
- O&G revenues rebounded in February-April 2024 and have returned to pre-price cap and embargo levels.
- While the weaker ruble has provided support, revenues also rose in dollar terms due to higher oil prices.
- With export prices at current levels, it is extremely unlikely that the Russian budget will come under pressure.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Federal oil and gas revenues, in U.S. dollar billion*



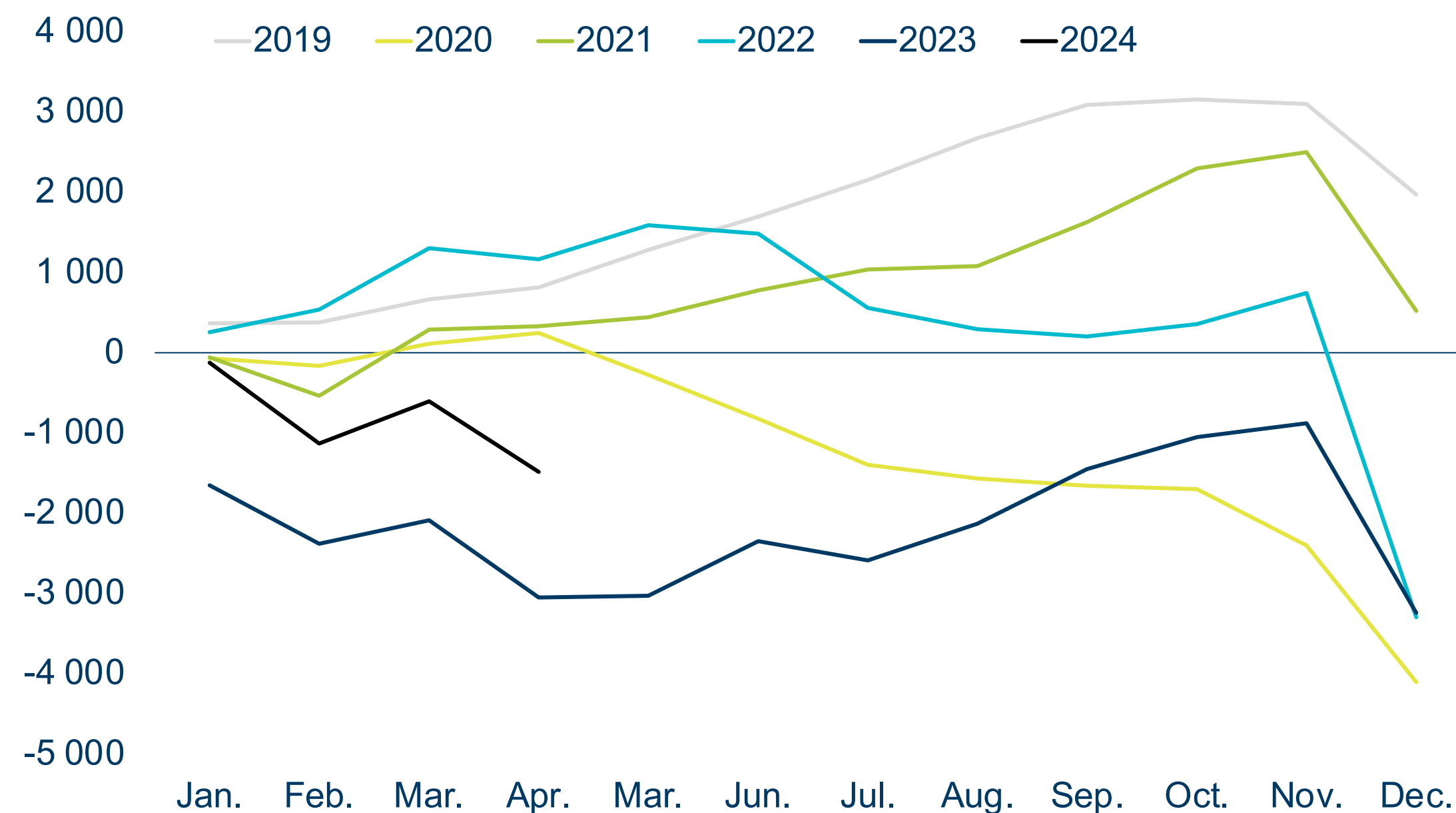
Source: International Monetary Fund, Ministry of Finance, KSE Institute

*includes extraction tax and export duty; calculated with monthly average exchange rate

Contained budget deficit means financing is not a challenge.

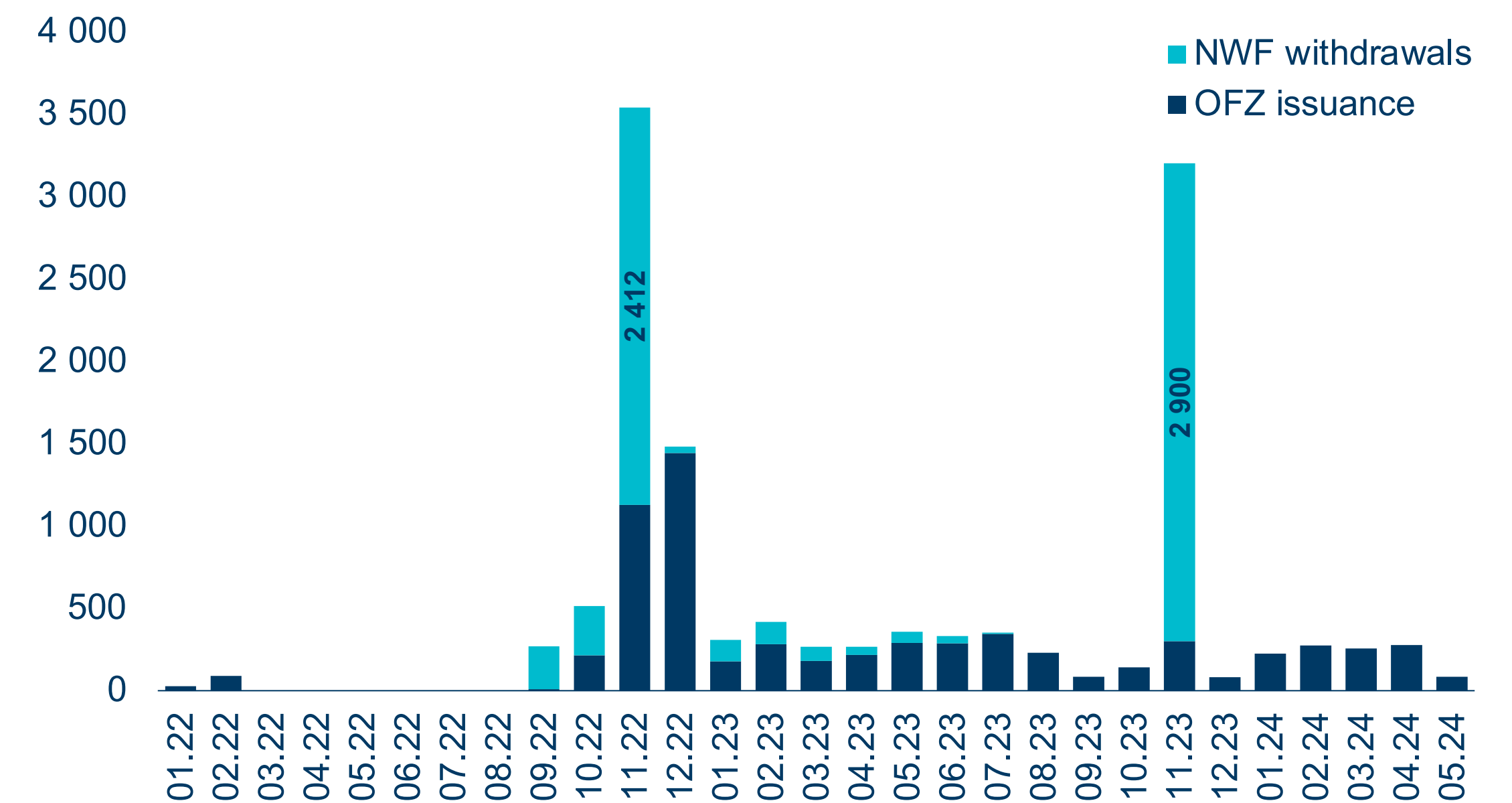
- The January-April 2024 deficit is 50% smaller compared to 2023, albeit expenditures are up sharply due to the war.
- Due to the improved fiscal situation, Russia has been able to finance the budget via moderate domestic debt issuance.
- Unless energy sanctions enforcement is stepped up, Russia will likely be able to stay within its budget target this year.

Cumulative federal budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Key fiscal financing channels, in ruble billion

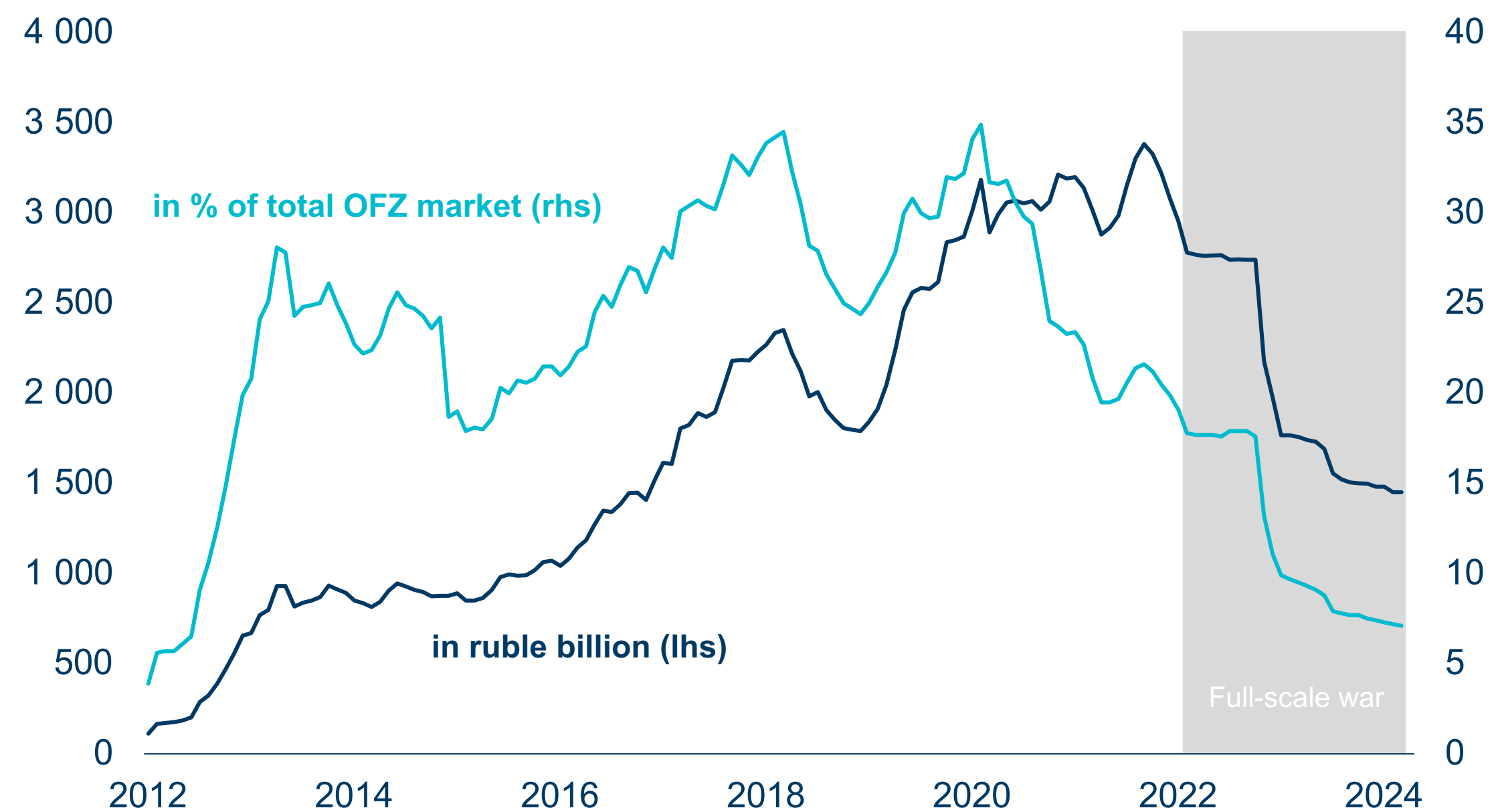


Source: Ministry of Finance, KSE Institute

Domestic banks are the only remaining buyers for OFZs.

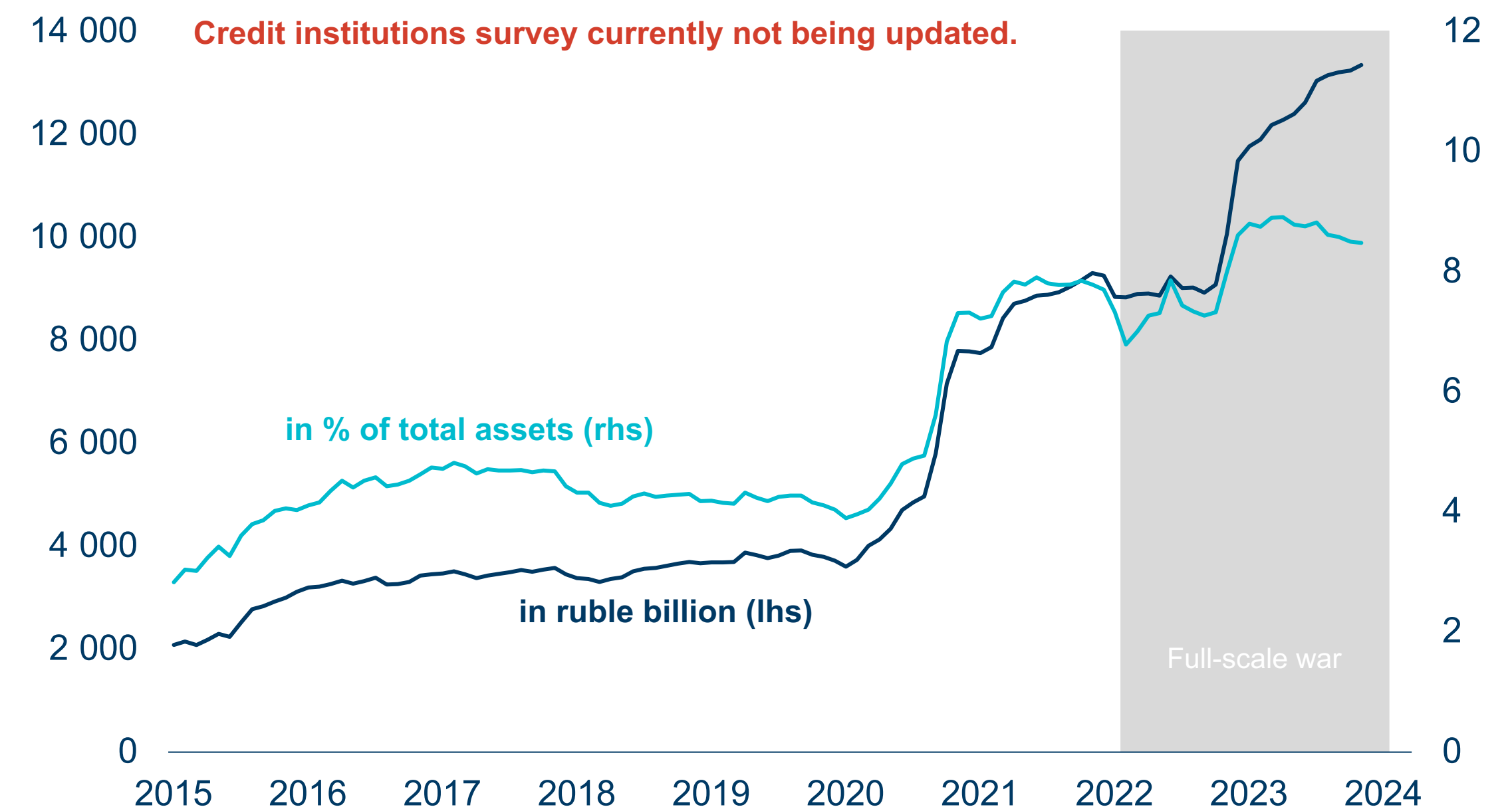
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 1.3 trillion rubles (or 47%) since October 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Credit institutions OFZ holdings

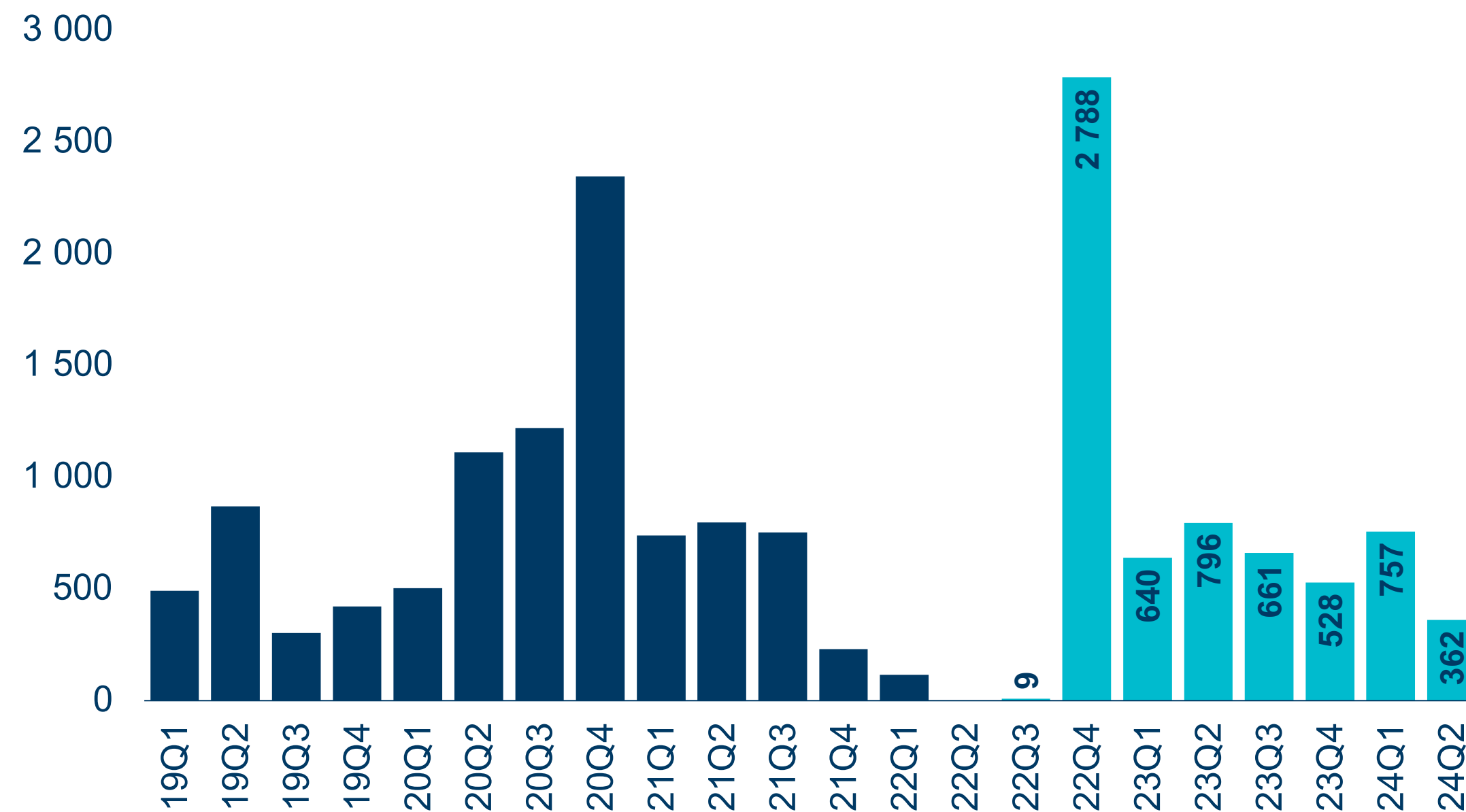


Source: Bank of Russia, KSE Institute

Domestic borrowing remains stable.

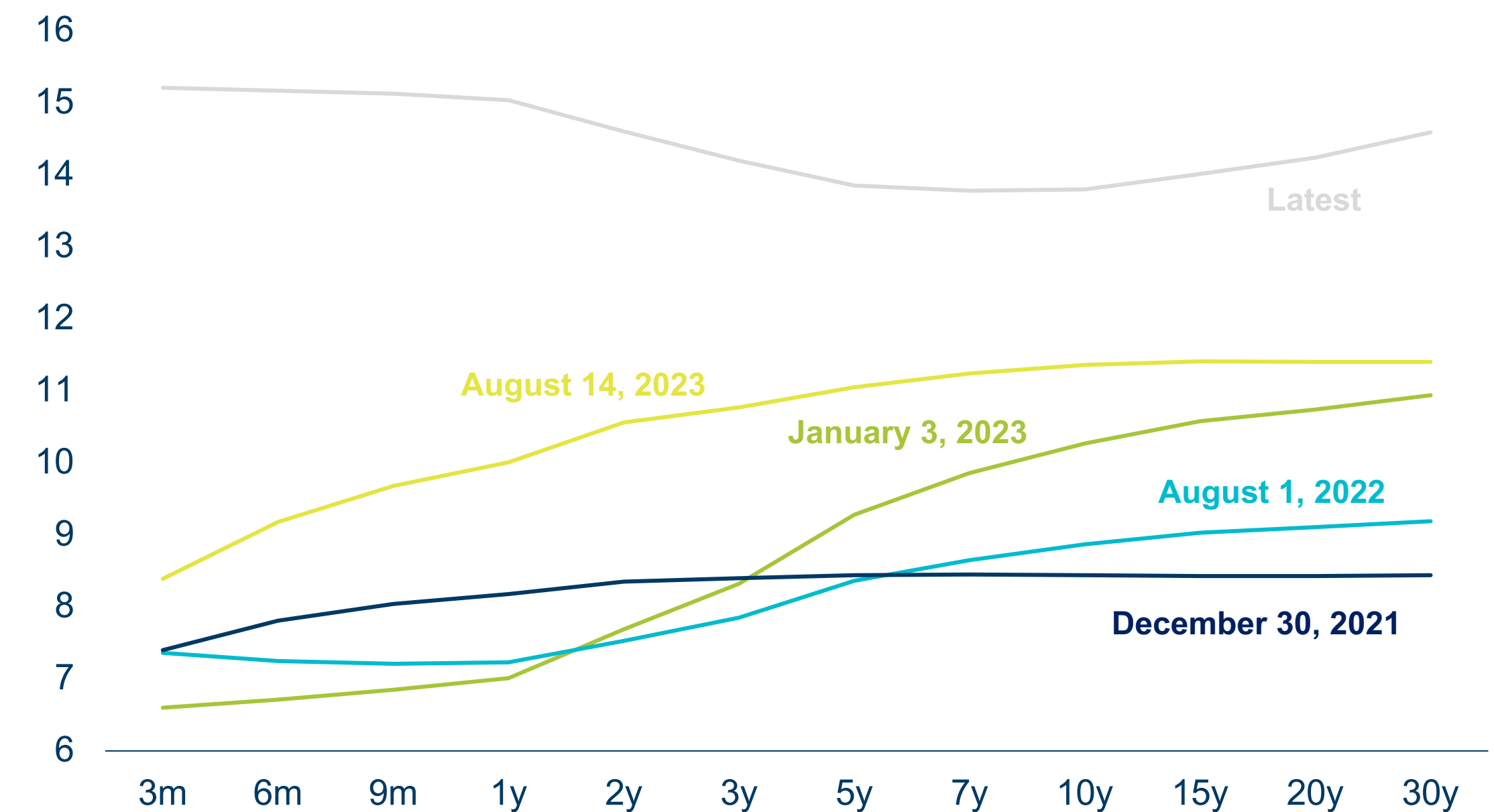
- Borrowing in the domestic market has been broadly stable in the last 1.5 years.
- The OFZ yield curve reflects the recent CBR rate hikes (of cumulative 850bps).
- Funding costs are, thus, higher but limited in their impact due to the small budget deficit.

New domestic debt (OFZ) issuance, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %



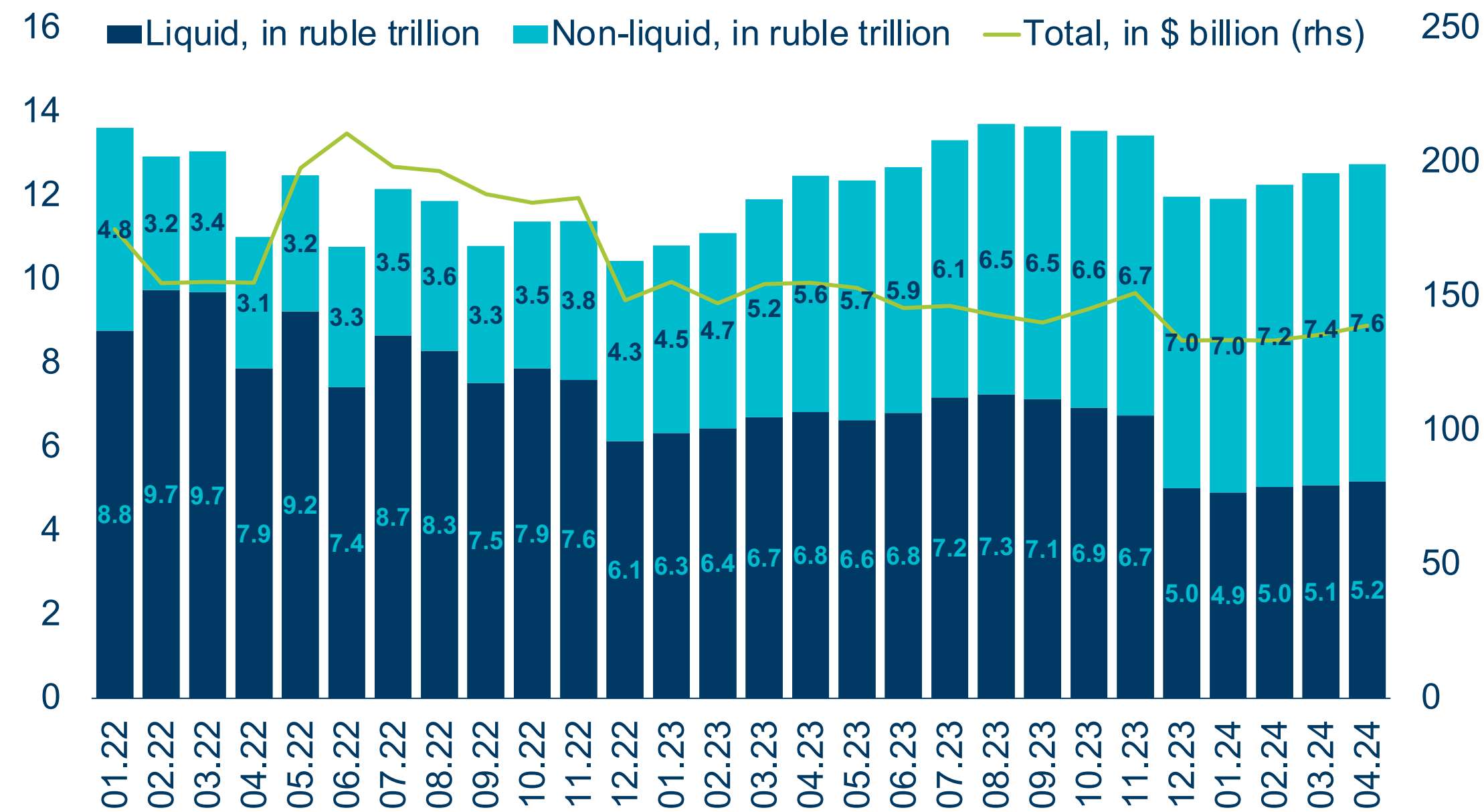
Source: Bank of Russia, KSE Institute

Macro buffers: Russia has used up half of the NWF's liquid assets; access to reserves seriously constrained.

Half of the NWF's liquid assets have been used up.

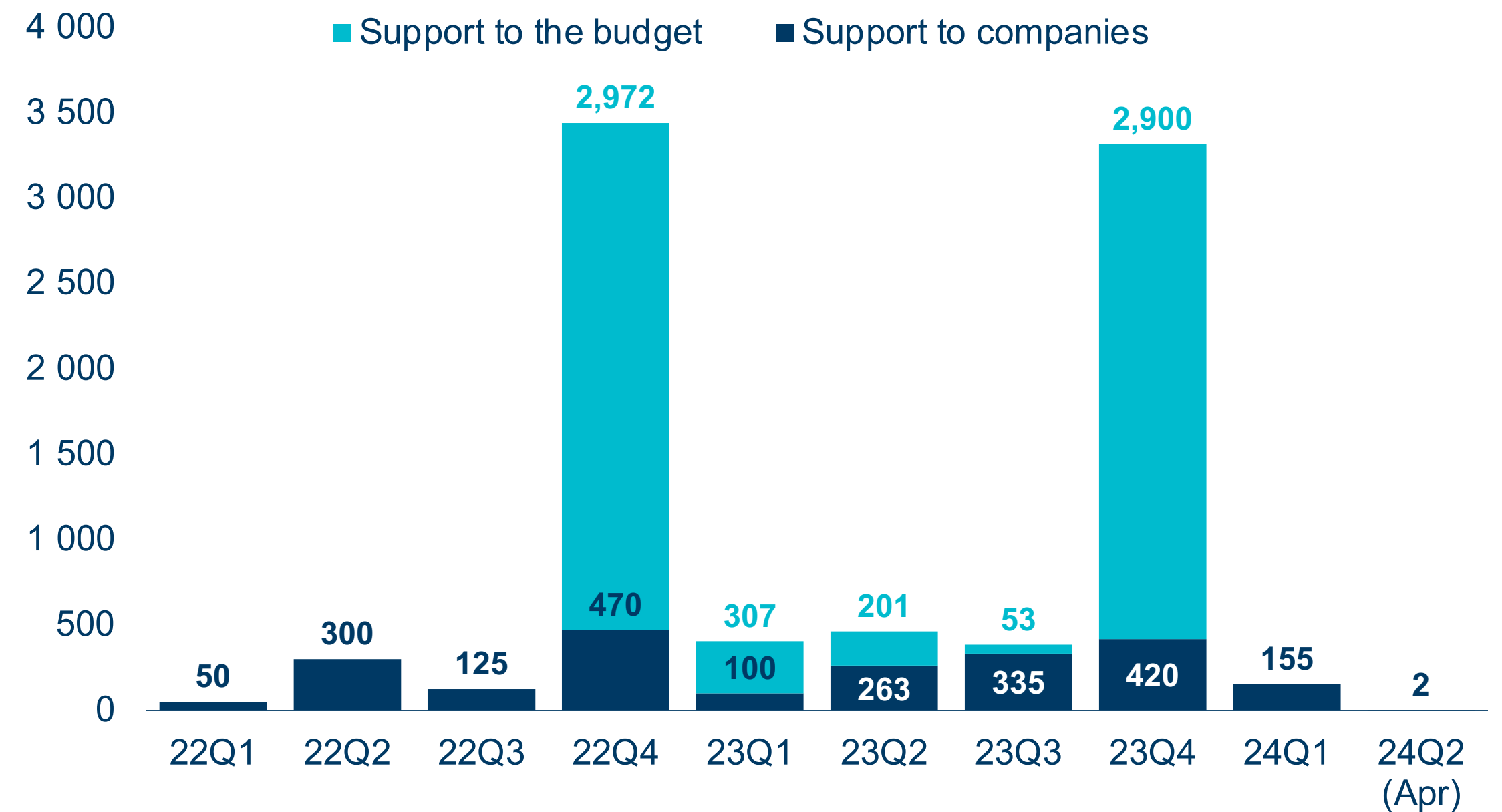
- Total assets of the National Welfare Fund stood at 12.8 trillion rubles (\$139 billion, 7.1% of GDP) in April 2024.
- The liquid portion now only accounts for 41% of the total as funds were withdrawn for budgetary support in December.
- Since the start of the full-scale invasion, Russia has, thus, used up almost half (~4.6 trillion) of the NWF's liquid assets.

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



Source: Ministry of Finance, KSE Institute

Utilization of the NWF, in ruble billion

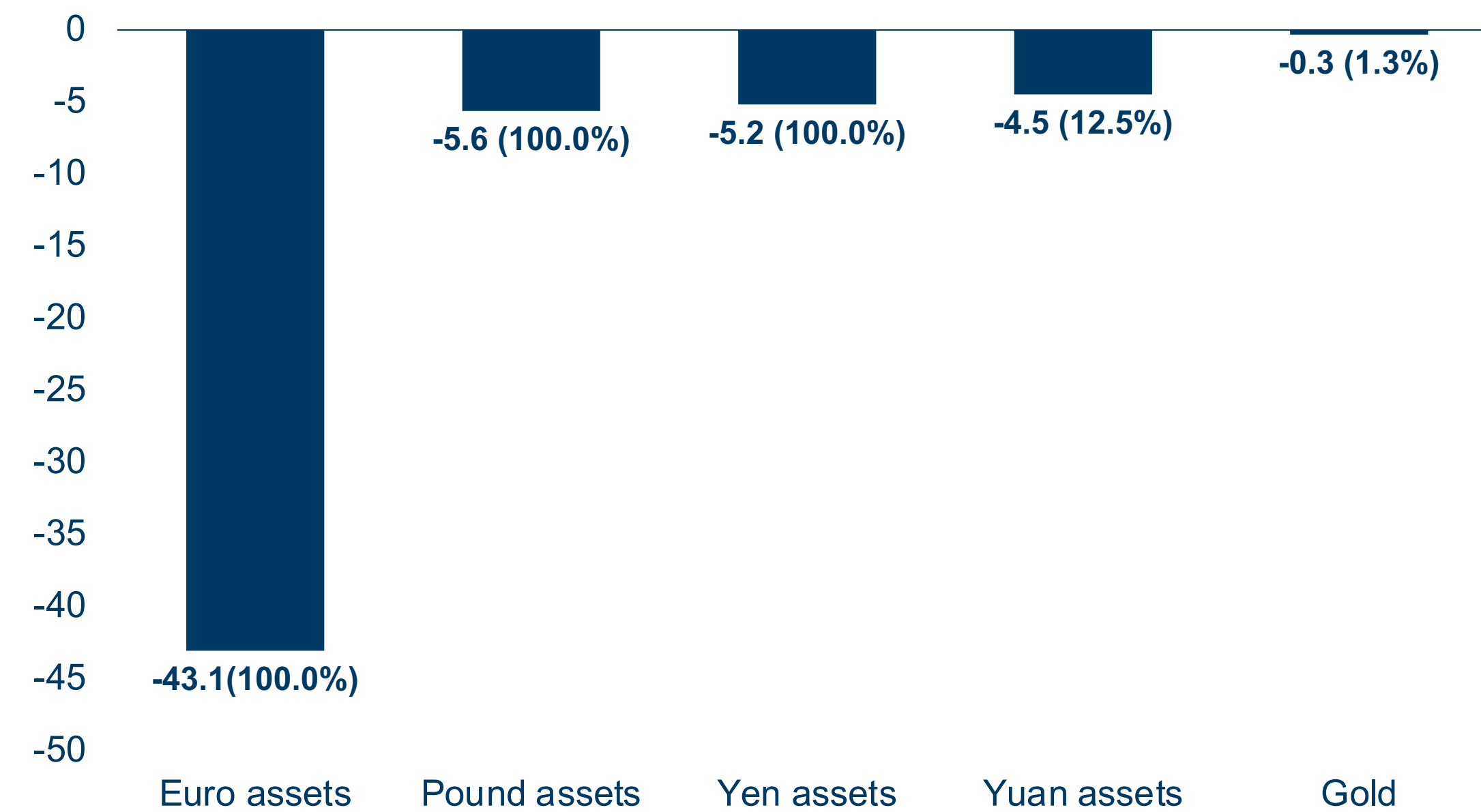


Source: Ministry of Finance, KSE Institute

Headline NWF numbers conceal that hard currency assets are gone.

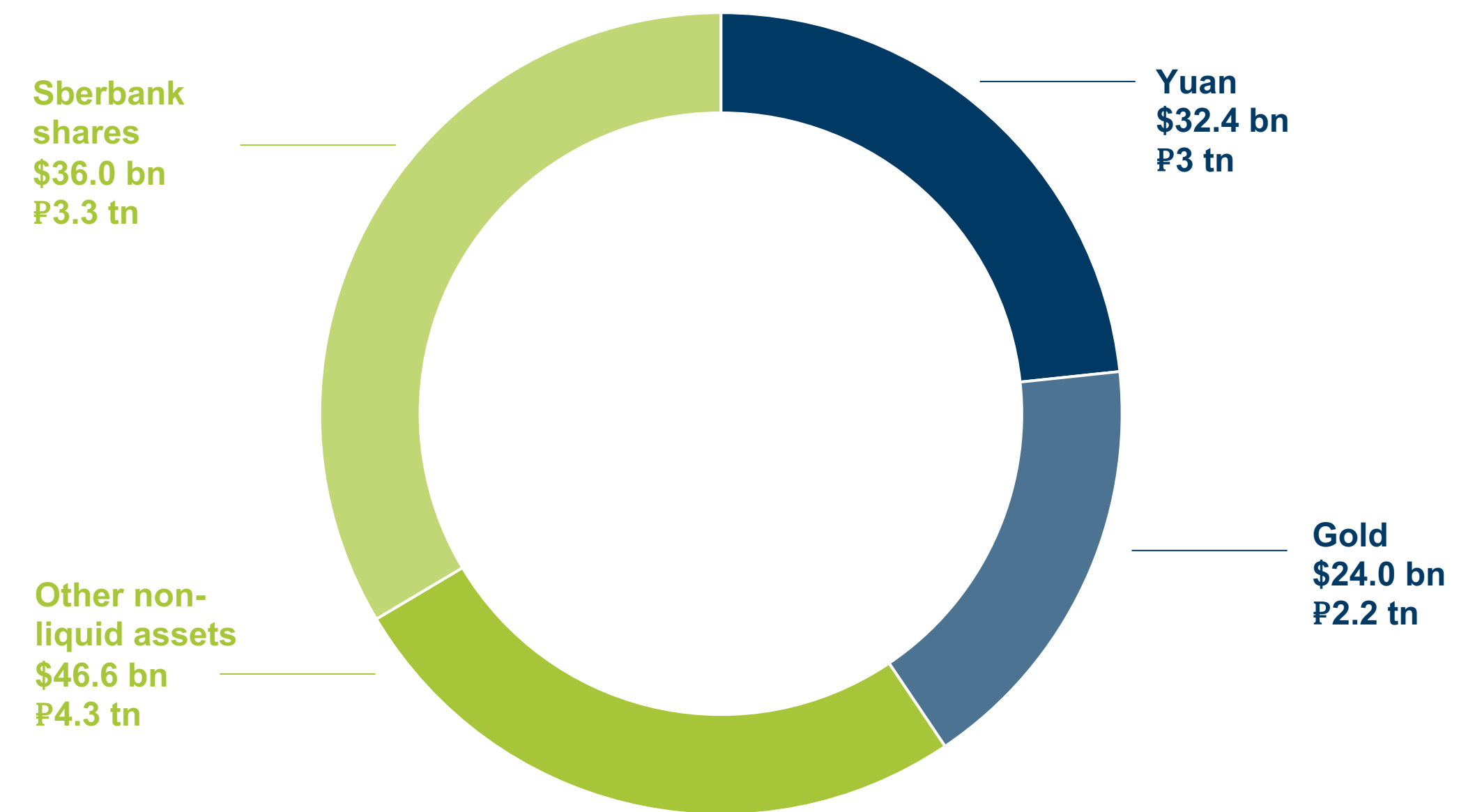
- Russia has depleted all hard-currency holdings of the NWF, with euro assets falling to zero in December 2023.
- Only yuan-denominated assets and gold remain in the liquid portion, totaling 5.2 trillion rubles (or \$56 billion).
- As these are more difficult to use, at least at scale, budgetary funding via the NWF will become more challenging.

Change in liquid assets (Apr. 2024 vs. Jan. 2022), in U.S. dollar billion



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of May 1, 2024*

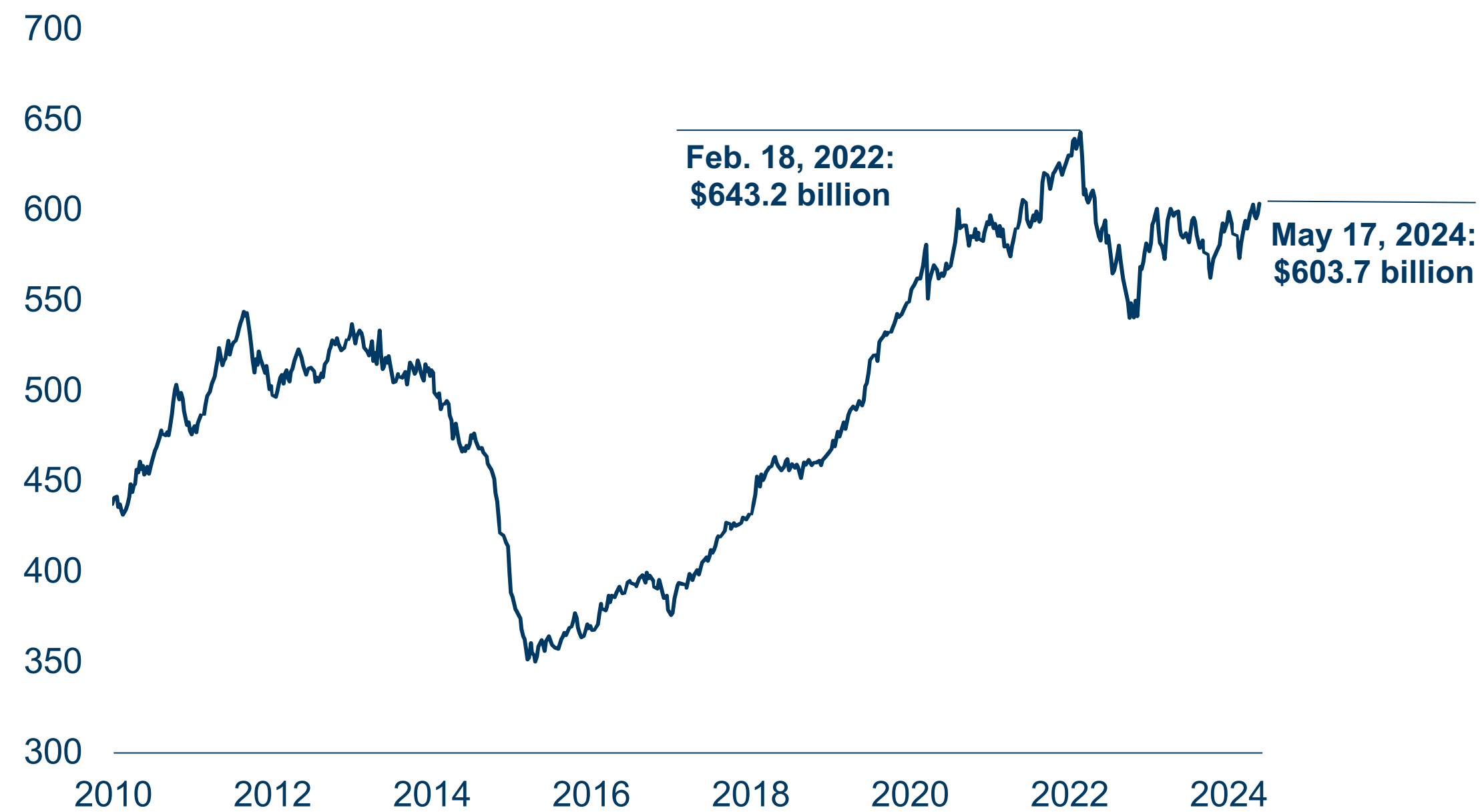


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

A substantial share of international reserves remain immobilized.

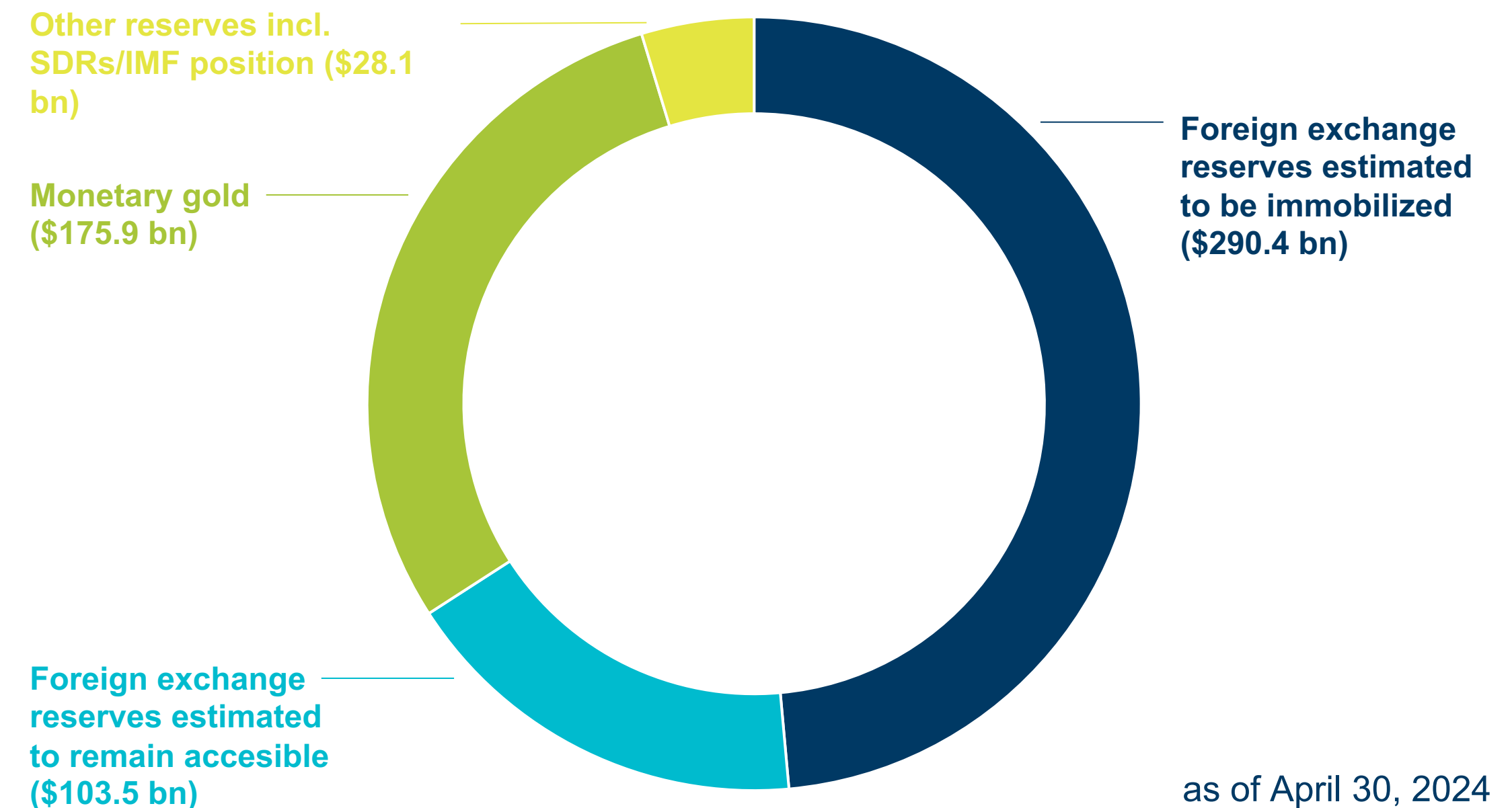
- Before the invasion, Russia held \$643 billion in international reserves, part of what is described as “Fortress Russia”.
- We estimate that around \$290 billion are currently immobilized due to international sanctions on CBR and NWF.
- This leaves Russia with access to \$176 billion in monetary gold and roughly \$104 billion in FX assets (largely yuan).

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

Estimated composition of reserves, in U.S. dollar billion



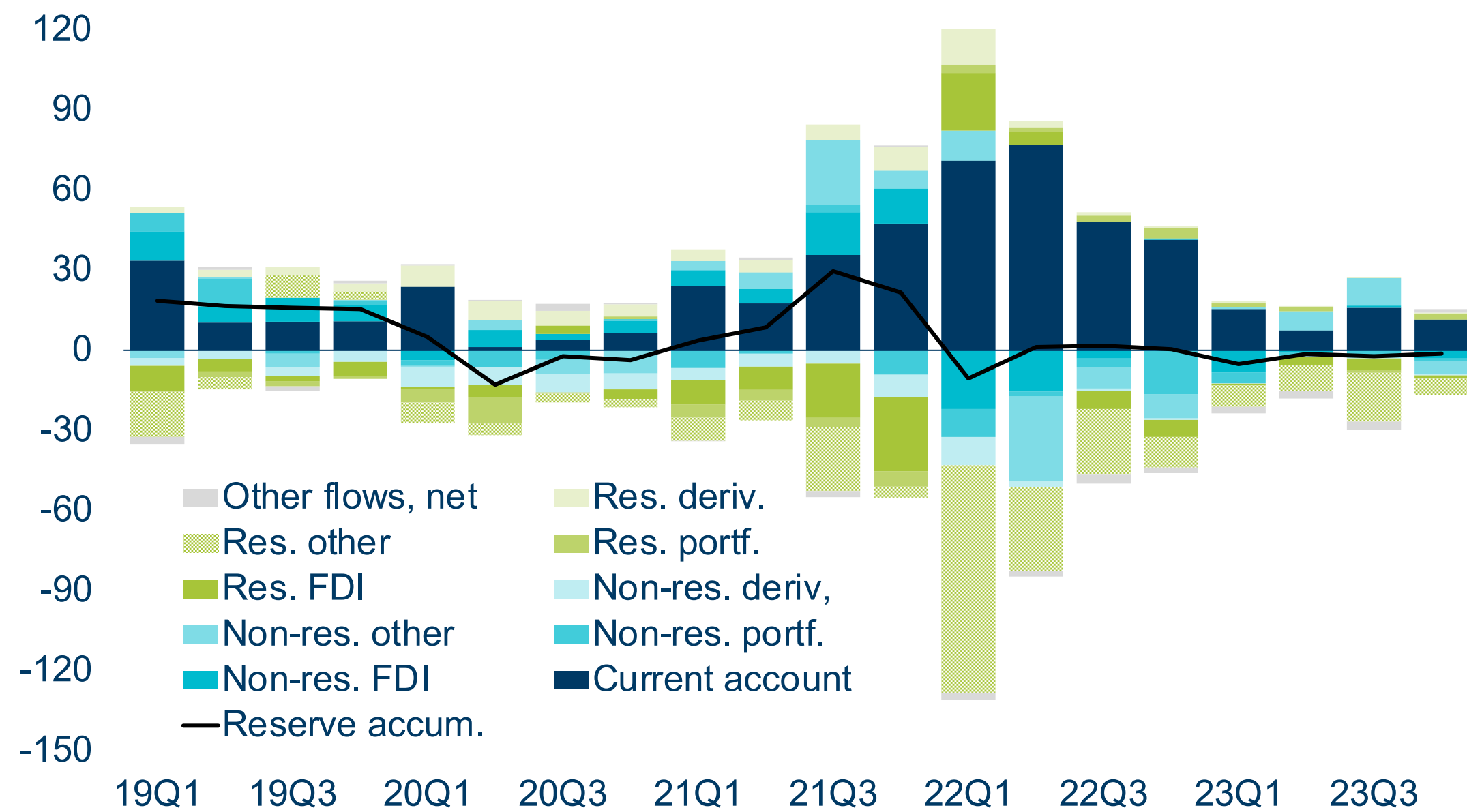
Source: Bank of Russia, KSE Institute

as of April 30, 2024

Significant accumulation of new foreign assets in 2022-23.

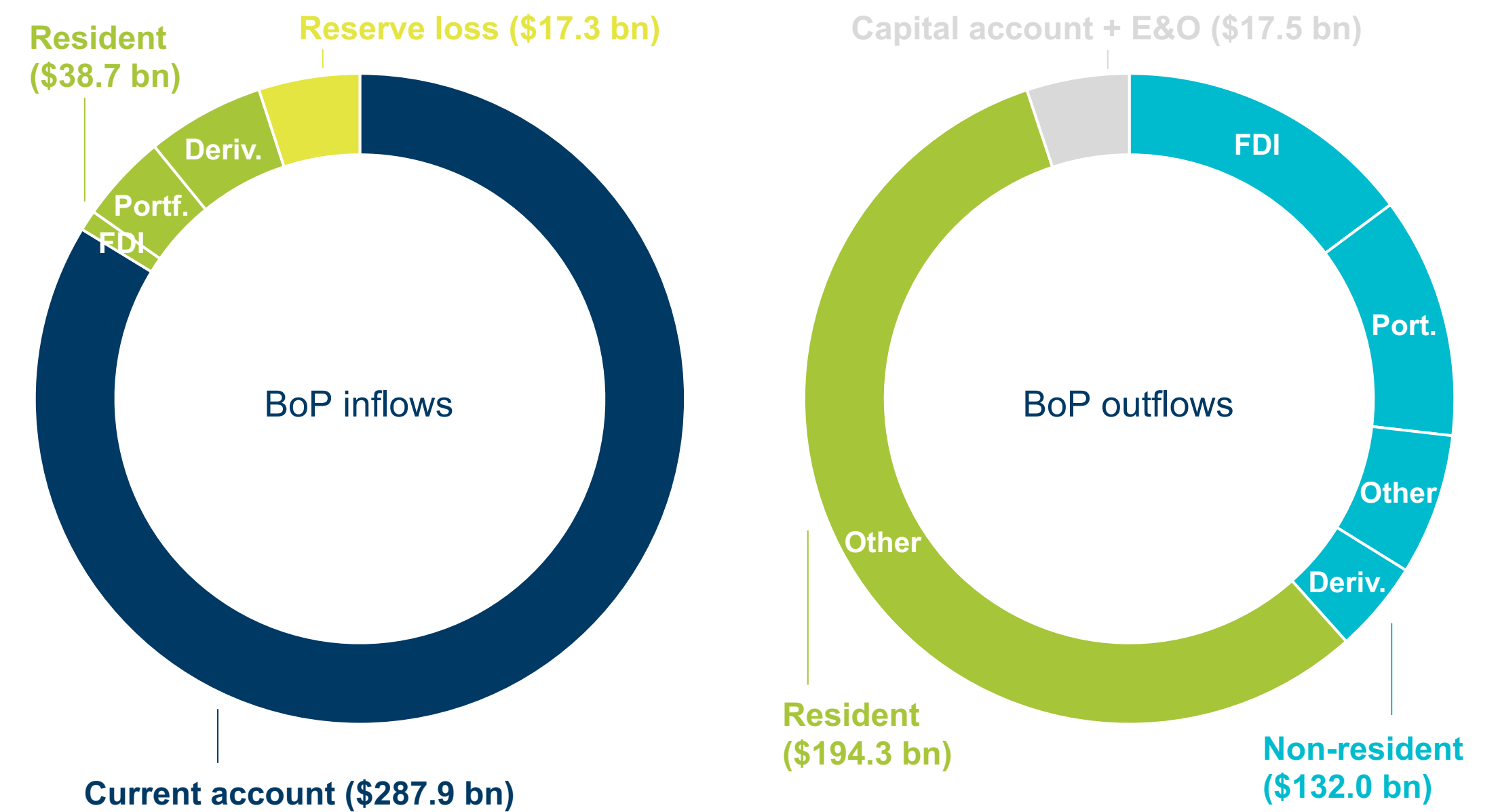
- It is time to focus attention on foreign assets that Russia has been able to accumulate due to favorable BoP dynamics.
- Non-resident capital outflows partially ate up the large current account surplus and resident inflows in Q1 2022-Q4 2023.
- But Russian banks and corporates were able to acquire \$194 billion in assets abroad, which need to be kept out of reach.

Balance of payments, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

2022Q1-2023Q4 balance of payments flows, in U.S. dollar billion

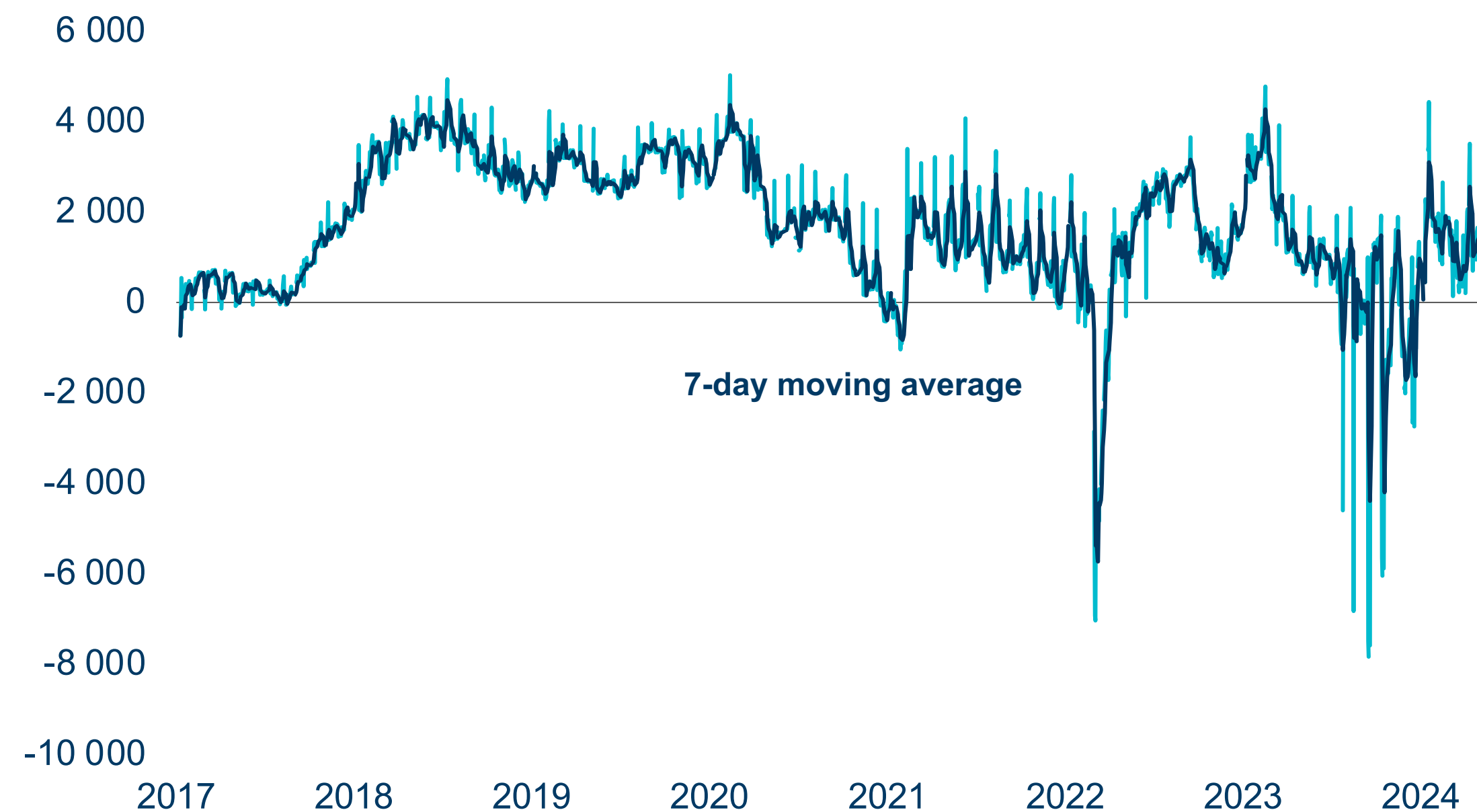


Source: Bank of Russia, KSE Institute

CBR rate hikes have impacted banking system liquidity in recent months.

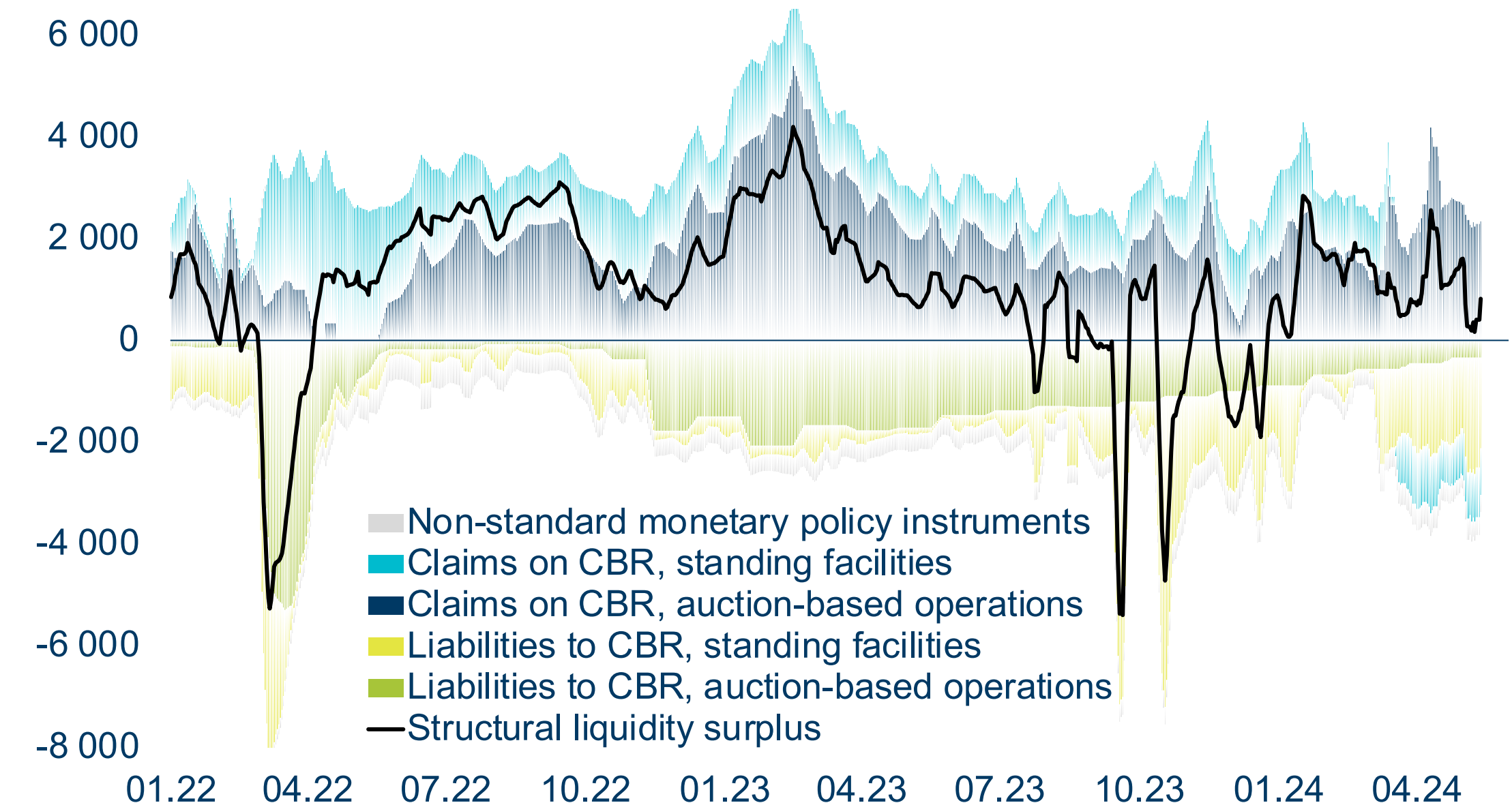
- Liquidity conditions recovered quickly after the initial shock from the full-scale war and imposition of sanctions.
- A closer look at the composition of the structural liquidity surplus points to some stress in the interbank market.
- The data clearly shows the effects of the CBR's monetary tightening in July-December 2023 (cumulative +850 bps).

Banking system structural liquidity surplus, in ruble billion



Source: Bank of Russia, KSE Institute

Composition of structural liquidity surplus, in ruble billion*



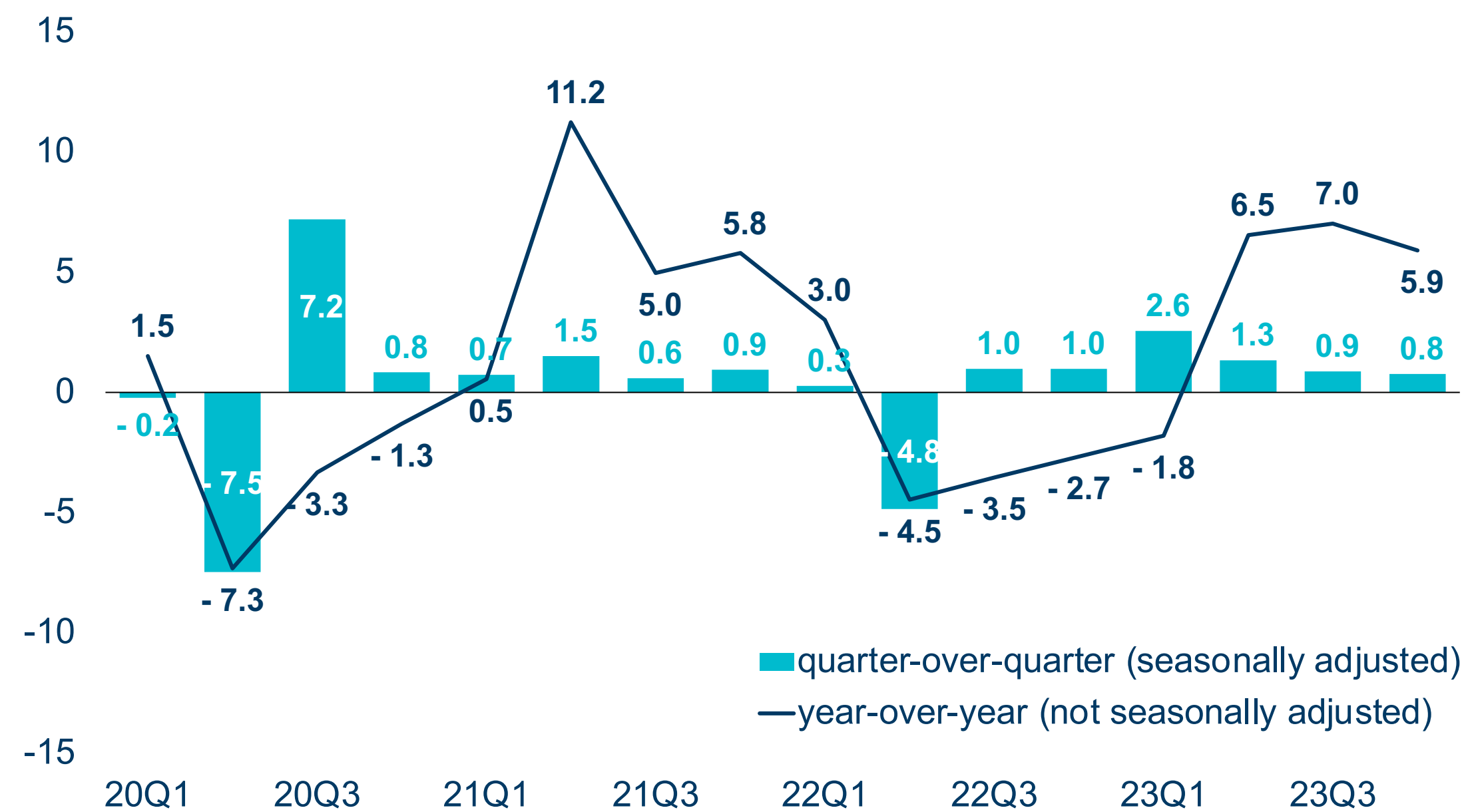
Source: Bank of Russia, KSE Institute *7-day moving average

**Economic activity: robust growth
in 2023-24 due to large fiscal
stimulus from military spending.**

Russian outlook revised up as war spending keeps boosting the economy.

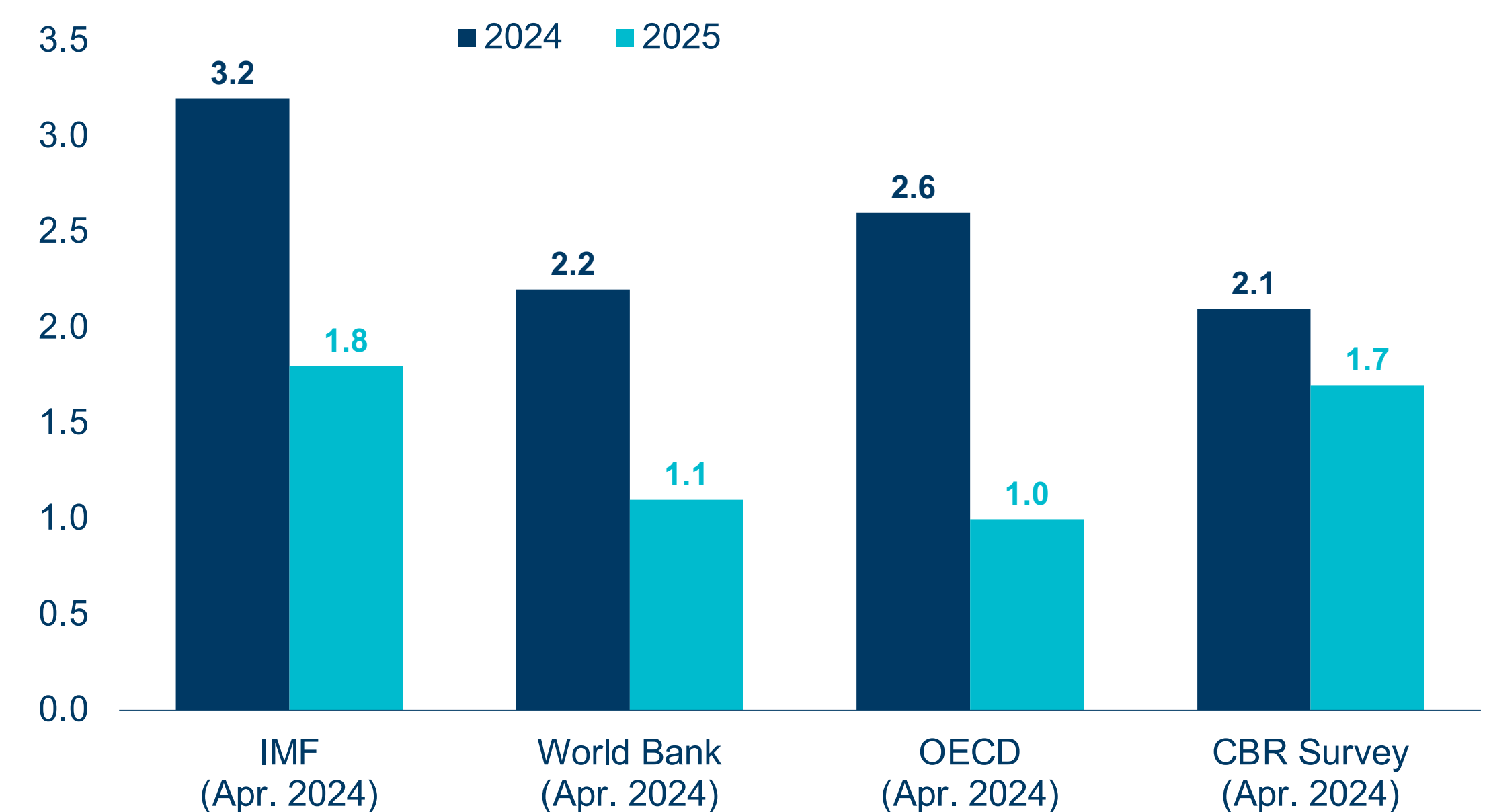
- Rosstat revised 2022 real GDP growth up to -1.2% (from -2.1%) and reported 2023 growth at 3.6%.
- For Q1 2024, the Russian statistics agency estimates year-over-year growth of 5.4%.
- Key factors: strong fiscal stimulus from high defense spending and robust private sector credit growth.
- IMF, World Bank, and other international organizations are also expecting higher growth in 2024-25.

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute

2024-25 forecasts for Russian real GDP, in % year-over-year



Source: Bank of Russia, Bloomberg, IMF, OECD, World Bank

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