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KSE Institute Russia Chartbook

Weaker Global Oil Prices Create an Opportunity to Exploit Vulnerabilities; Budget Reflects Commitment to War

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Benjamin Hilgenstock
Senior Economist
bhilgenstock@kse.org.ua

Yuliia Pavytska
Manager of the Sanctions Programme
ypavytska@kse.org.ua

Vira Ivanchuk
Research Analyst
vivanchuk@kse.org.ua

Executive Summary

1. **Oil exports under pressure as prices fall.** Along with lower global prices, Russian oil export prices have fallen sharply in recent months—from close to $75/barrel in July to around $70/barrel in August and $64/barrel in September. Sanctions did not play a role in this context as the discount vs. Brent remained stable at $10-11/barrel—its lowest level since the start of the full-scale invasion. Higher volumes partially offset the price effect but total oil exports of $14.7 billion in September were the lowest since mid-2023.
2. **External environment broadly supportive.** Over the first nine months of the year, Russia's current account surplus reached $50.6 billion—30% higher than in Q1-Q3 2023 and close to the 2023 total. Importantly, goods exports have not changed materially as lower non-oil exports cancelled out the rebound in oil earnings, while goods imports fell by close to $15 billion year-over-year. Sanctions evasion contributes to overall favorable external dynamics as the (not price-cap compliant) shadow fleet has allowed Russia to realize $10/barrel higher prices for its oil sales and generated around $8 billion in extra earnings over the first nine months of the year.
3. **Budget turns to surplus in September.** Russia's federal budget balance reached a surplus of 169 billion rubles over Jan.-Sep vs. a 1.5 trillion deficit last year. Sharply higher O&G revenues (+49%) and other revenues (+27%) vs. Jan.-Sep. 2023 more than offset higher spending (+23%). Russia is likely to stay within its budget target for the full year (of 2.1 trillion). Limited fiscal financing needs also help Russia in a situation where macro buffers (e.g., NWF) are increasingly depleted and interest rates rising considerably. The 2025 budget clearly shows a full-out commitment to the war with military spending planned to reach $140 billion (vs. an estimated $118 billion in 2024) and Russia will not face any challenges in realizing these plans if current fiscal dynamics persist.
4. **CBR tightens monetary policy further.** With inflation remaining elevated, the CBR increased its key interest rate once again in October—to 21%. This means a cumulative increase of 13.5pp vs. mid-2023 and a rate above the level in Feb.-Mar. 2022. Several factors are creating inflationary pressures that are difficult to contain: a very tight labor market leading to close to double-digit wage growth in real terms, the large war-related stimulus, a significant expansion of credit to the private sector, and ruble depreciation. While tighter monetary conditions should lead to lower inflation going forward, they will also weigh on the economy.
5. **Vulnerabilities can be exploited.** Ukraine's allies should take advantage of Russia's macro imbalances and step up sanctions pressure. For instance, a further reduction in export earnings would weaken the currency and increase inflationary pressures.

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Prices for Russian oil are down sharply due to falling global prices, not because of more effective sanctions enforcement.

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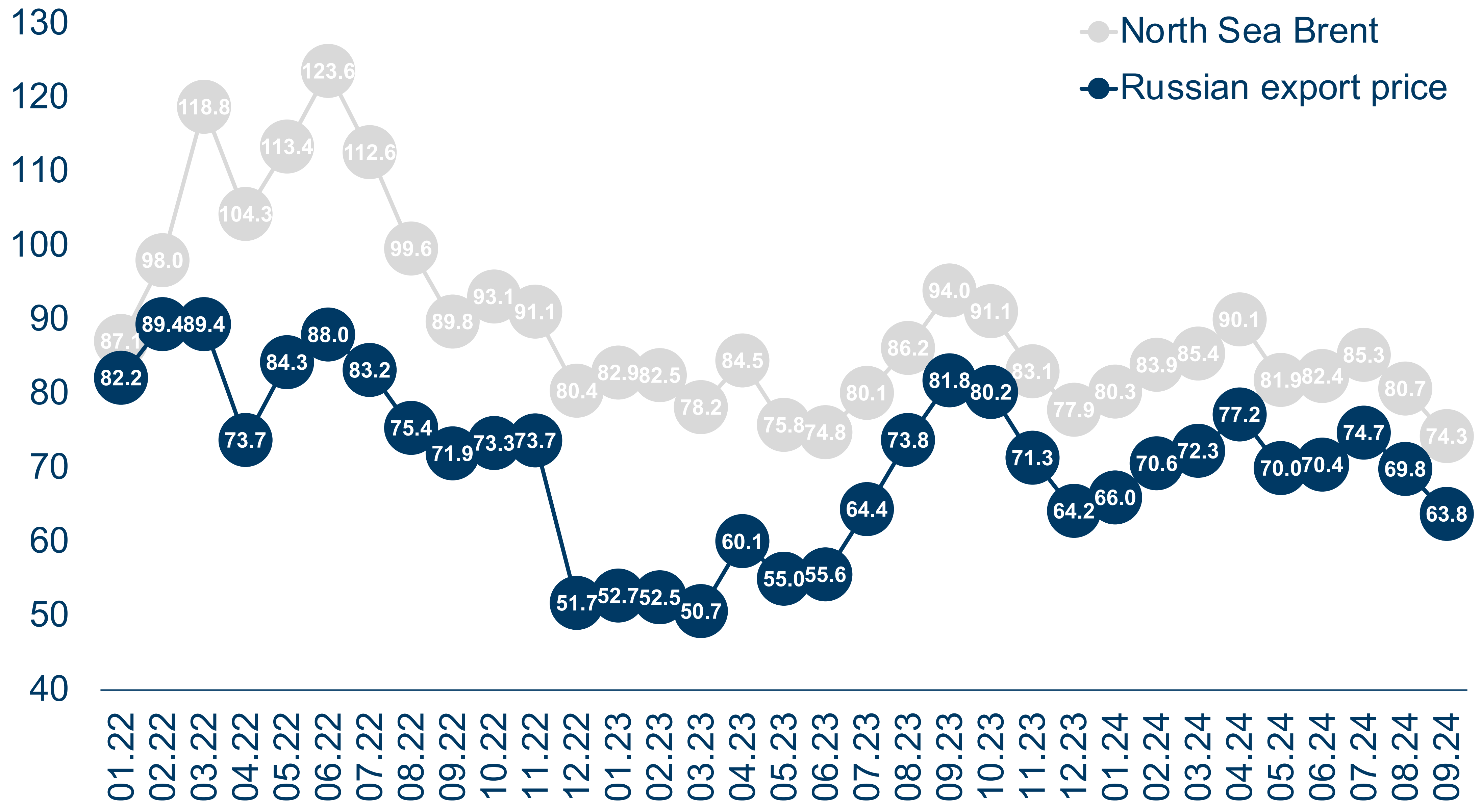
Discount on Russian oil close to lowest level since full-scale invasion.

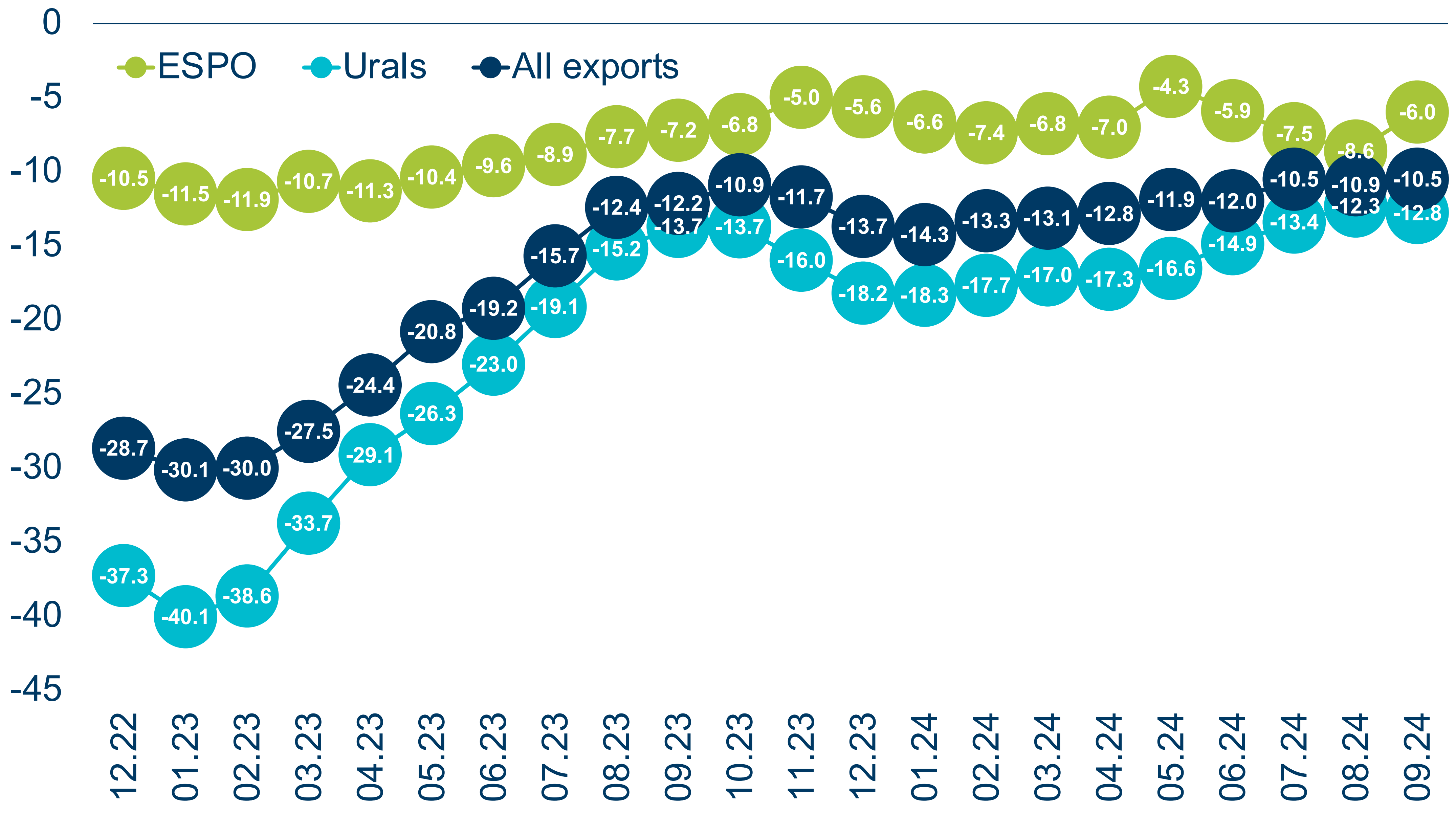
- Prices for Russian oil exports were closer to the price cap's $60/barrel threshold than at any time since mid-2023.
- However, the discount on Russian oil vs. Brent is also at its lowest level since the start of the full-scale invasion.
- Thus, this has nothing to do with stricter sanctions enforcement and is entirely driven but weaker 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

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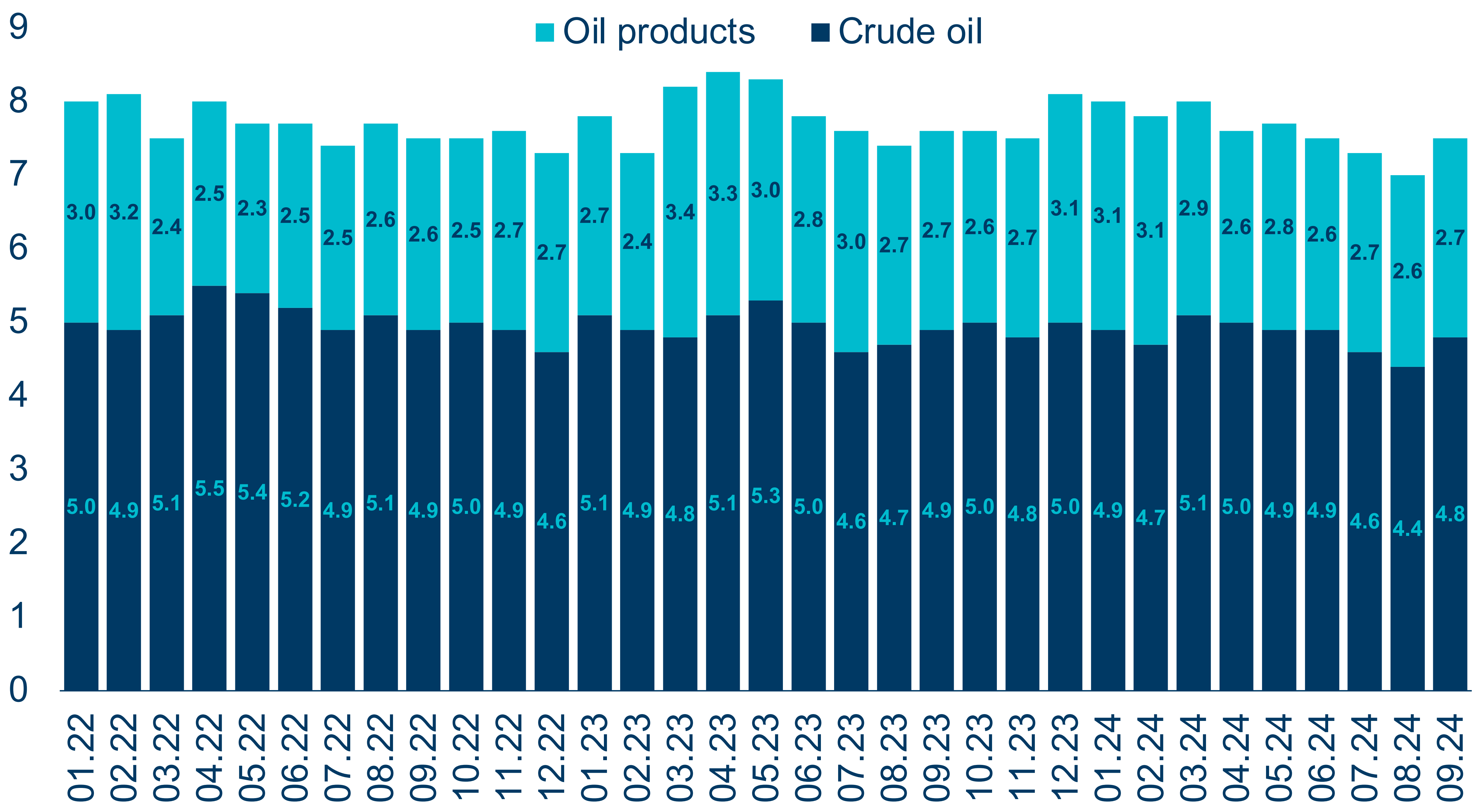
Supply of Russian oil to the global market remains stable.

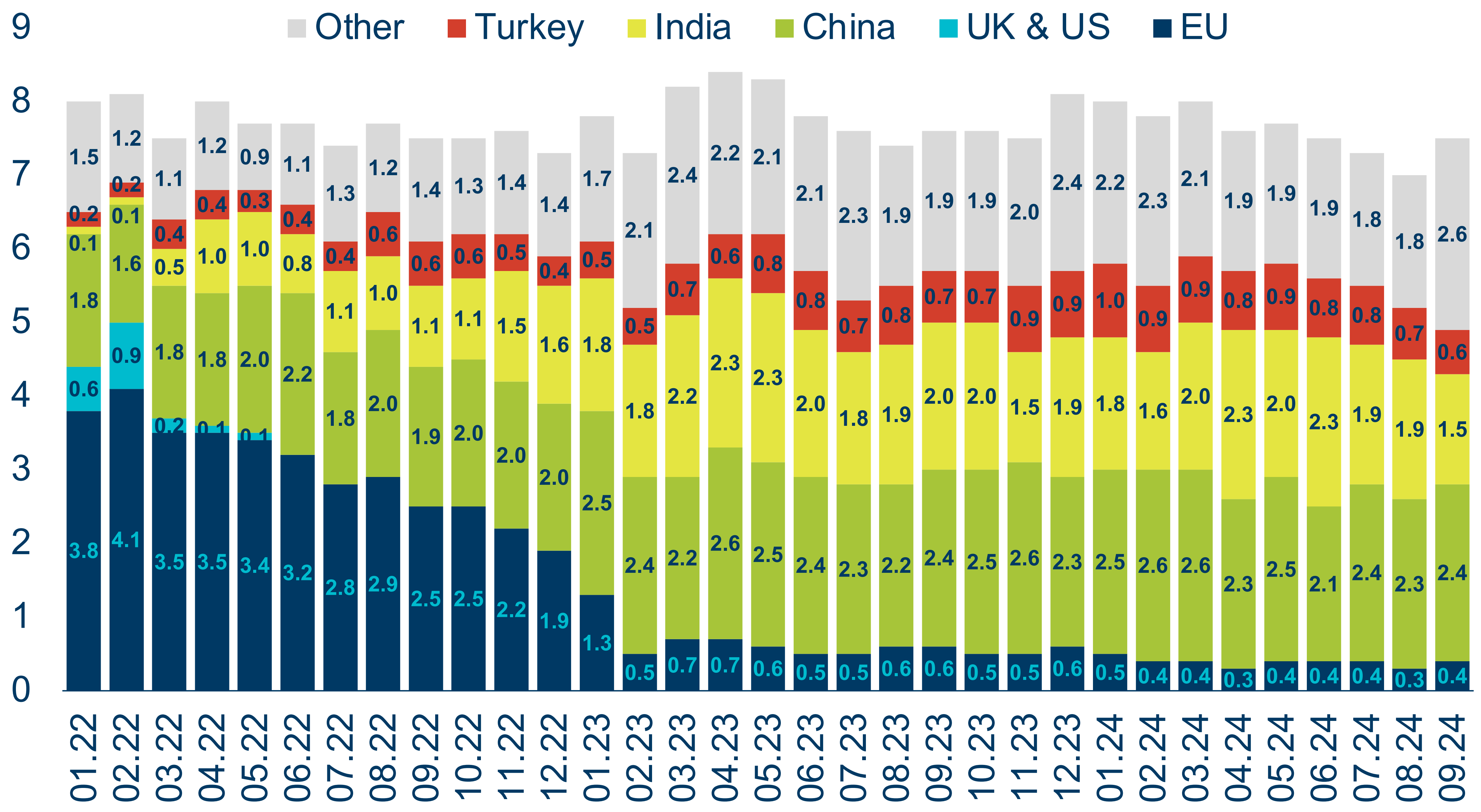
- Russian oil export volumes have been remarkably steady over the last 2.5 years despite sanctions.
- Thus, the price cap has succeeded at keeping Russian oil on the market and prevent supply issues.
- China, India, and Turkey are the most important buyers, together accounting for 60-70% of exports.

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

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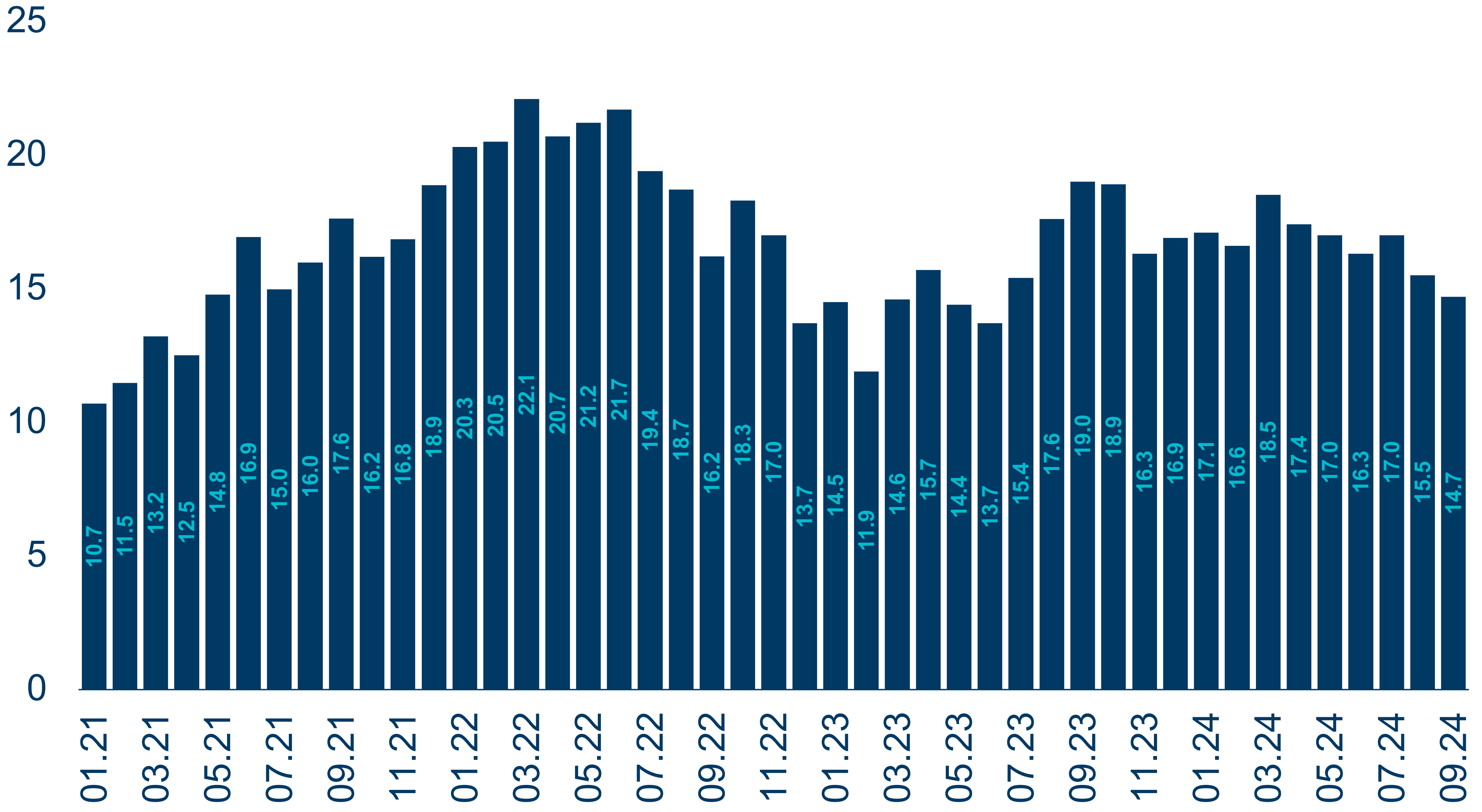
Ineffective price cap helps Russia with exports and budget revenues.

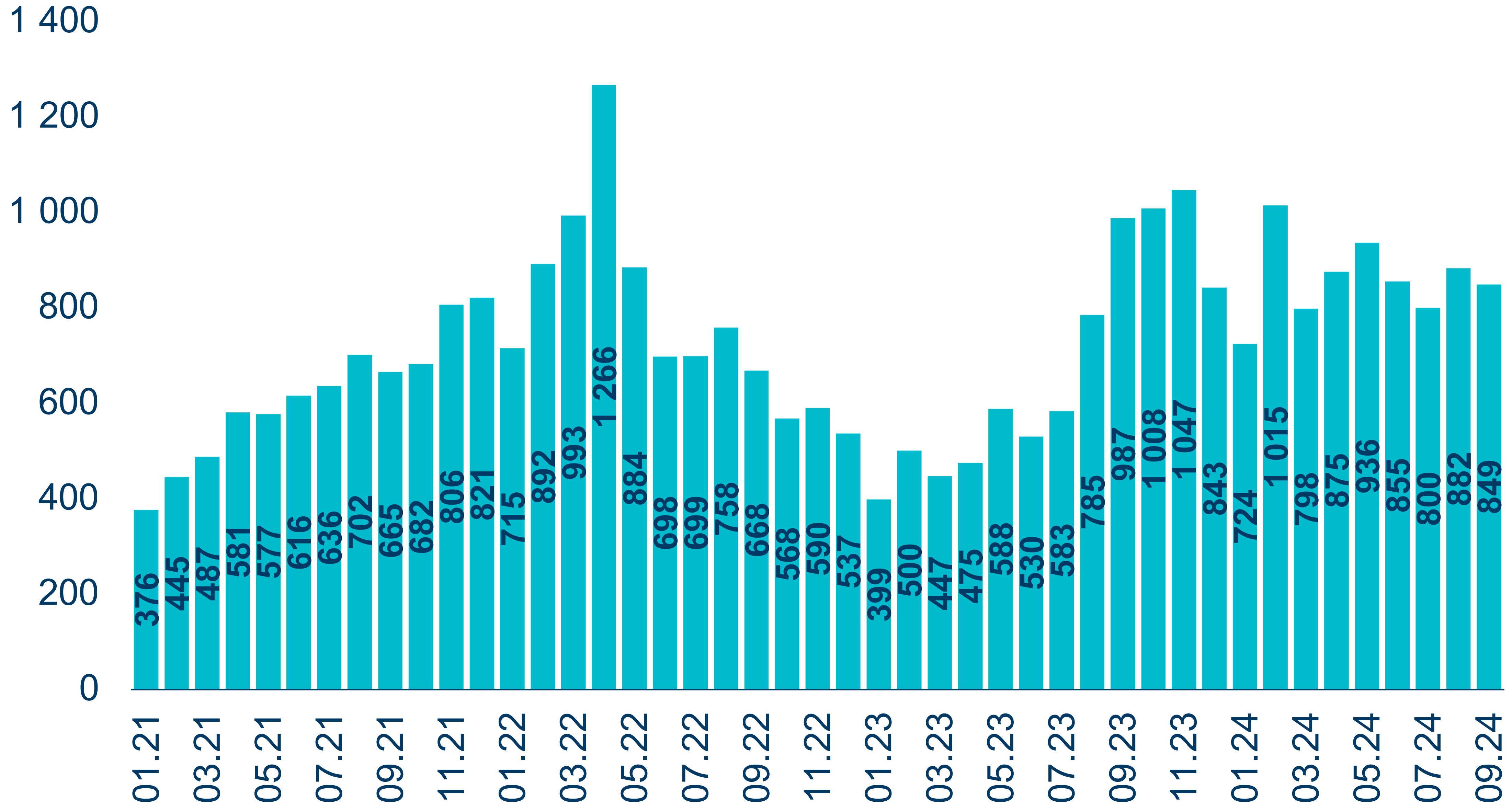
- Oil exports are weakening somewhat together with global prices but are still up 10% for 9M 2024 vs. 9M 2023.
- Q3 budget revenues were broadly stable compared to H2 2023 but significantly higher (72%) than in H1 2023.
- Russia's ability to fund its government and, thus, its war in Ukraine appears largely unconstrained by oil sanctions.

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*



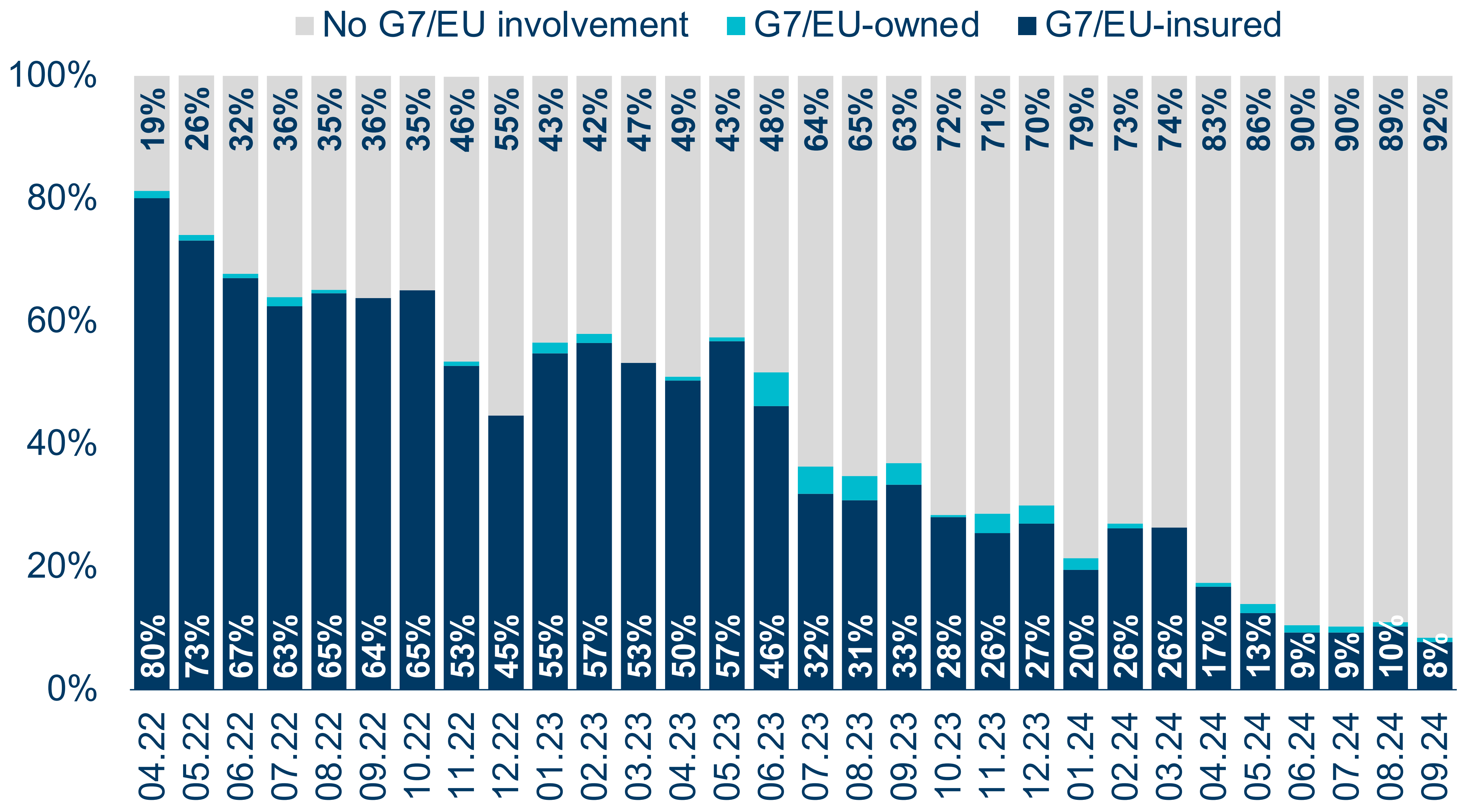
Source: Ministry of Finance, KSE Institute *includes extraction tax and export duty

Shadow fleet has fundamentally eroded the price cap’s leverage.

- Russia’s shadow fleet allows it to evade the price cap for a large share of its oil exports.
- In Sep. 2024, 92% of seaborne crude oil was transported without involvement of G7/EU services.
- This has allowed Russia to generate close to $8 billion in extra earnings over Jan.-Sep. 2024.

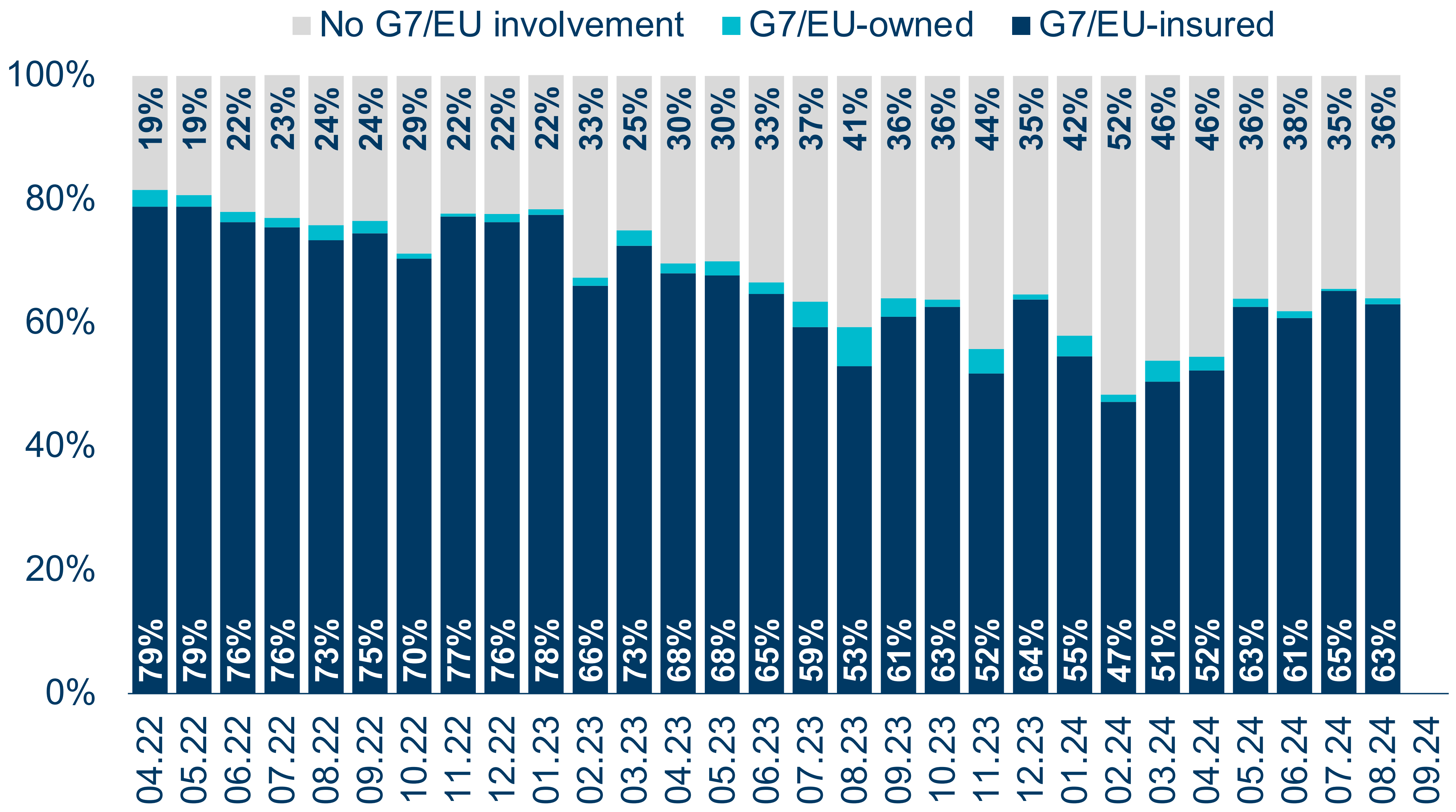
Read KSE Institute’s in-depth assessments of the shadow fleet here, here, and here.

Composition of seaborne crude oil exports, in %



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

Composition of seaborne oil product exports, in %



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

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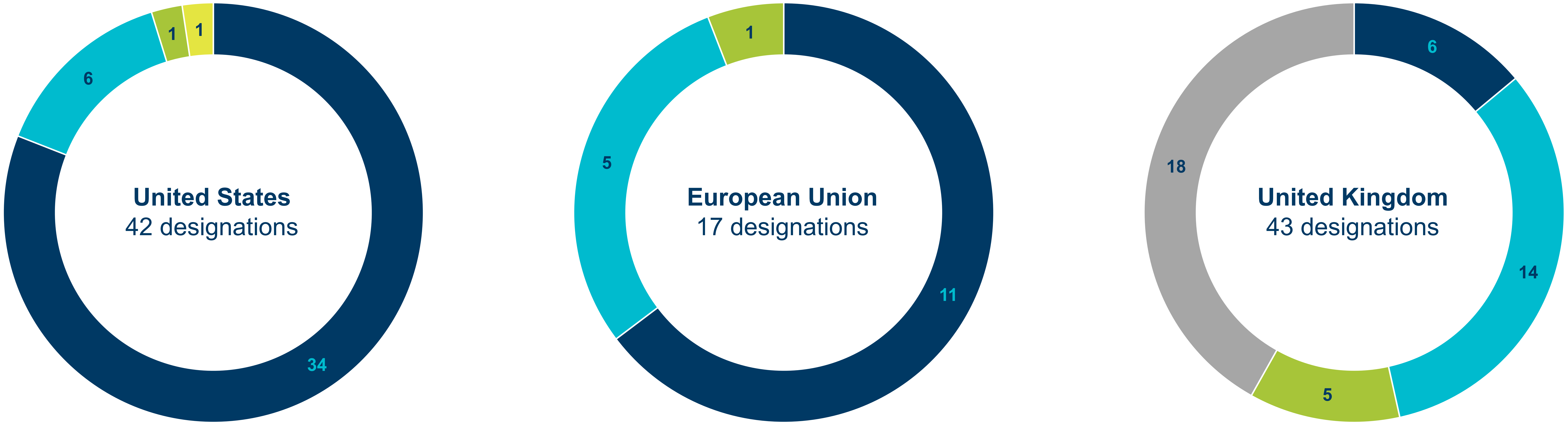
Designations can effectively remove shadow tankers from operations.

- A total of 92 shadow fleet tankers have been sanctioned by the United States, European Union, and United Kingdom.
- The impact of designations appears to differ between jurisdictions with UK listings less effective than US & EU ones.
- However, enforcement action against anyone interacting with designated vessels is critical in all three jurisdictions.

Status of designated vessels by jurisdiction



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

Idle/ballast **Completed voyage(s)** **Currently underway** **Planned voyage(s)** **Recent designation(s)**

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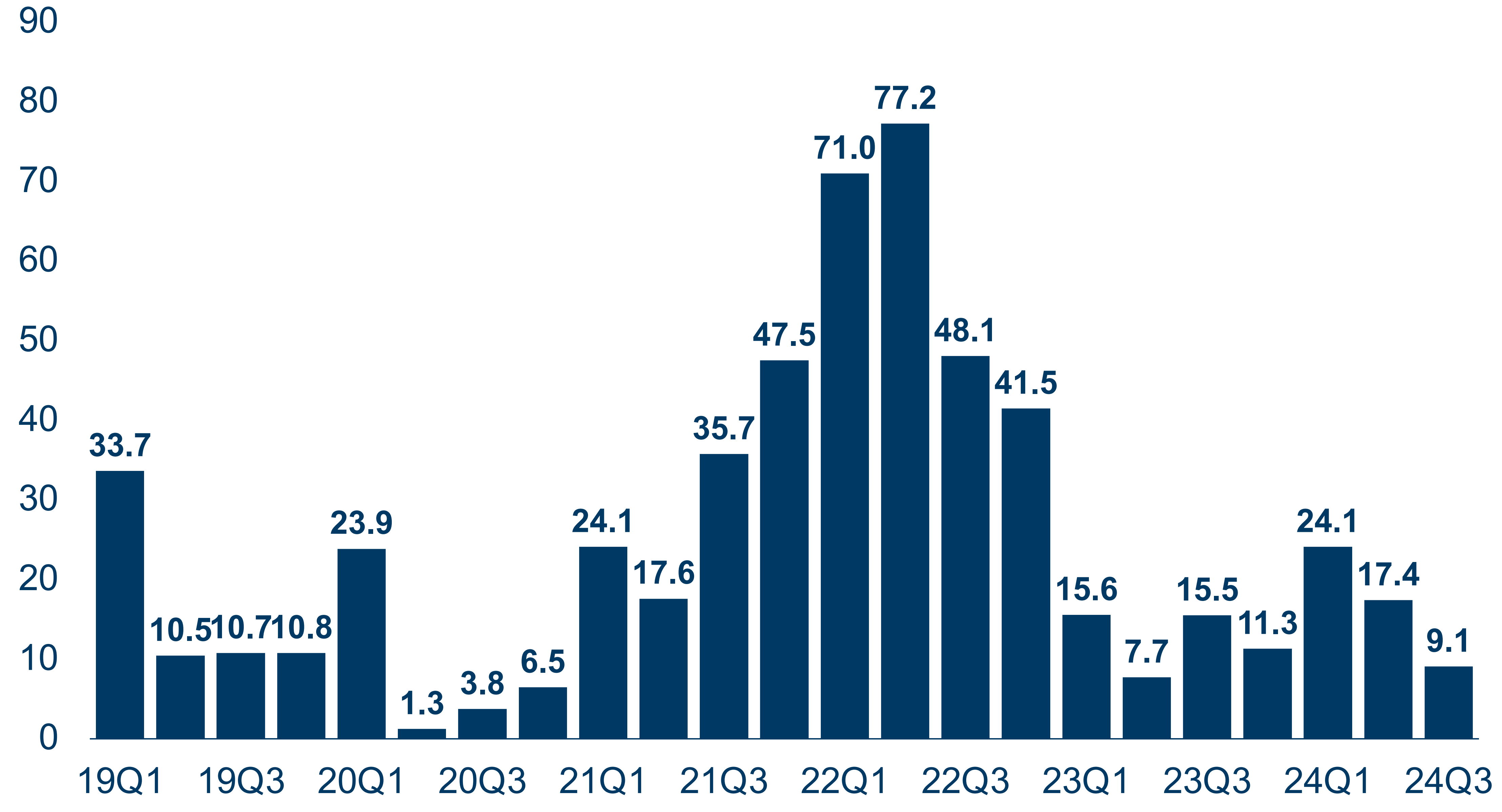
External conditions remain supportive; weak sanctions enforcement helps Russia; hard currency inflows have fallen sharply.

External environment has become more supportive in 2024.

- The current account surplus grew to $7.0 billion in Sep. (vs. $2.9 billion in Aug. and a small deficit in Jul.).
- This was driven by a larger goods surplus, a smaller services deficit, and stable income & transfers balance.
- The 9M 2024 surplus of $50.6 billion is 30% bigger than 9M 2023 and already larger than the 2023 total.

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

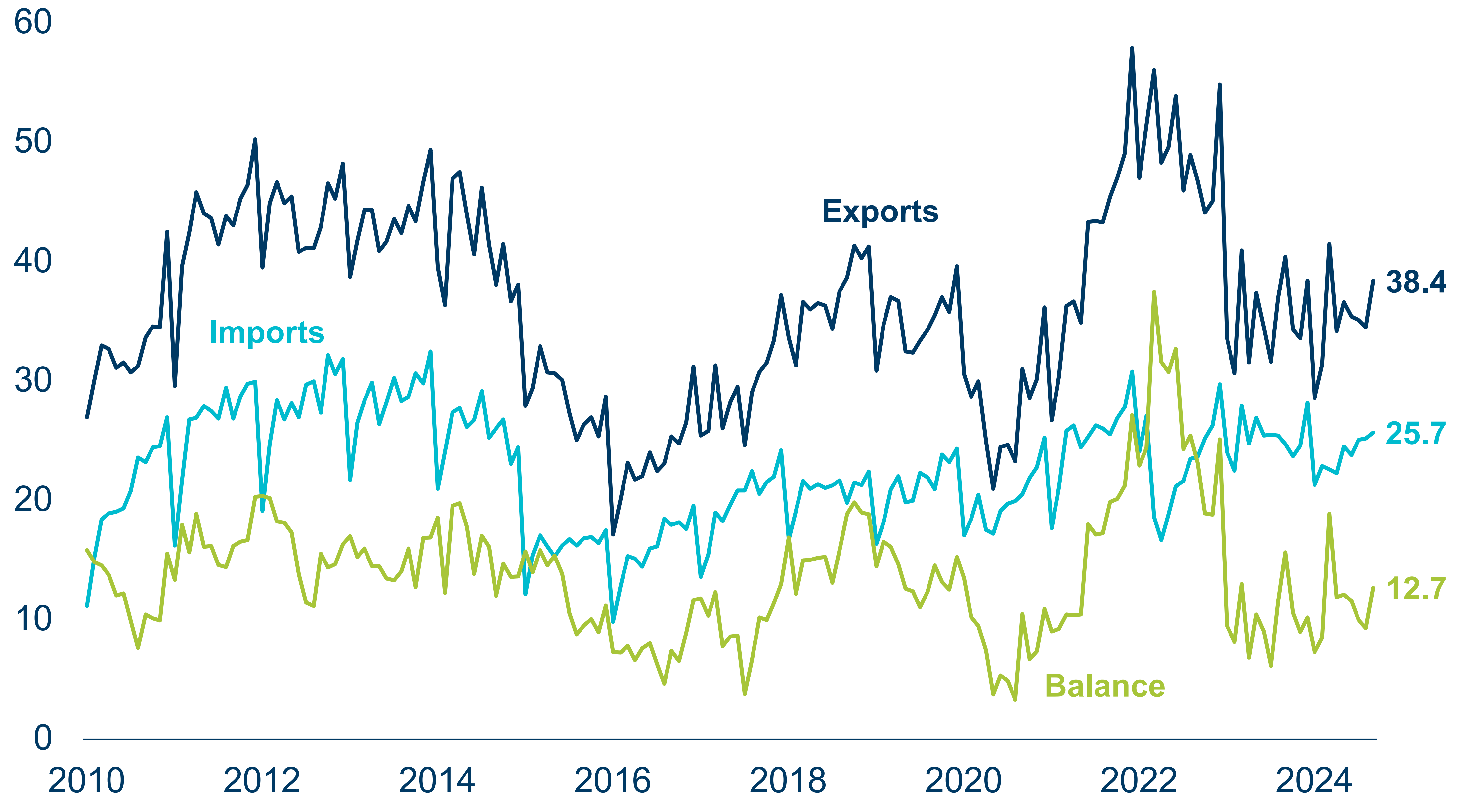
	C/A	Goods			Services			Income & transfers		
Time period	Bal.	Bal.	Exp.	Imp	Bal.	Cred.	Deb.	Bal.	Cred.	Deb.
Q1 2024	24.1	34.9	101.4	66.5	-7.3	10.2	17.5	-3.5	9.3	12.8
Q2 2024	17.4	35.8	105.7	69.9	-9.4	9.9	19.3	-9.1	8.5	17.5
Q3 2024	9.1	32.0	108.0	76.0	-13.4	10.3	23.6	-9.5	10.0	19.5
July 2024	-0.7	10.1	35.1	25.1	-4.6	3.6	8.2	-6.2	3.4	9.7
August 2024	2.9	9.3	34.5	25.2	-5.0	3.4	8.3	-1.5	3.3	4.7
September 2024	7.0	12.6	38.4	25.7	-3.8	3.3	7.1	-1.8	3.3	5.1
Jan.-Sep. 2024	50.6	102.8	315.2	212.4	-30.0	30.4	60.4	-22.1	27.8	49.9
Memorandum: 2021	125.0	193.1	494.2	301.0	-20.3	55.6	75.9	-47.8	96.3	144.1
2022	237.7	315.6	592.1	276.5	-22.1	48.8	70.9	-55.8	51.0	106.8
2023	50.1	121.6	424.5	302.9	-35.3	41.2	76.4	-36.2	44.8	81.0
Q1 2023	15.6	30.5	105.1	74.6	-7.6	9.9	17.5	-7.3	11.4	18.7
Q2 2023	7.7	26.3	103.4	77.1	-8.9	10.4	19.3	-9.6	12.7	22.3
Q3 2023	15.5	33.4	109.1	75.7	-10.3	9.7	20.0	-7.6	10.0	17.6
Jul. 2023	0.2	6.2	31.7	25.5	-3.7	3.2	6.9	-2.2	3.4	5.6
Aug. 2023	5.4	11.7	37.1	25.4	-4.1	3.3	7.4	-2.2	3.1	5.3
Sep. 2023	9.9	15.5	40.3	24.8	-2.5	3.2	5.7	-3.1	3.5	6.6
Jan.-Sep. 2023	38.8	90.2	317.6	227.4	-26.8	29.9	56.7	-24.6	34.1	58.7

Source: Bank of Russia, KSE Institute

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

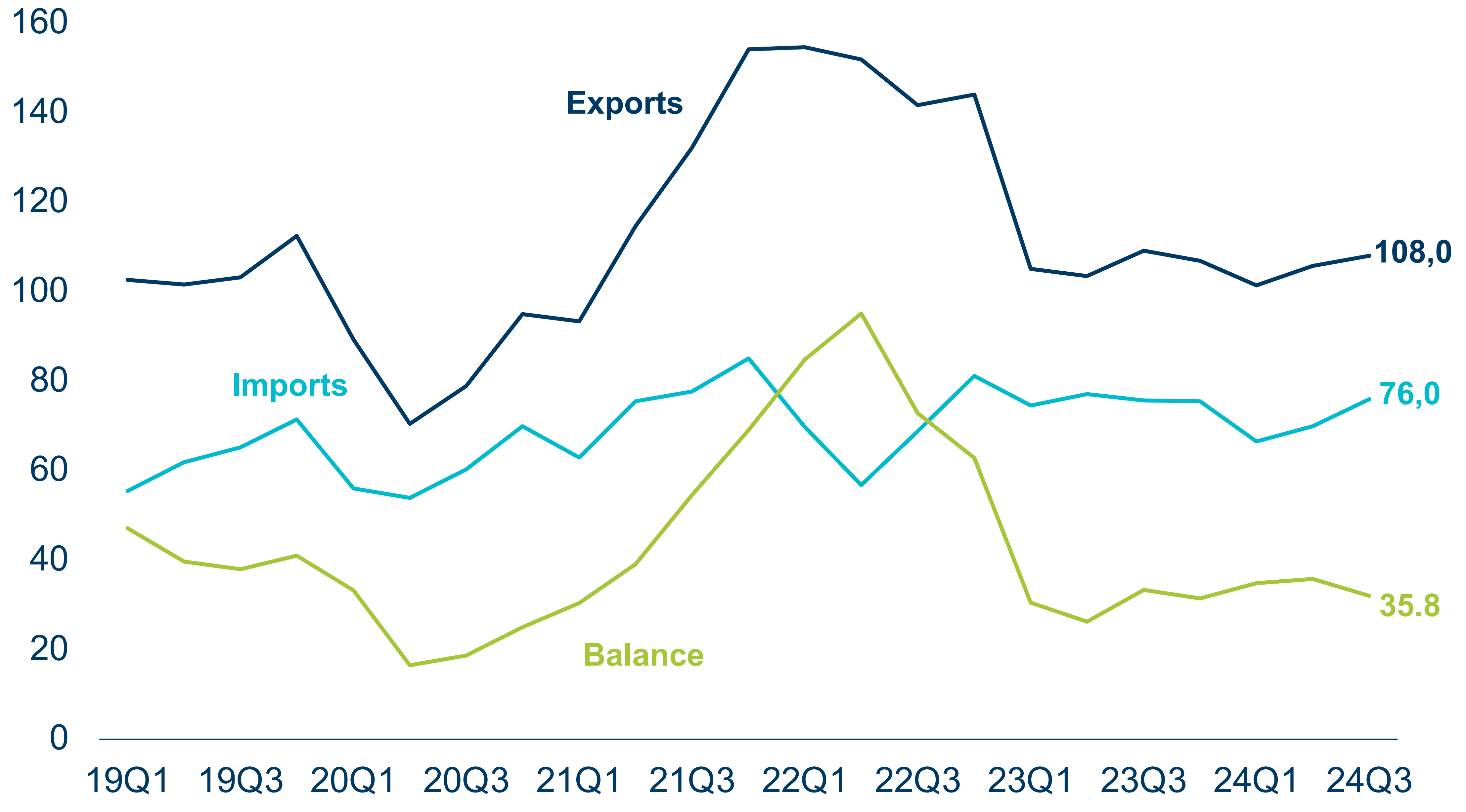
- Russia's foreign trade has stabilized at a new baseline of ~$100 billion in exports and ~$75 billion in imports per quarter.
- This represents a significant change to 2022 when soaring commodity prices drove up exports while imports weakened.
- However, any further erosion of Russia's external accounts will require more decisive measures on the sanctions front.

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

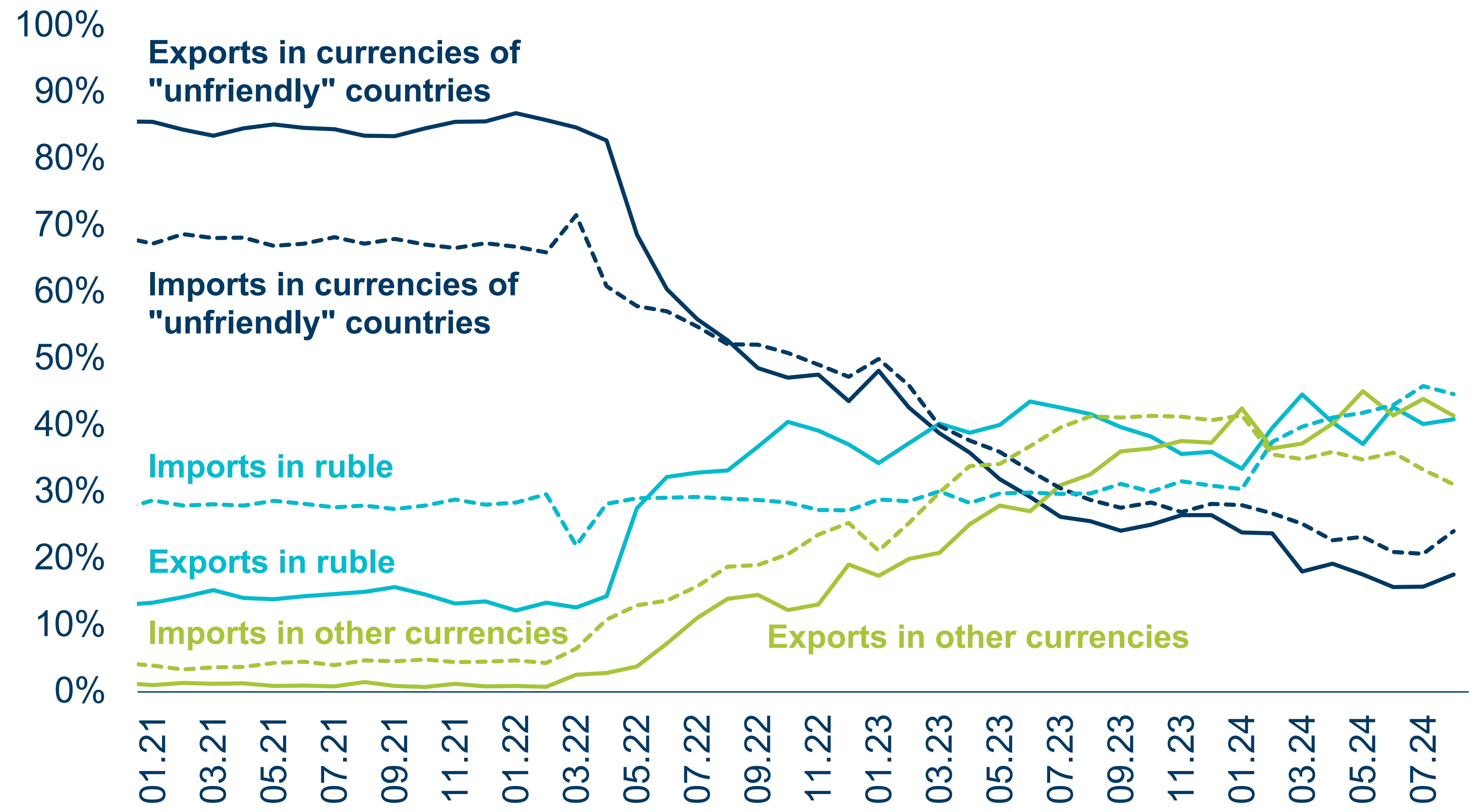


Source: Bank of Russia, KSE Institute

Change to currency composition of trade creates hard currency shortage.

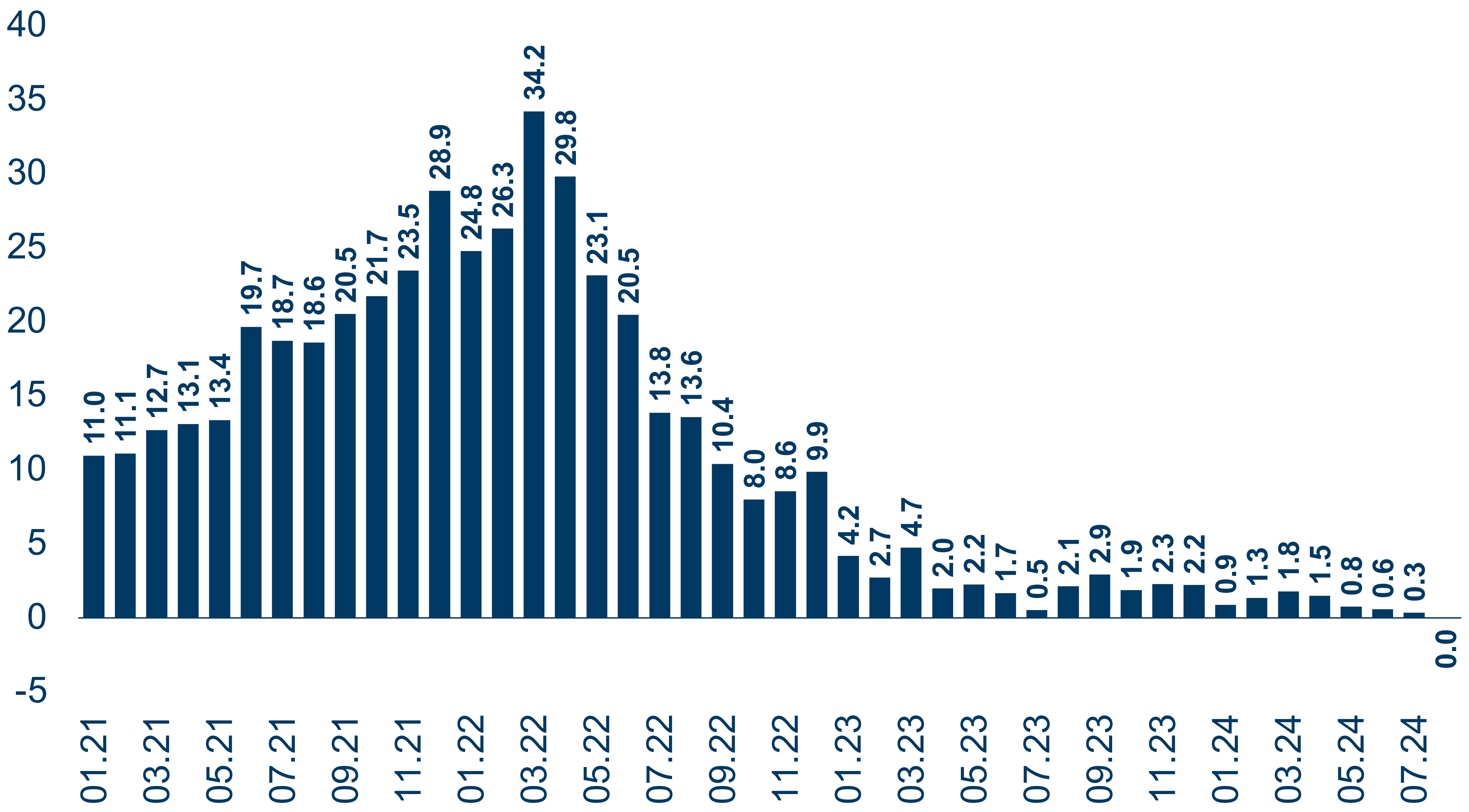
- The share of “unfriendly” countries’ currencies (e.g., USD, EUR, GBP, JPY, CHF) in Russian trade has fallen sharply.
- Other currencies have risen for both exports and imports, while the ruble has gained importance mostly for exports.
- These shifts have created a shortage of hard currency as net inflows from goods trade have essentially disappeared.

Currency composition of Russia’s foreign trade, in %



Source: Bank of Russia

Net inflows of hard currency from goods trade, in $ billion*



Source: Bank of Russia, KSE Institute *includes currencies of “unfriendly” countries

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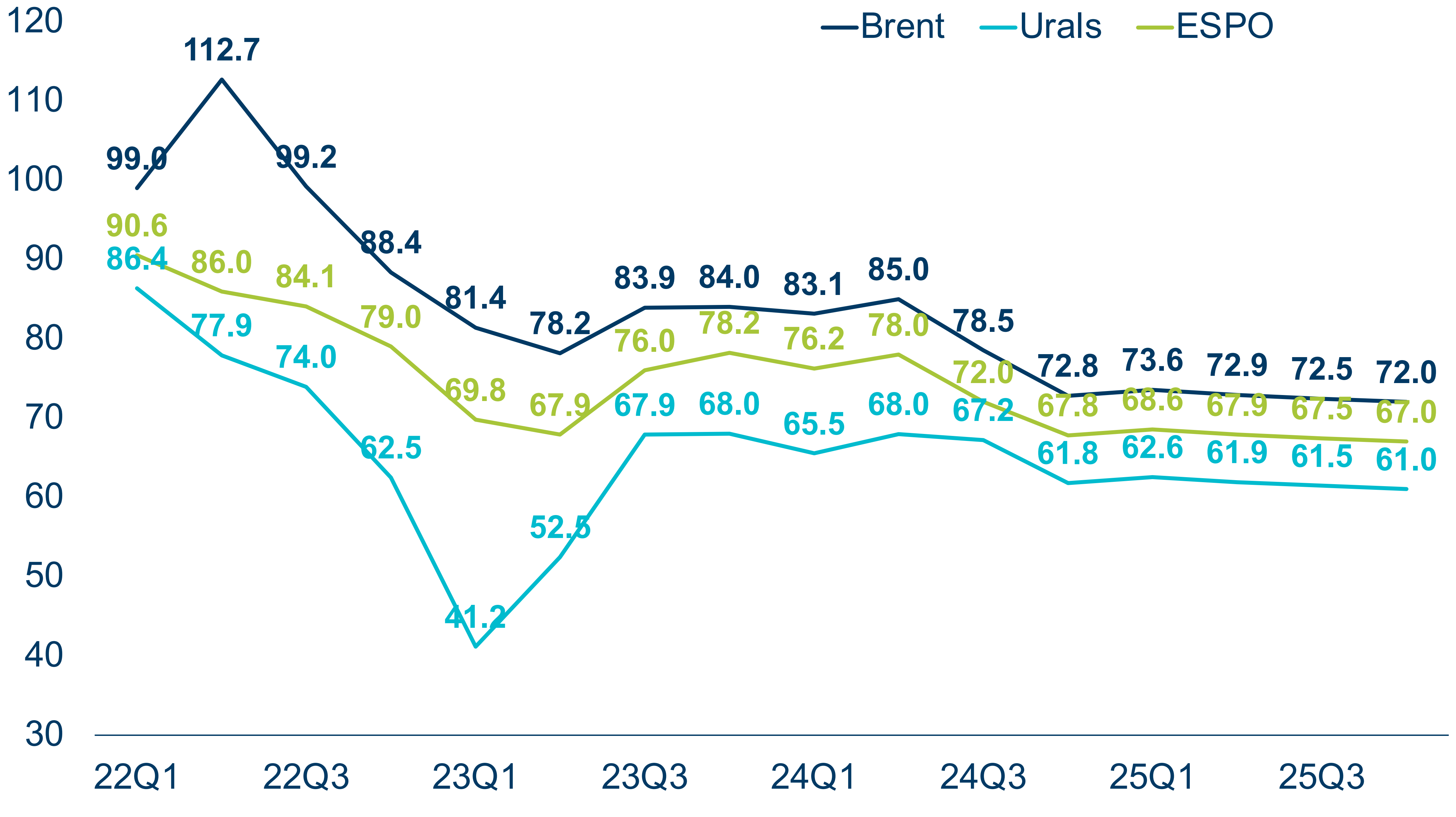
Weak sanctions enforcement scenario is increasingly likely.

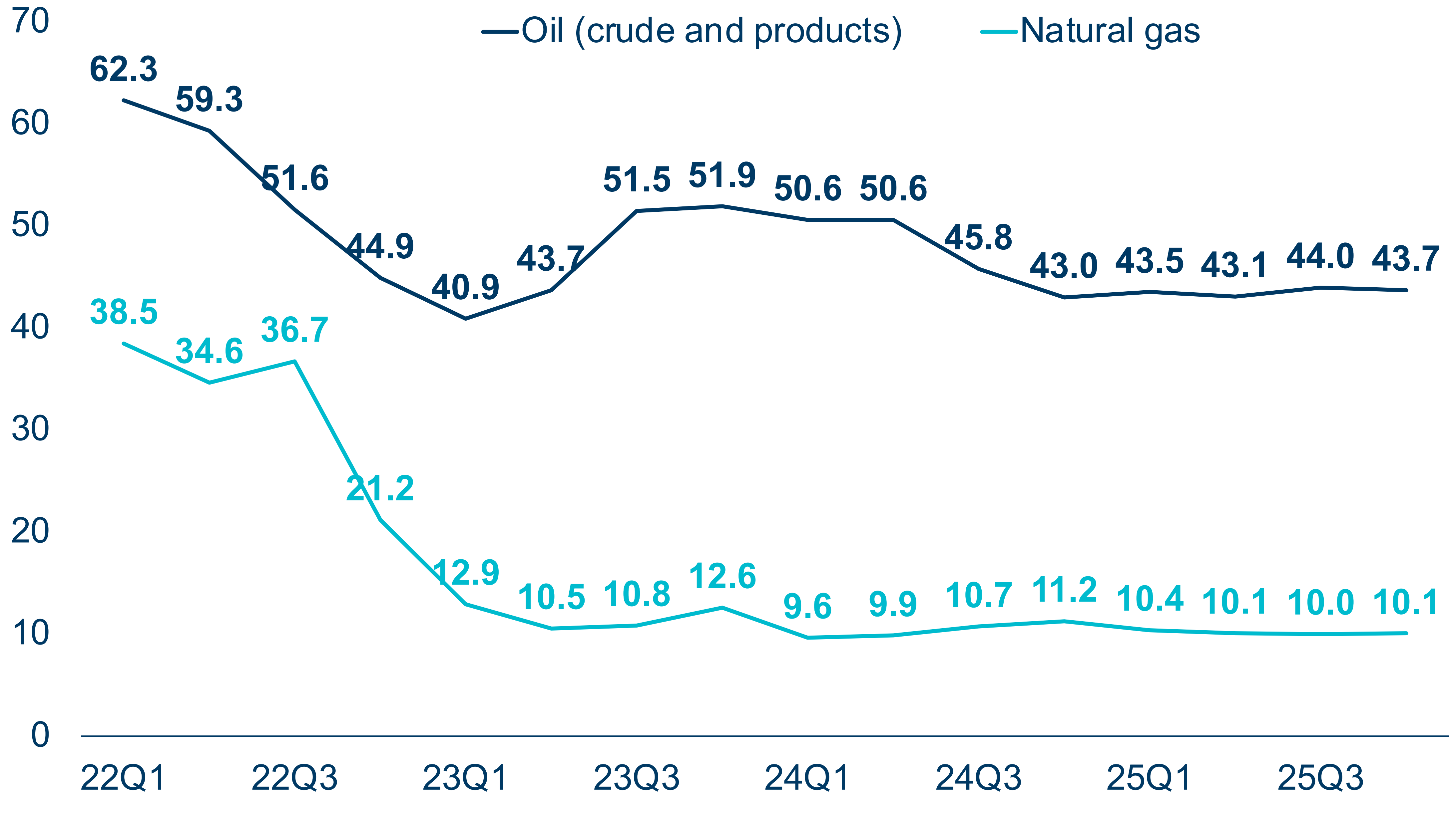
- It looks increasingly likely that our bearish scenario of weak energy sanctions enforcement is materializing.
- This scenario assumes an Urals discount of $11/barrel and an ESPO discount of $5/barrel going forward.
- In this situation, Russia would be able to generate significantly higher oil export earnings vs. the base case.

Oil prices, in U.S. dollar/barrel



Source: KSE Institute

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



Source: KSE Institute

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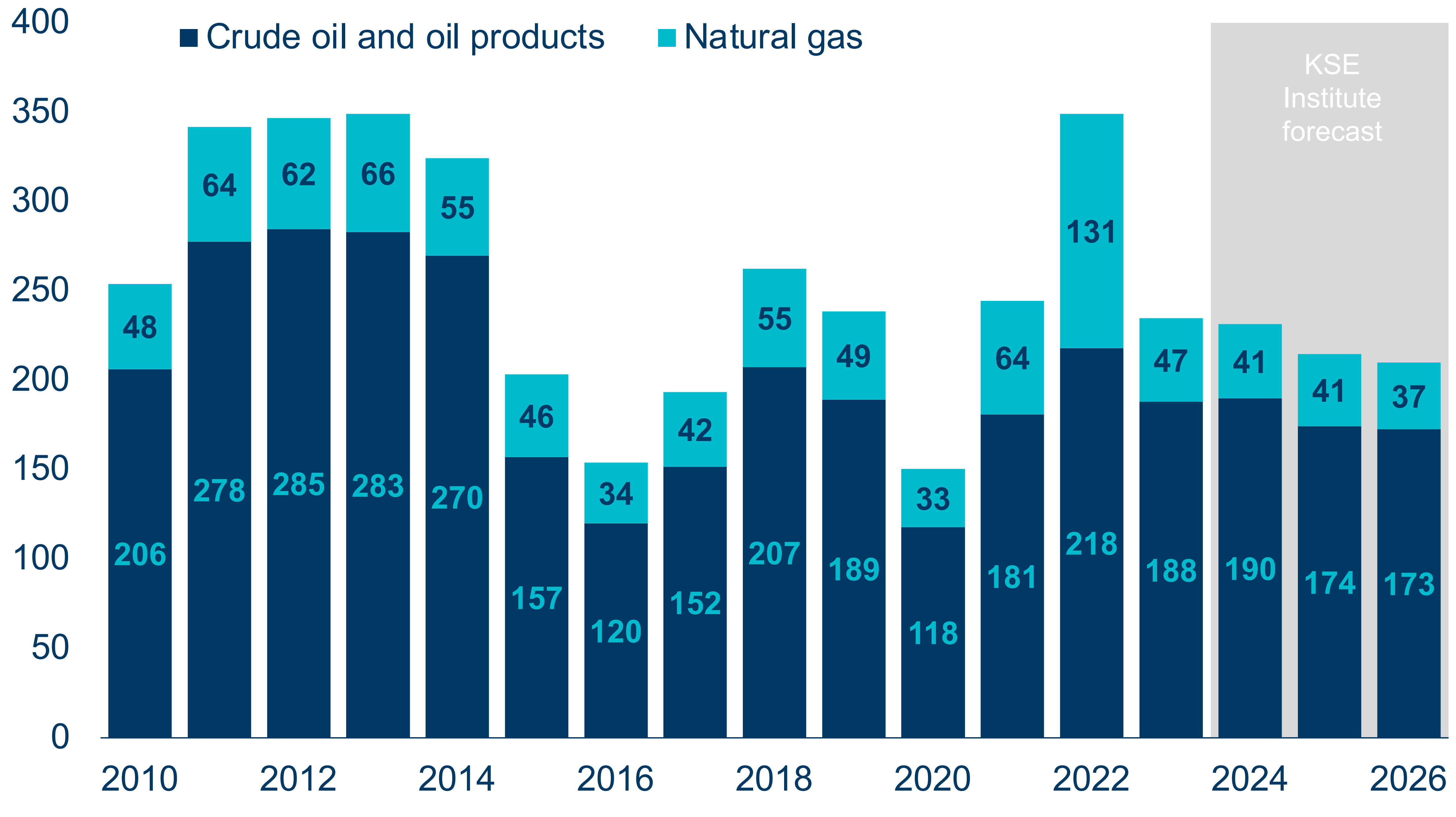
Current account surplus to improve markedly this year.

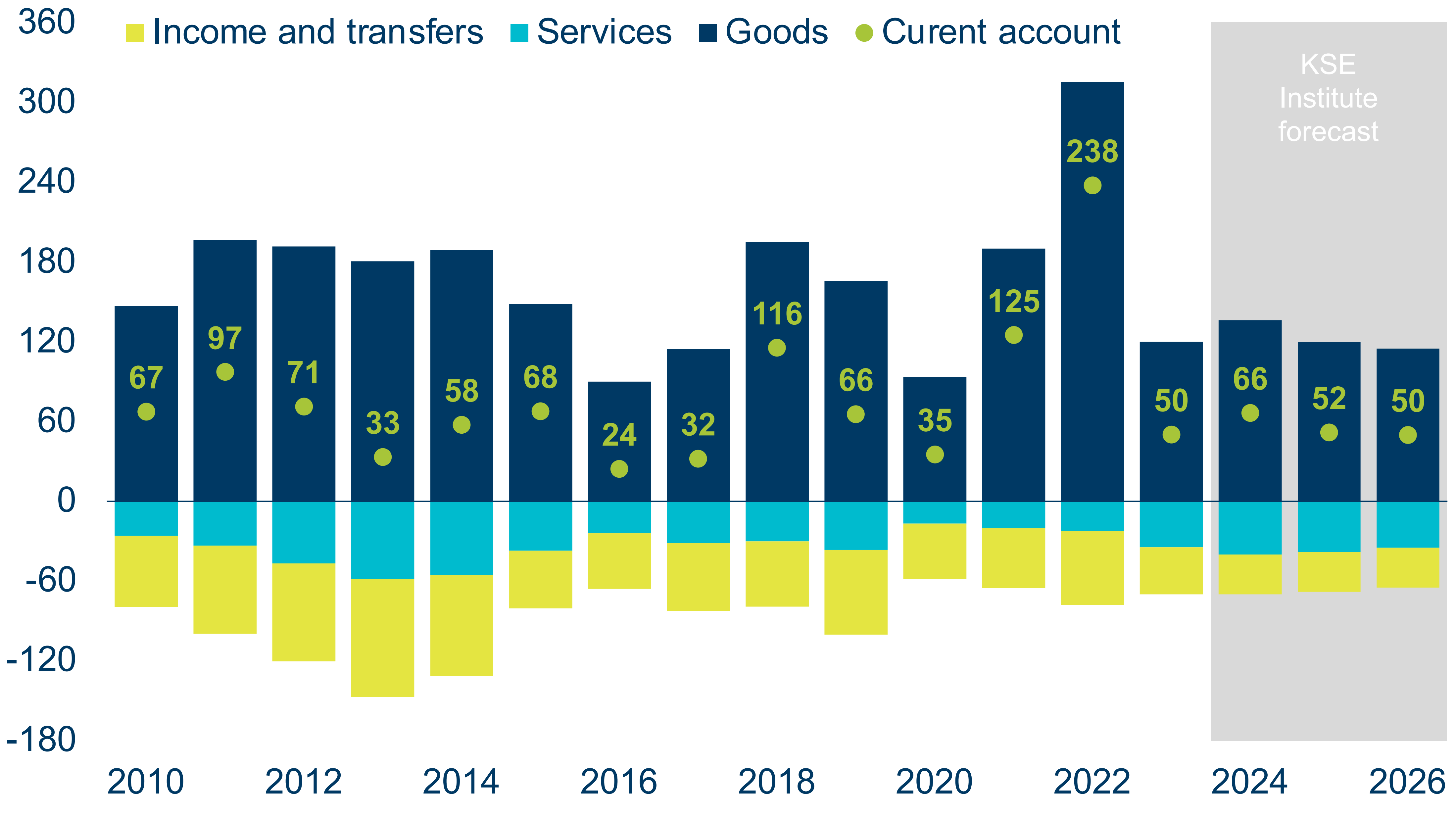
- O&G exports are projected to decrease to $231 billion in 2024 and further to $215 billion in 2025 (vs. $235 billion in 2023).
- As a result, the current account surplus is set to increase to $66 billion this year before declining to $52 billion in 2025.
- In terms of its external accounts, this leaves Russia in a relatively comfortable position and will limit ruble depreciation.

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

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Robust revenues more than offset higher spending; budget financing not a challenge; Russia to step-up war budget further in 2025.

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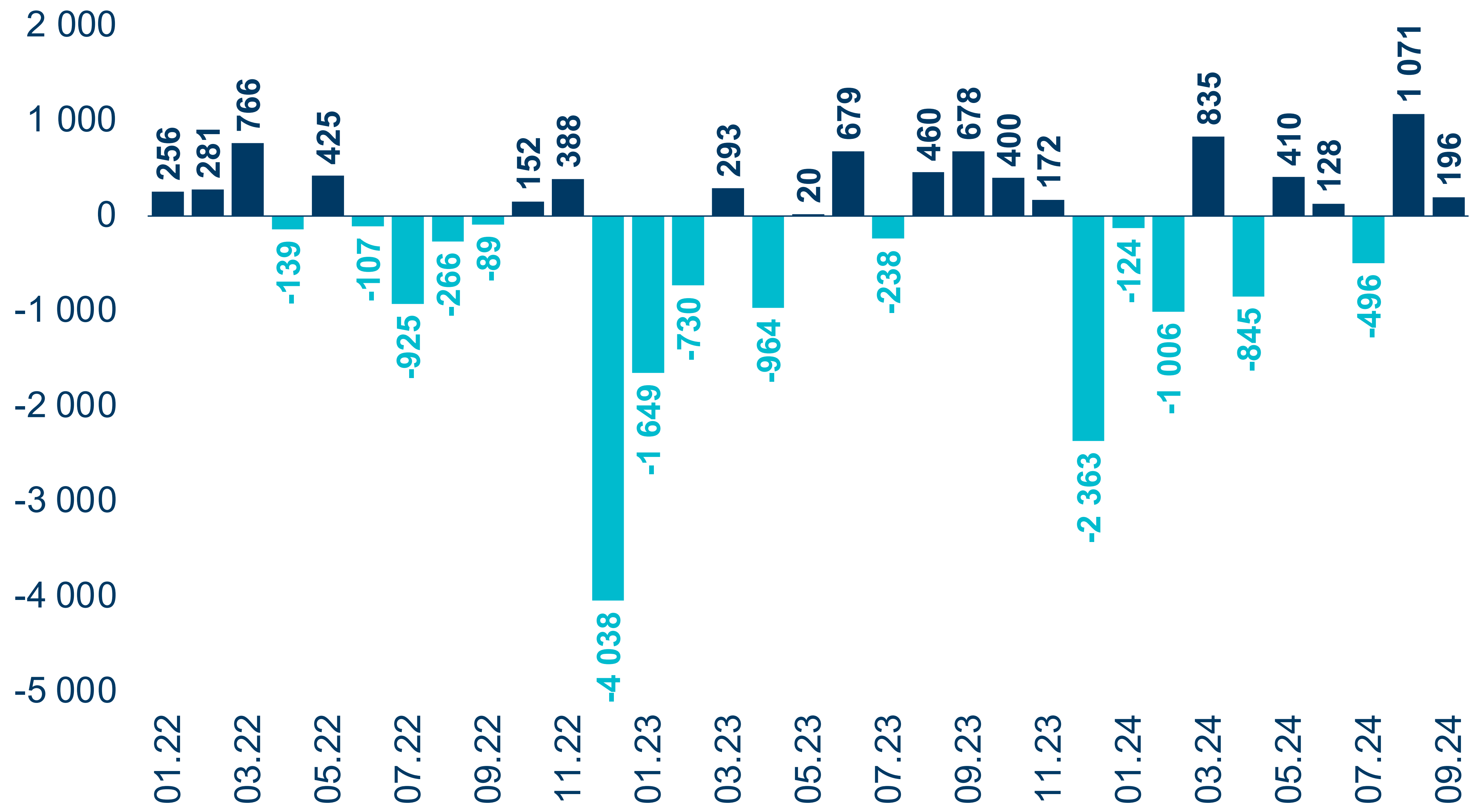
Sharp rise in revenues significantly improved fiscal situation.

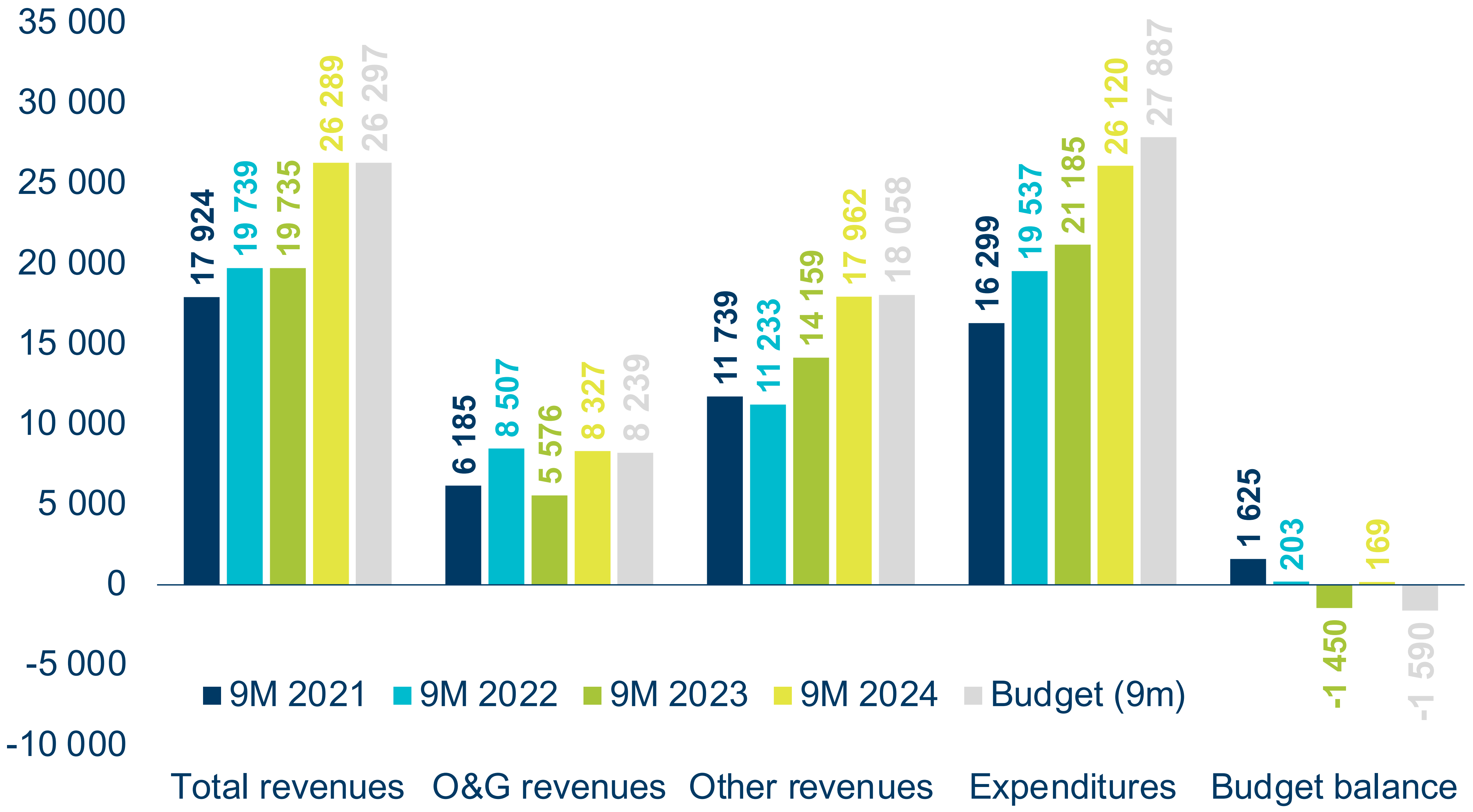
- In Jan.-Sep. 2024, Russia's federal budget reached a cumulative surplus of 169 billion rubles.
- Strong non-oil and gas revenues (highest monthly reading in 2024) helped to more than offset large spending.
- Oil and gas revenues were 49%, non-O&G revenues 27%, and expenditures 23% higher vs. Jan.-Sep. 2023.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion



Source: Ministry of Finance, KSE Institute

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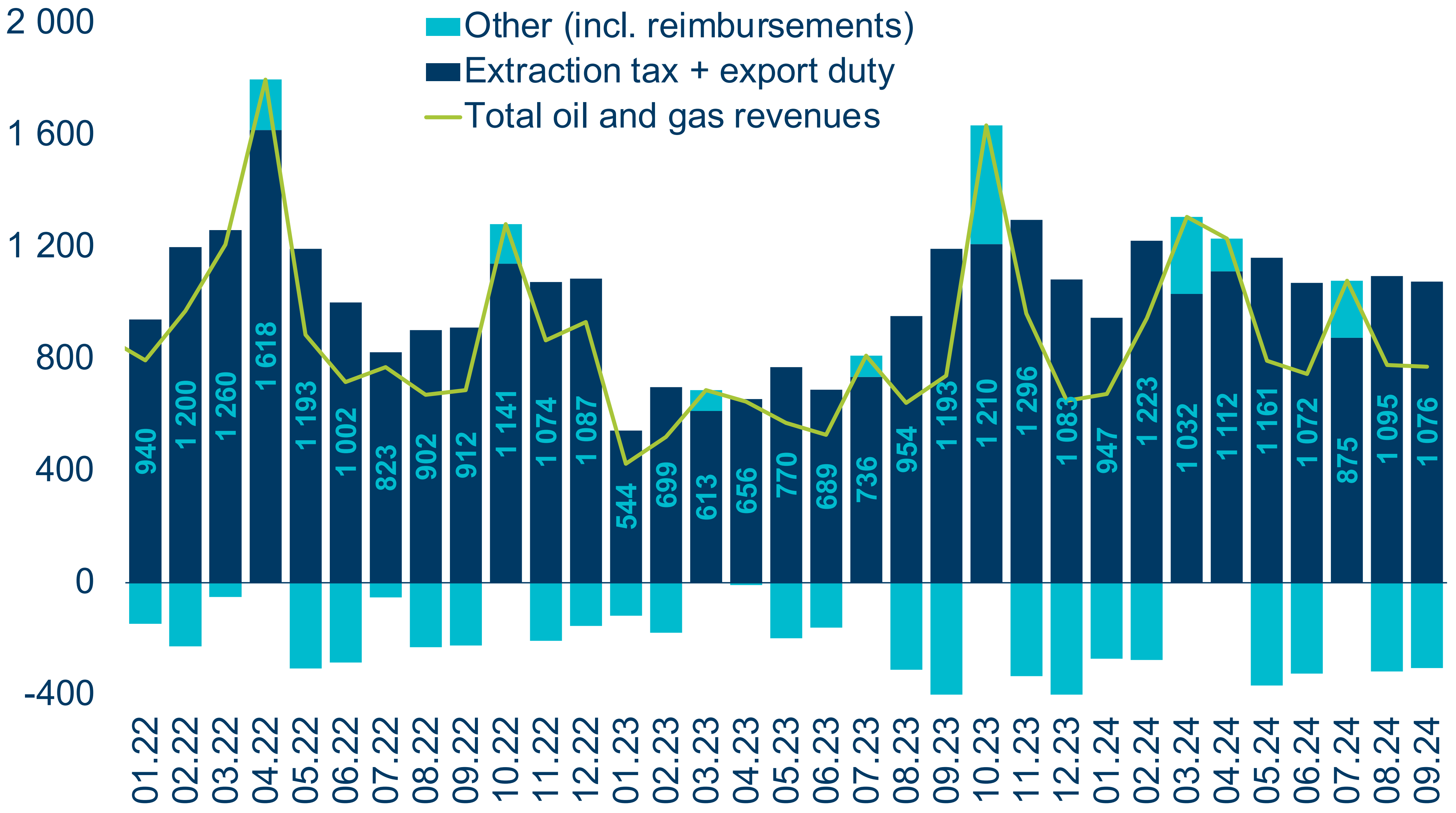
Strong oil and gas revenues provide support to the budget.

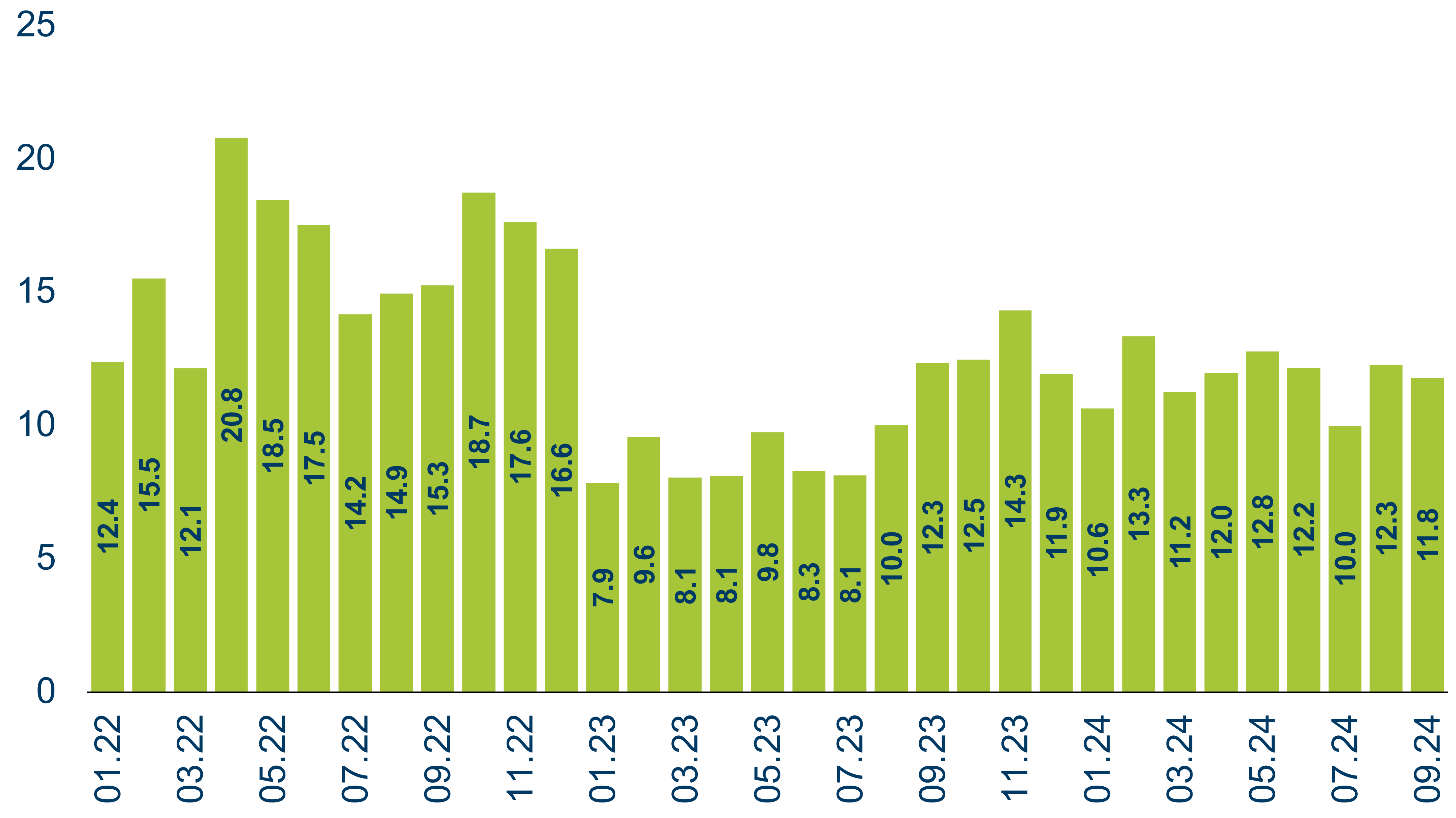
- O&G revenues from extraction taxes and export duties have averaged more than 1 trillion rubles this year.
- In Sep., revenues in $ terms remained stable, likely due to higher export volumes while prices declined.
- The weaker ruble will help offset negative effects from lower oil export prices and keep revenues robust.

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

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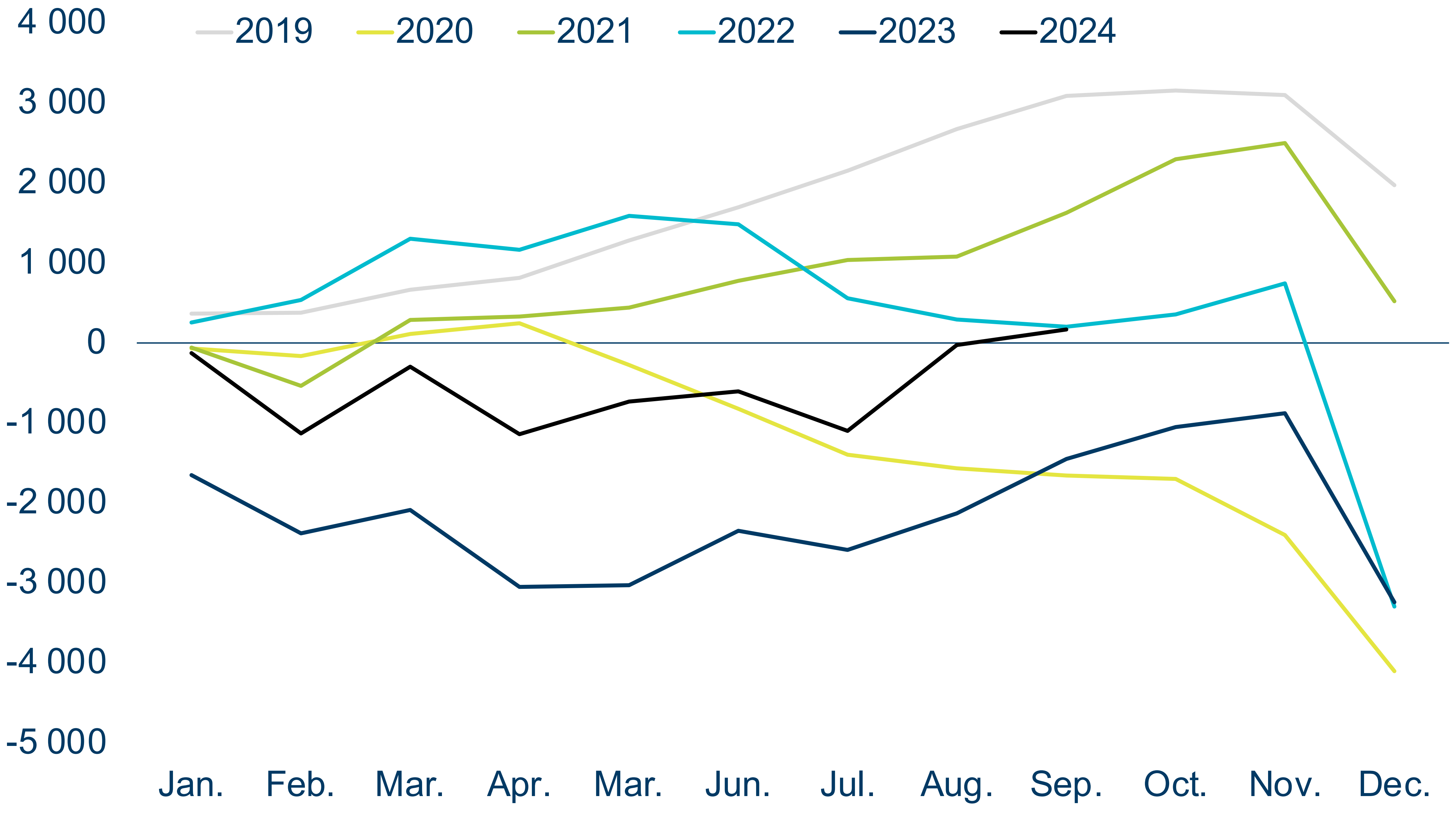
Positive budget dynamics mean financing is not a challenge.

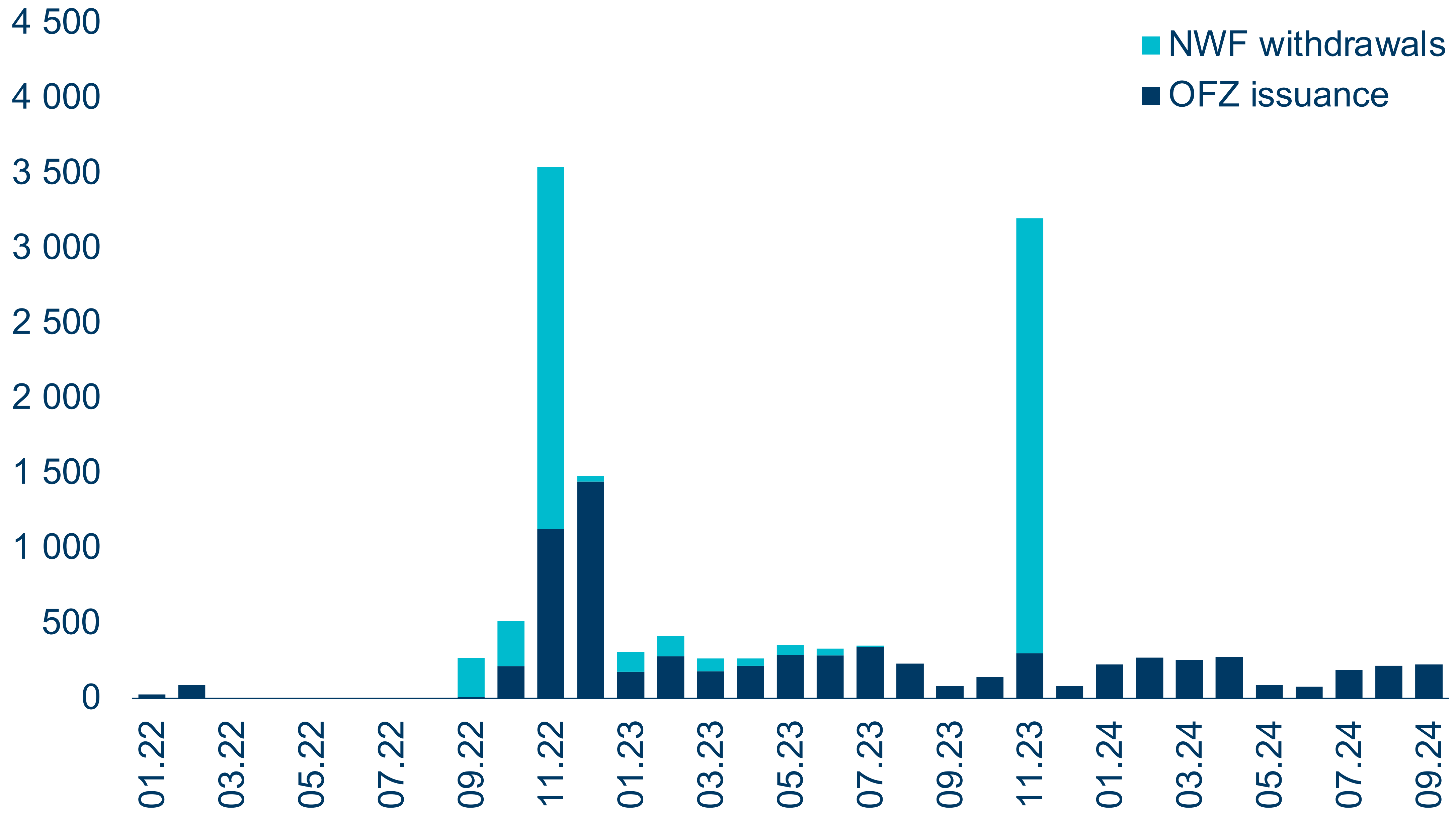
- With a surplus of more than 1.2 trillion rubles in Aug.-Sep., the overall budget balance moved into positive territory.
- Due to the improved fiscal situation, Russia has been able to finance the budget via moderate domestic debt issuance.
- There are some risks to the outlook, including an economic slowdown, but Russia will likely stay within its budget target.

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

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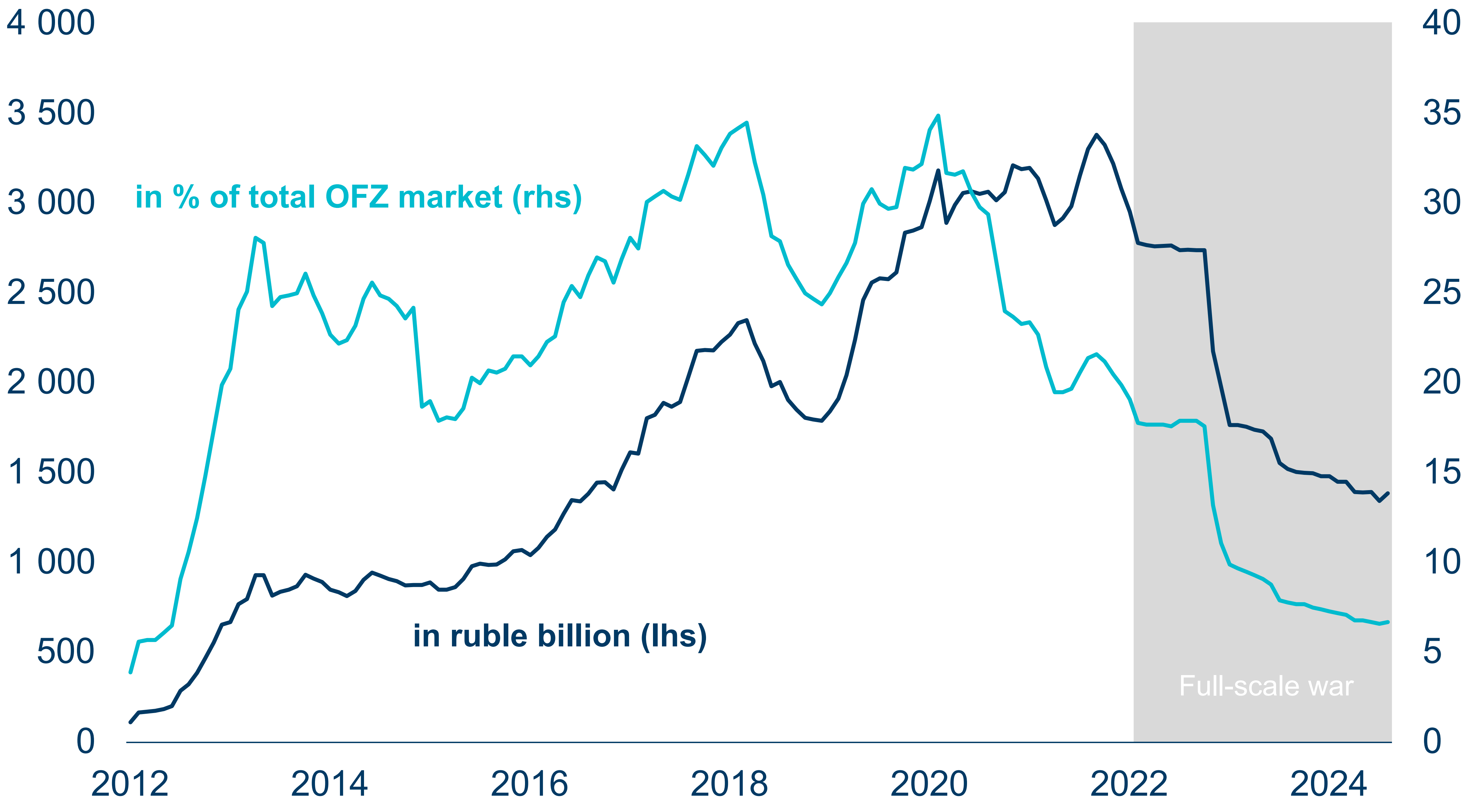
Domestic banks are the only remaining buyers of OFZs.

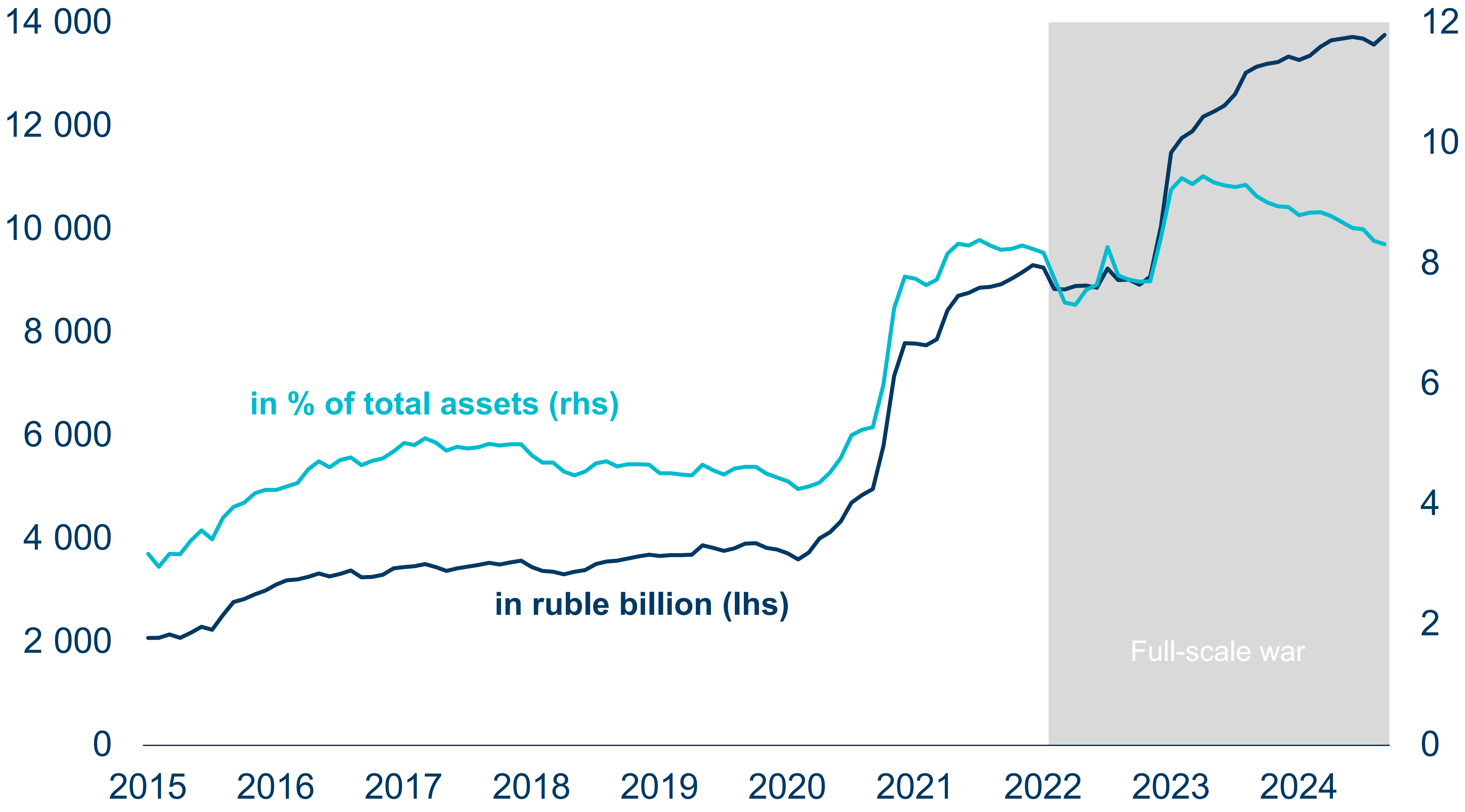
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 1.35 trillion rubles (or 49%) since October 2022 as bonds matured.
- Credit institutions’ holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations’ OFZ holdings*

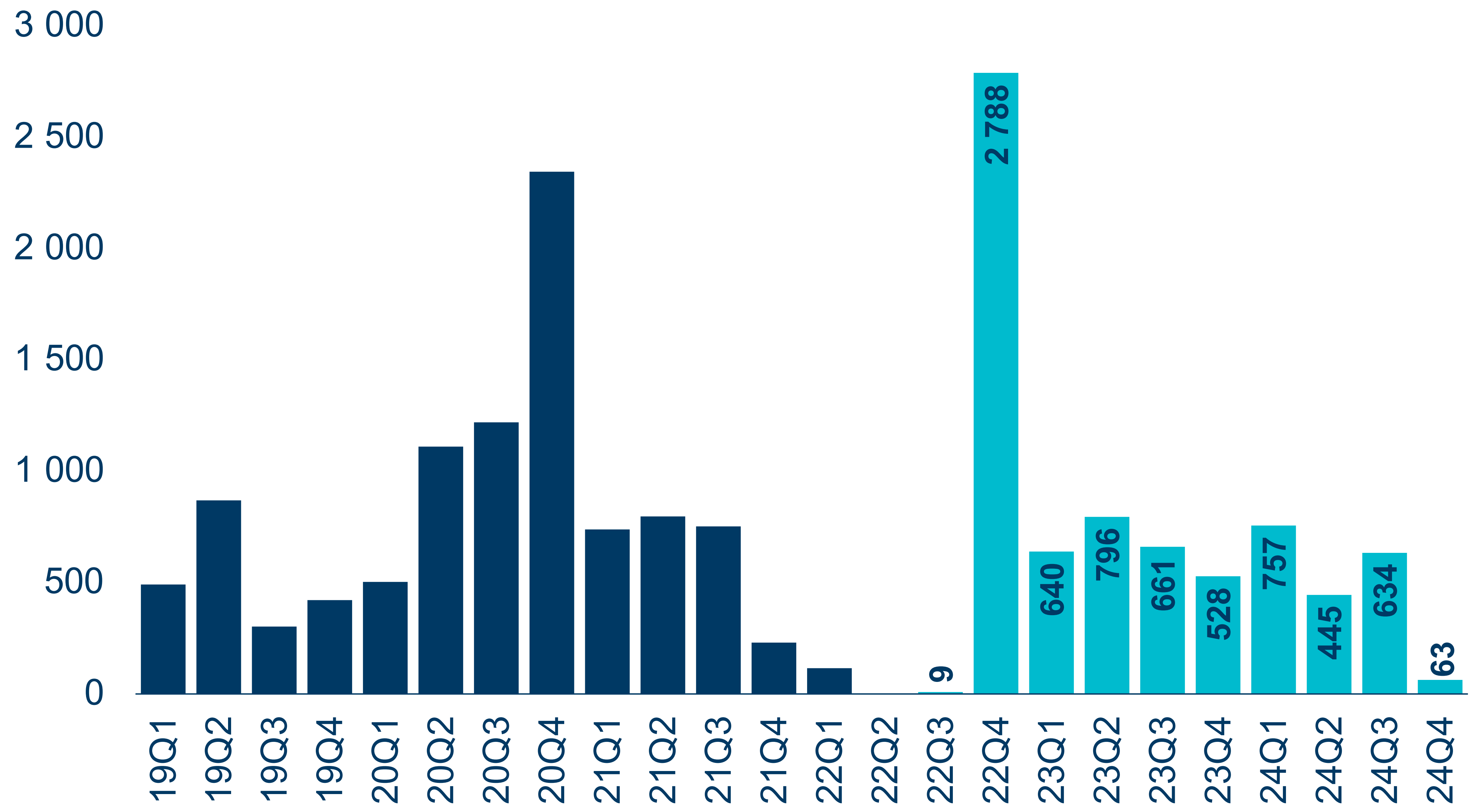


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

Domestic borrowing stable due to limited fiscal pressure.

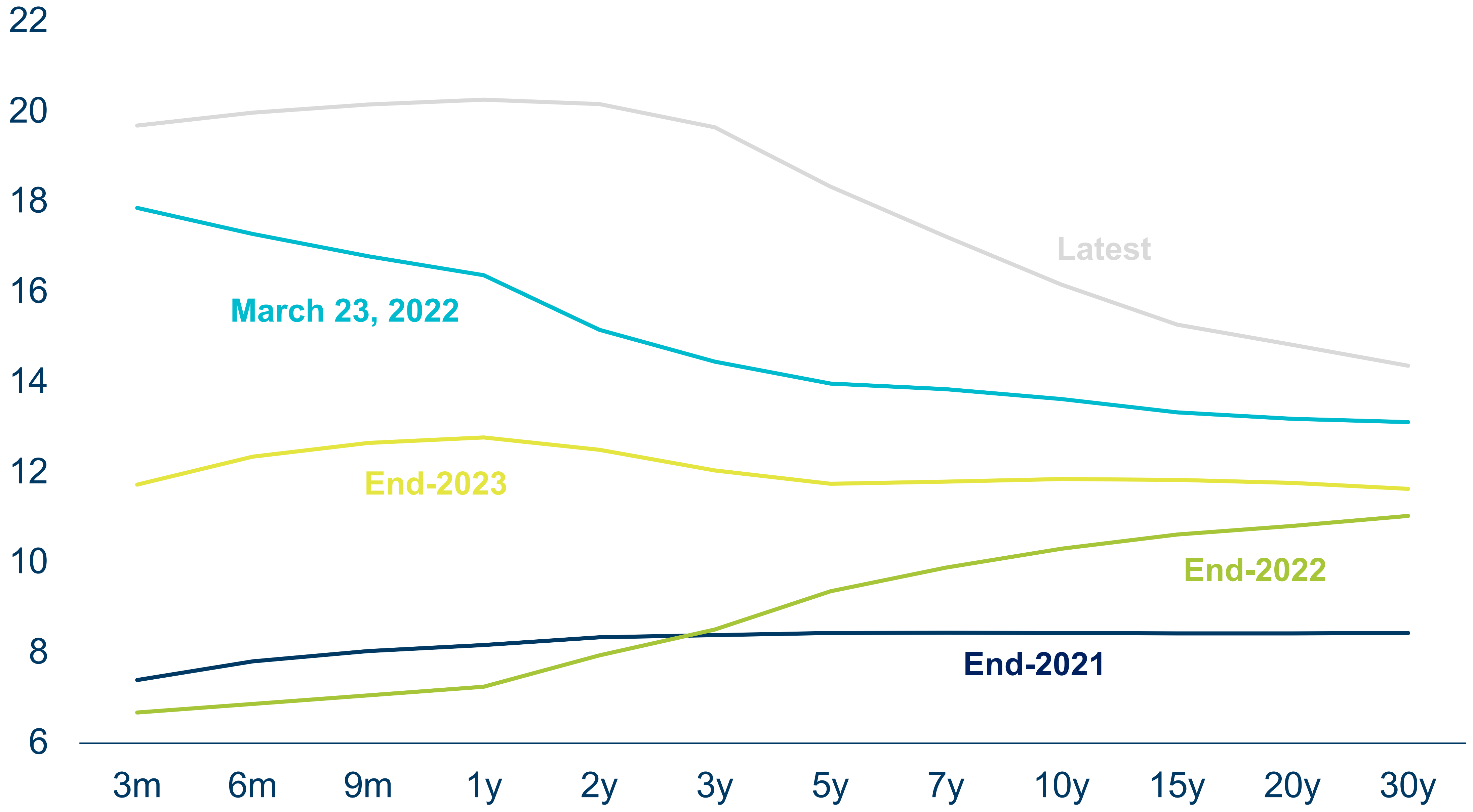
- Borrowing in the domestic market has been broadly stable in the last 1.5+ years.
- The OFZ yield curve reflects the recent CBR rate hikes (of cumulative 1,350bps).
- Funding costs are higher but limited in their impact due to the small budget deficit.

New domestic debt (OFZ) issuance, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %

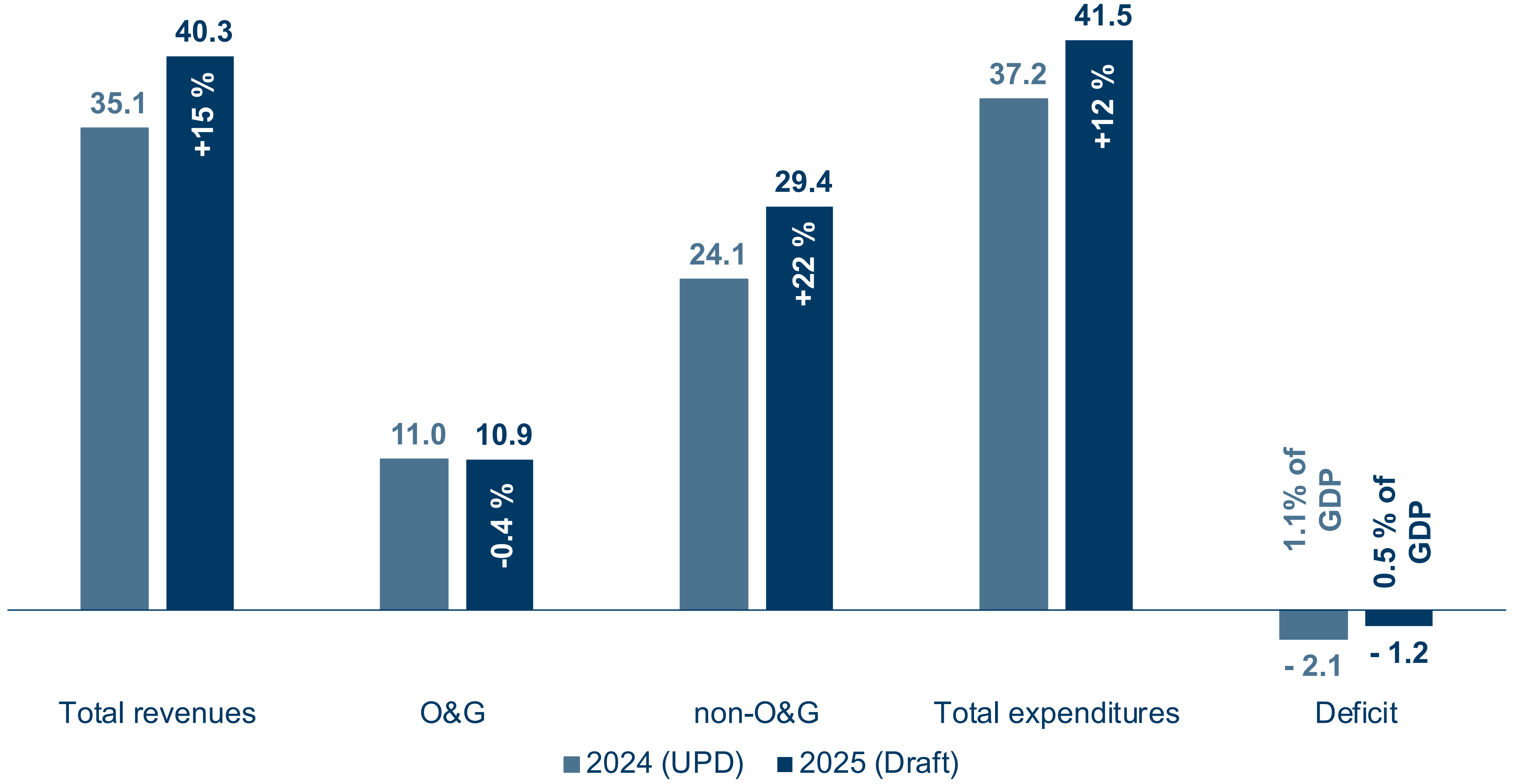


Source: Bank of Russia, KSE Institute

Budget for 2025 is clearly war-centered, without major financing challenges.

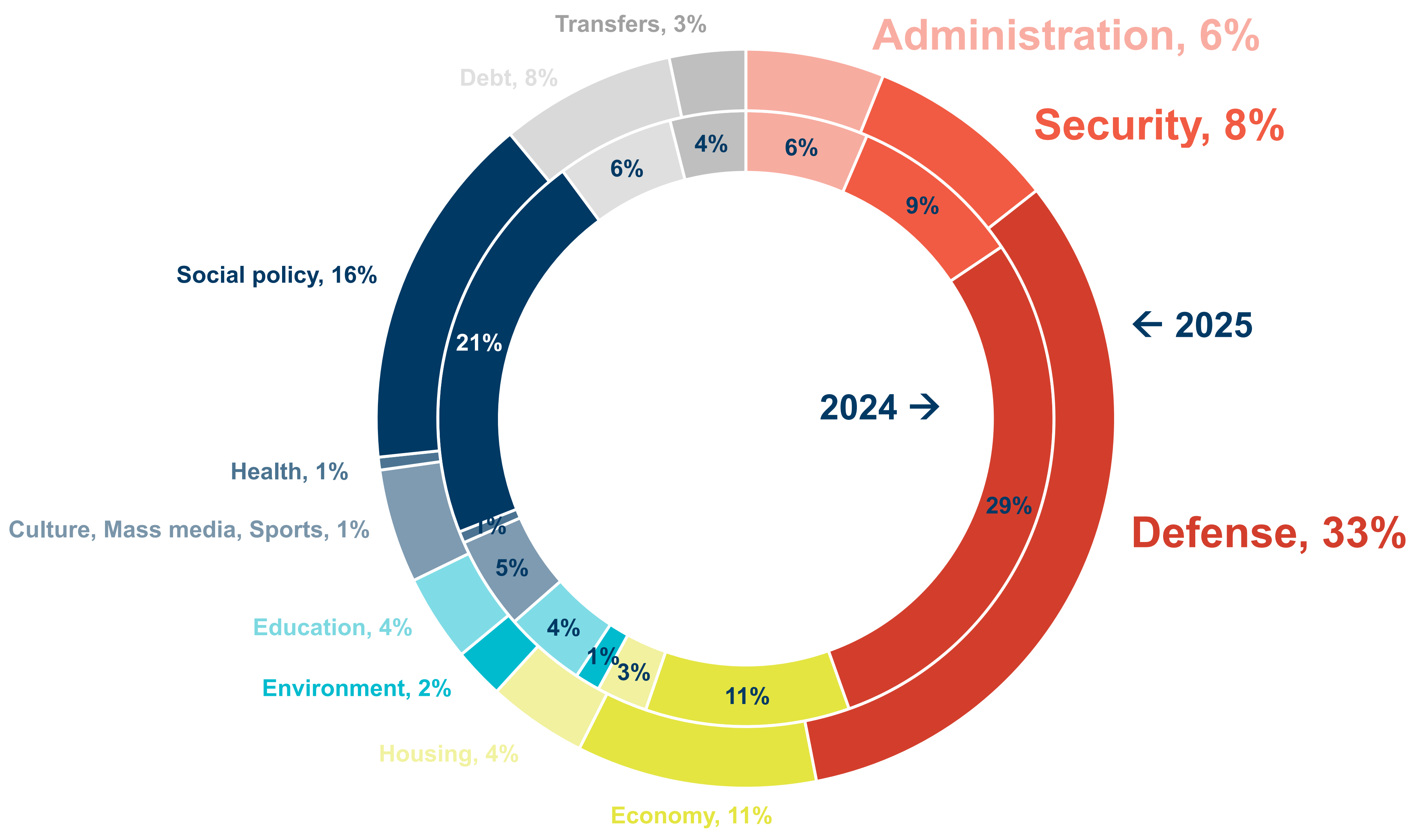
- A record 13.5 trillion rubles (or $140 billion), or 1/3 of the budget, is planned to be allocated to war efforts next year.
- This will be possible due to an expected 22% rise in O&G revenues from tax hikes, along with stable O&G revenues.
- The absence of major fiscal constraints allows Russia to plan for a lower budget deficit of 0.5% of GDP next year.

Key budget numbers, 2024 vs. 2025 draft, in ruble billion



Source: Ministry of Finance, KSE Institute

Structure of expenditures, 2024 vs. 2025 draft, in %



Source: Ministry of Finance, KSE Institute

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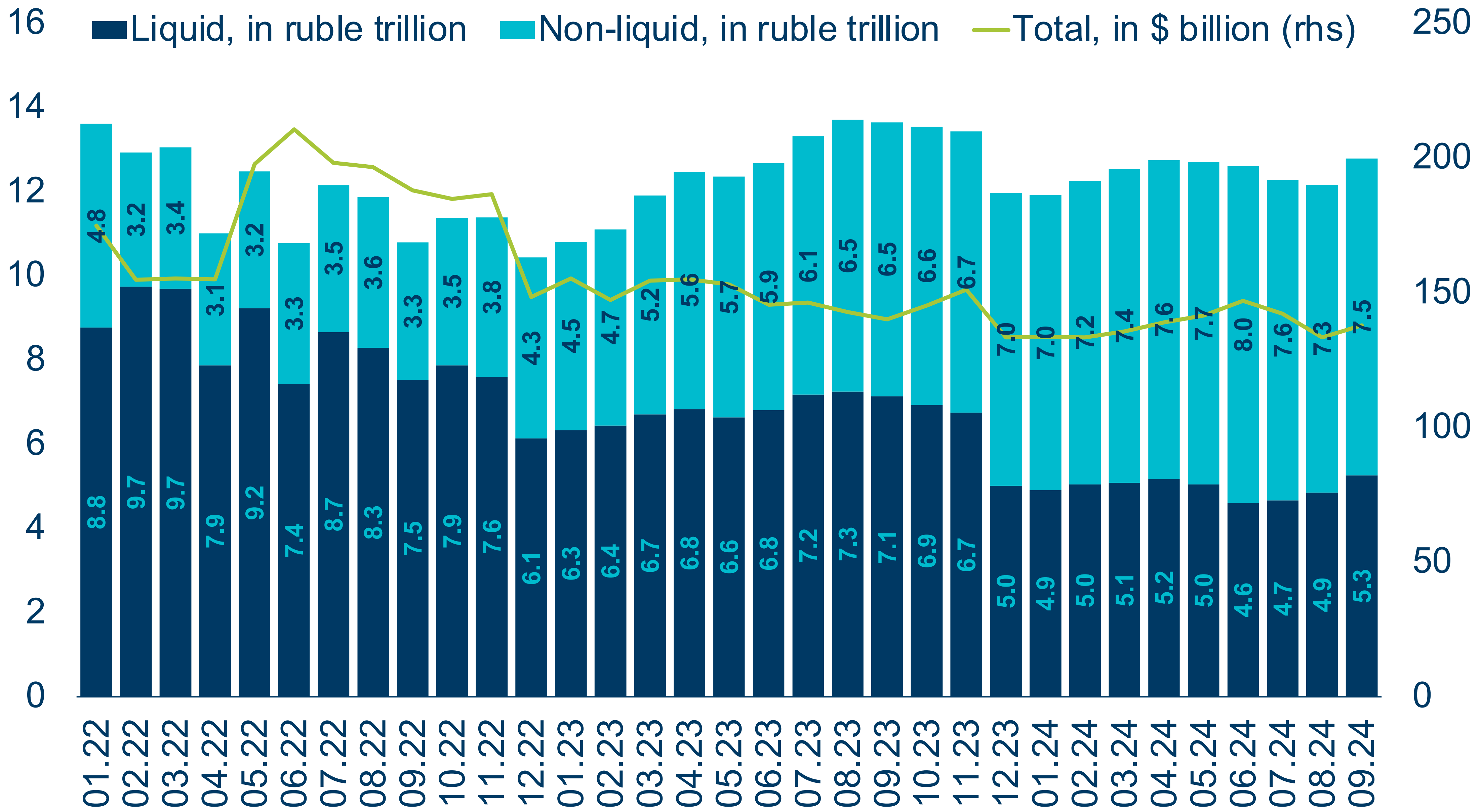
Macro buffers seriously depleted by war and sanctions; limited policy options in the case of further erosion of macroeconomic stability.

Close to half of the NWF’s liquid assets have been used up.

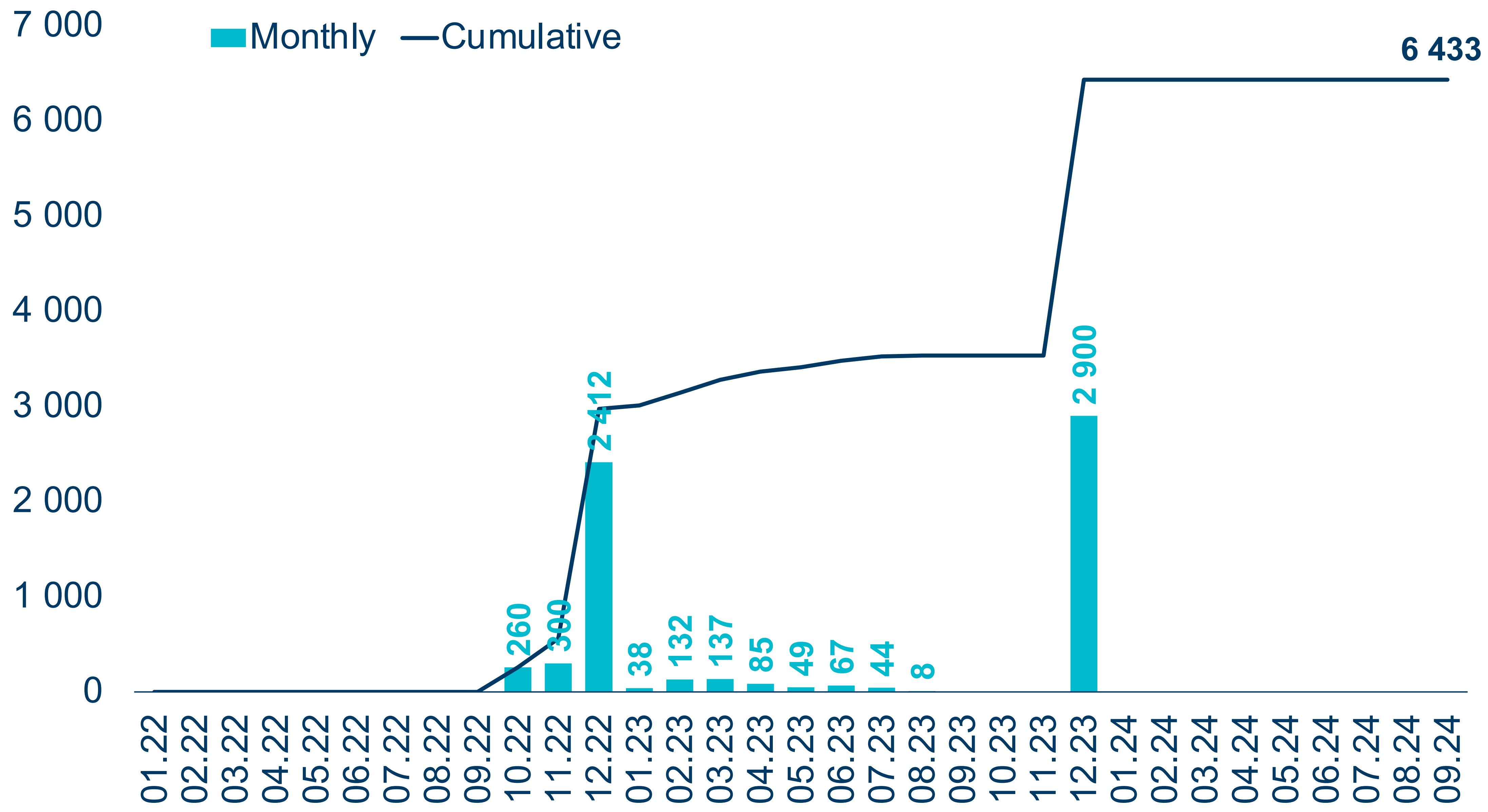
- Total assets of the National Welfare Fund stood at 12.8 trillion rubles ($138 billion, 6.7% of GDP) in September 2024.
- The liquid portion now only accounts for 41% of the total as a stronger ruble weighs on the local currency value.
- Since the start of the full-scale war, Russia has used close to half (~4.5 trillion) of liquid assets, largely for the budget.

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



Source: Ministry of Finance, KSE Institute

NWF contributions to the budget, in ruble billion



Source: Ministry of Finance, KSE Institute

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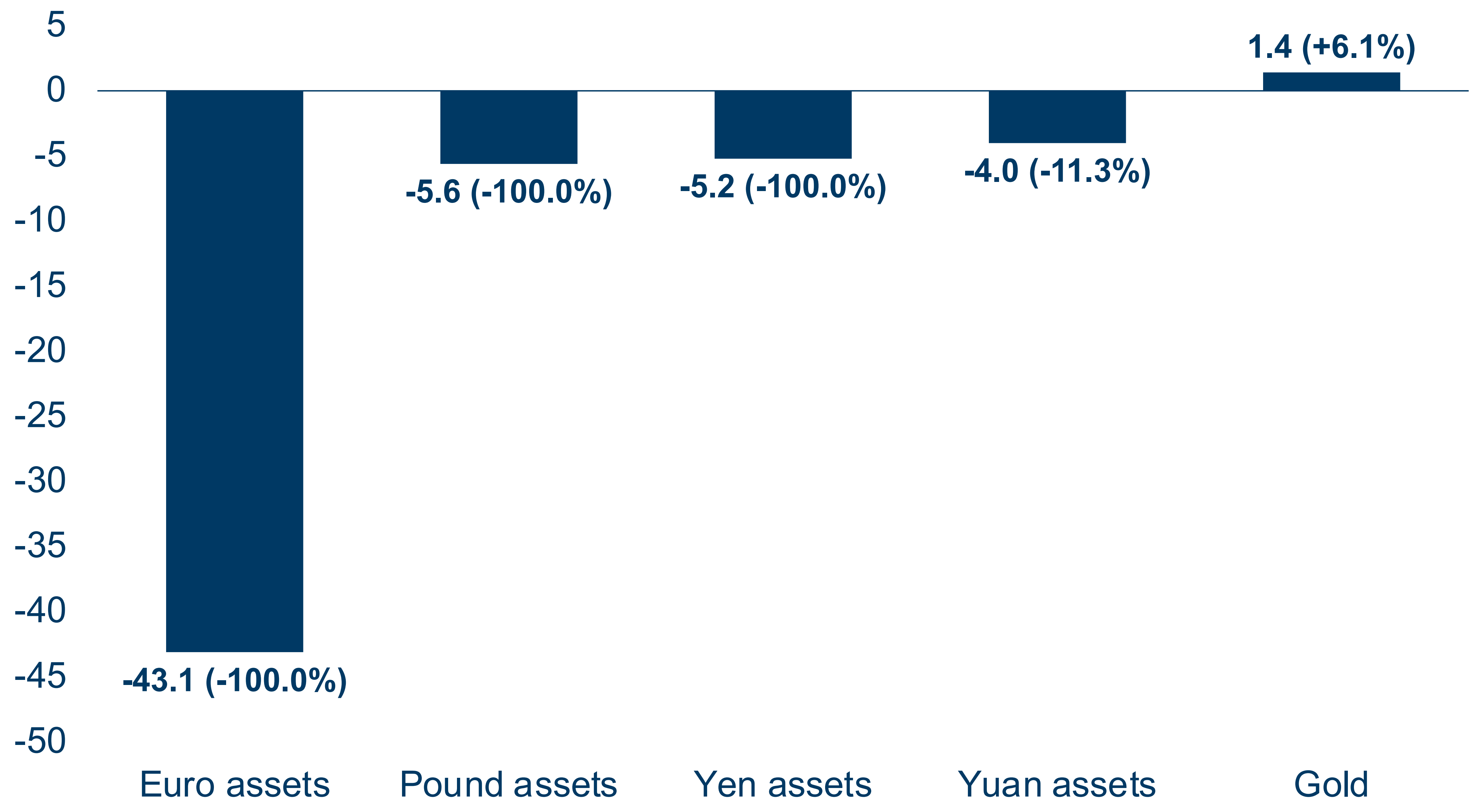
Headline NWF numbers conceal that hard currency assets are gone.

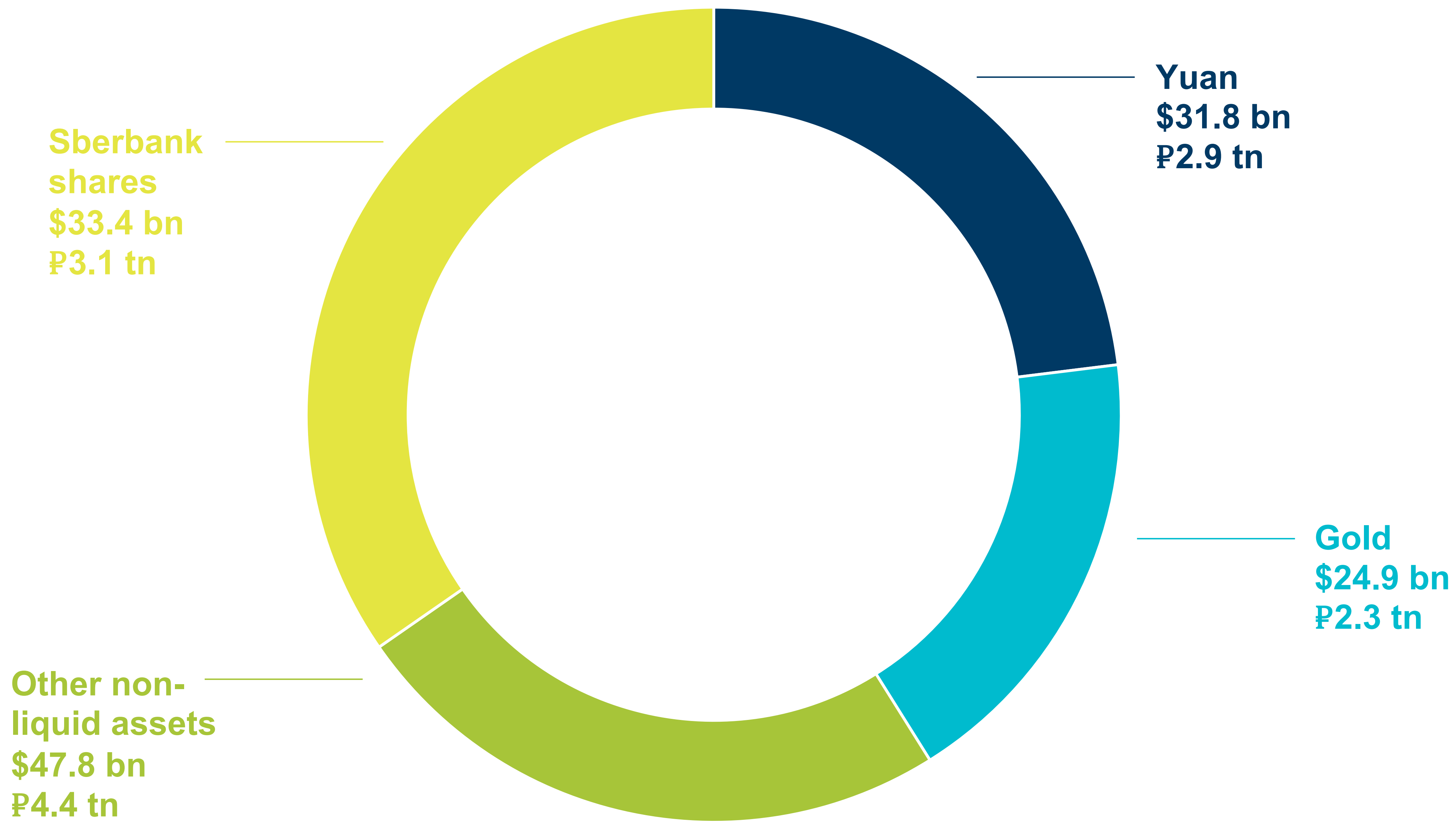
- Russia has depleted all hard-currency holdings of the NWF, with euro assets falling to zero in December 2023.
- Only yuan-denominated assets and gold remain in the liquid portion, totaling 5.3 trillion rubles (or $57 billion).
- As these are more difficult to use, at least at scale, budgetary funding via the NWF will become more challenging.

Change in liquid assets vs. Jan. 2022, in U.S. dollar billion*



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

Composition of NWF assets as of October 1, 2024*



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

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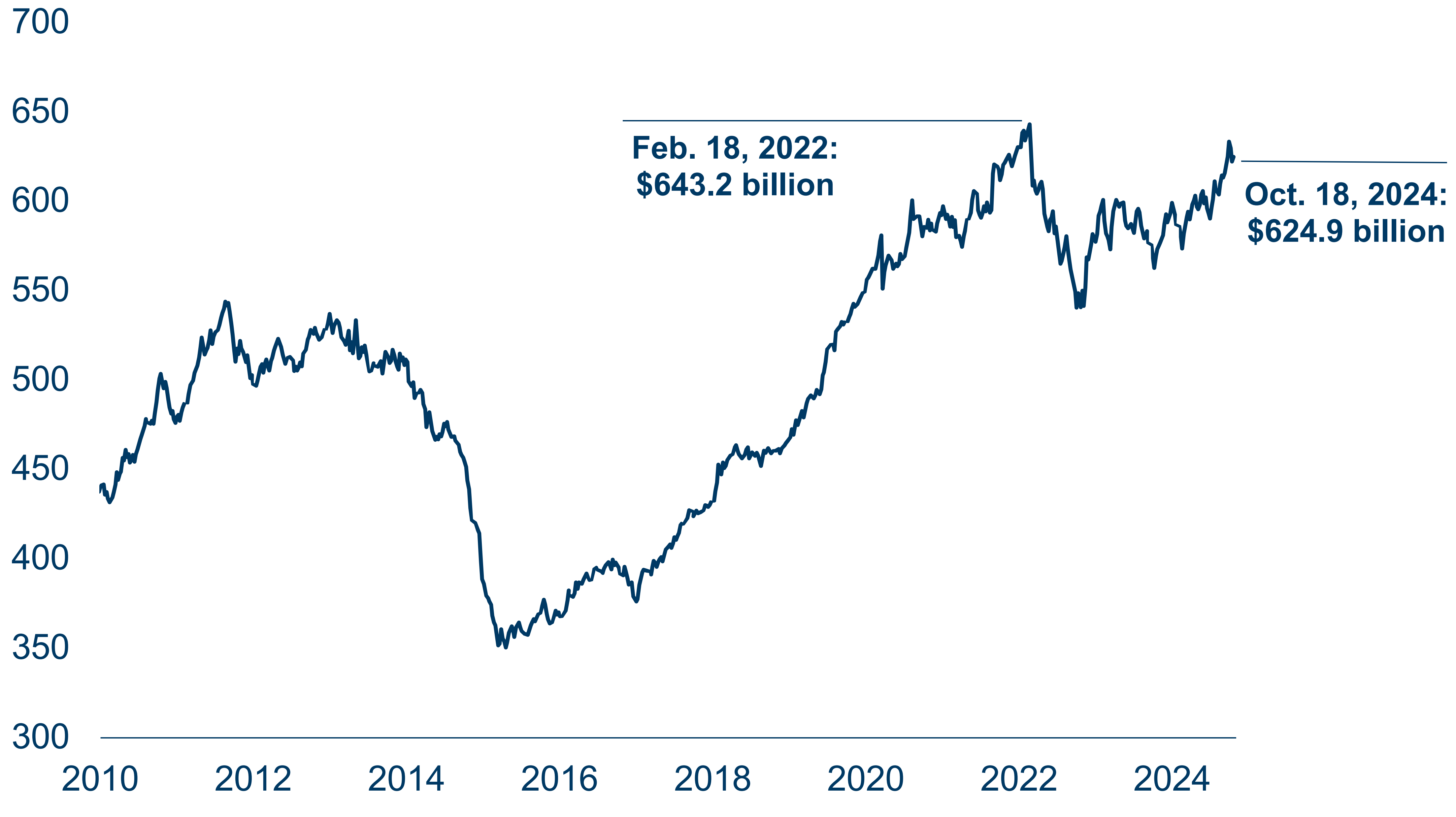
A substantial share of international reserves remain immobilized.

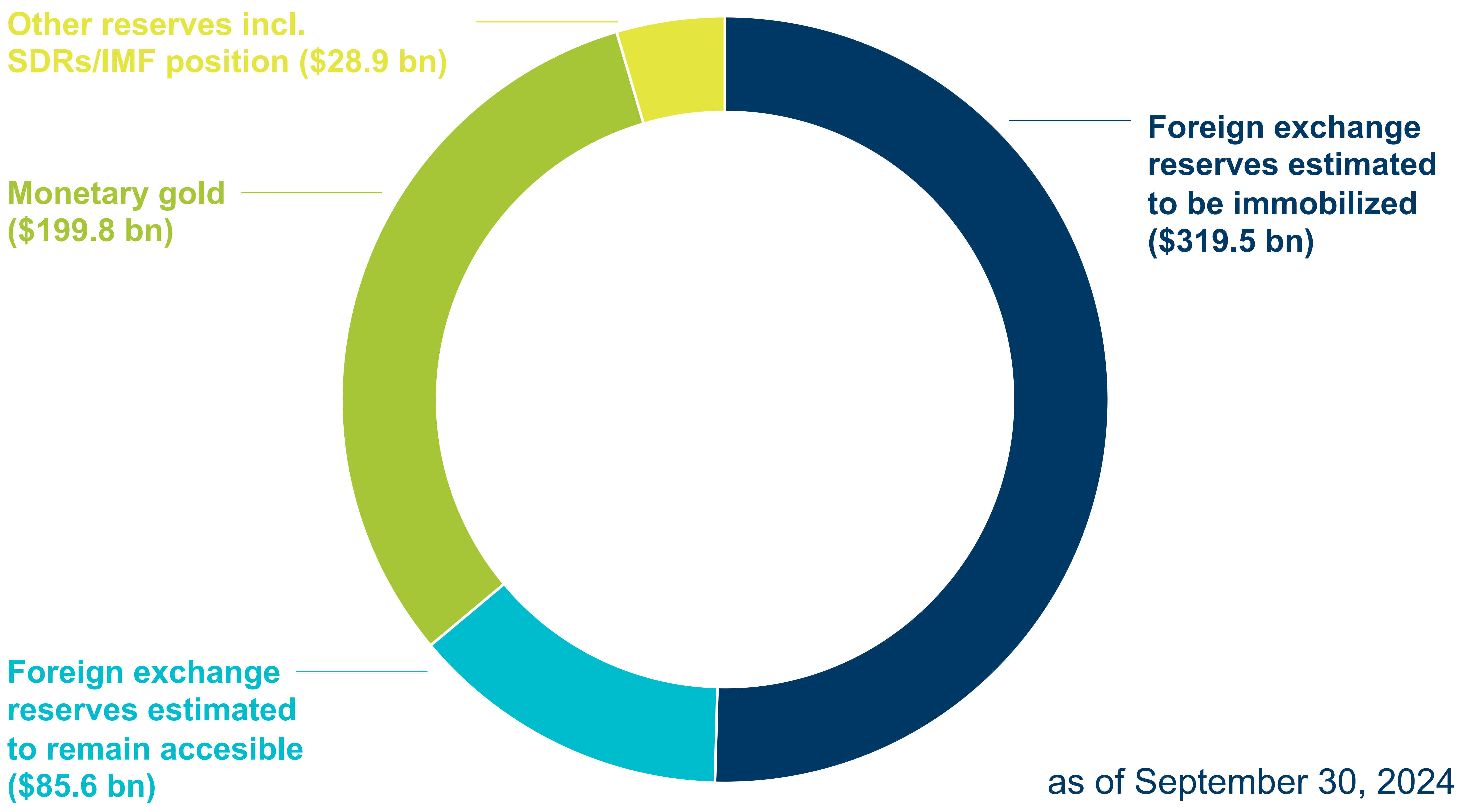
- Before the invasion, Russia held $643 billion in international reserves, part of what is described as *“Fortress Russia”.*
- We estimate that around $320 billion are currently immobilized due to international sanctions on CBR and NWF.
- This leaves Russia with access to $200 billion in monetary gold and roughly $86 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

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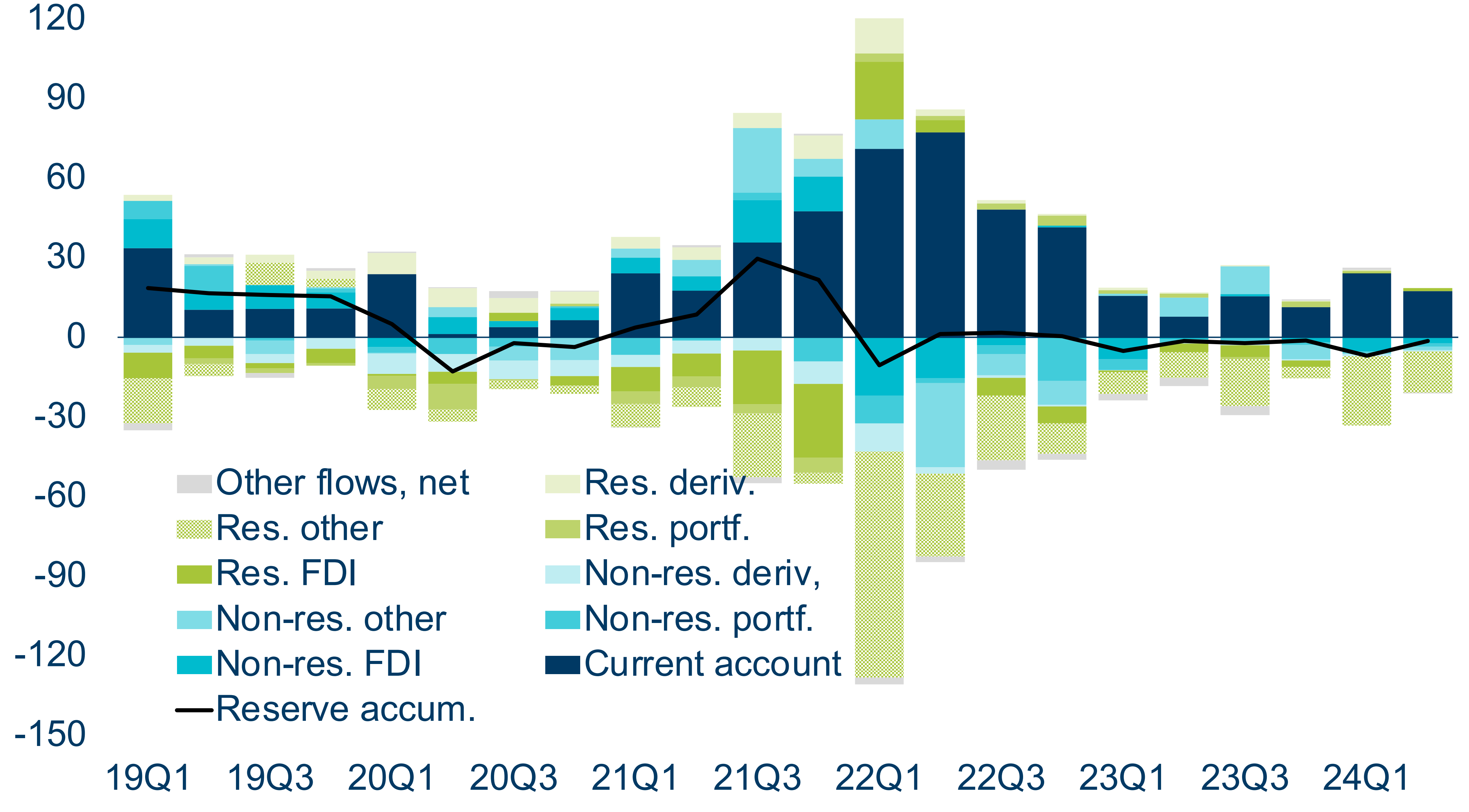
Significant accumulation of new foreign assets since 2022.

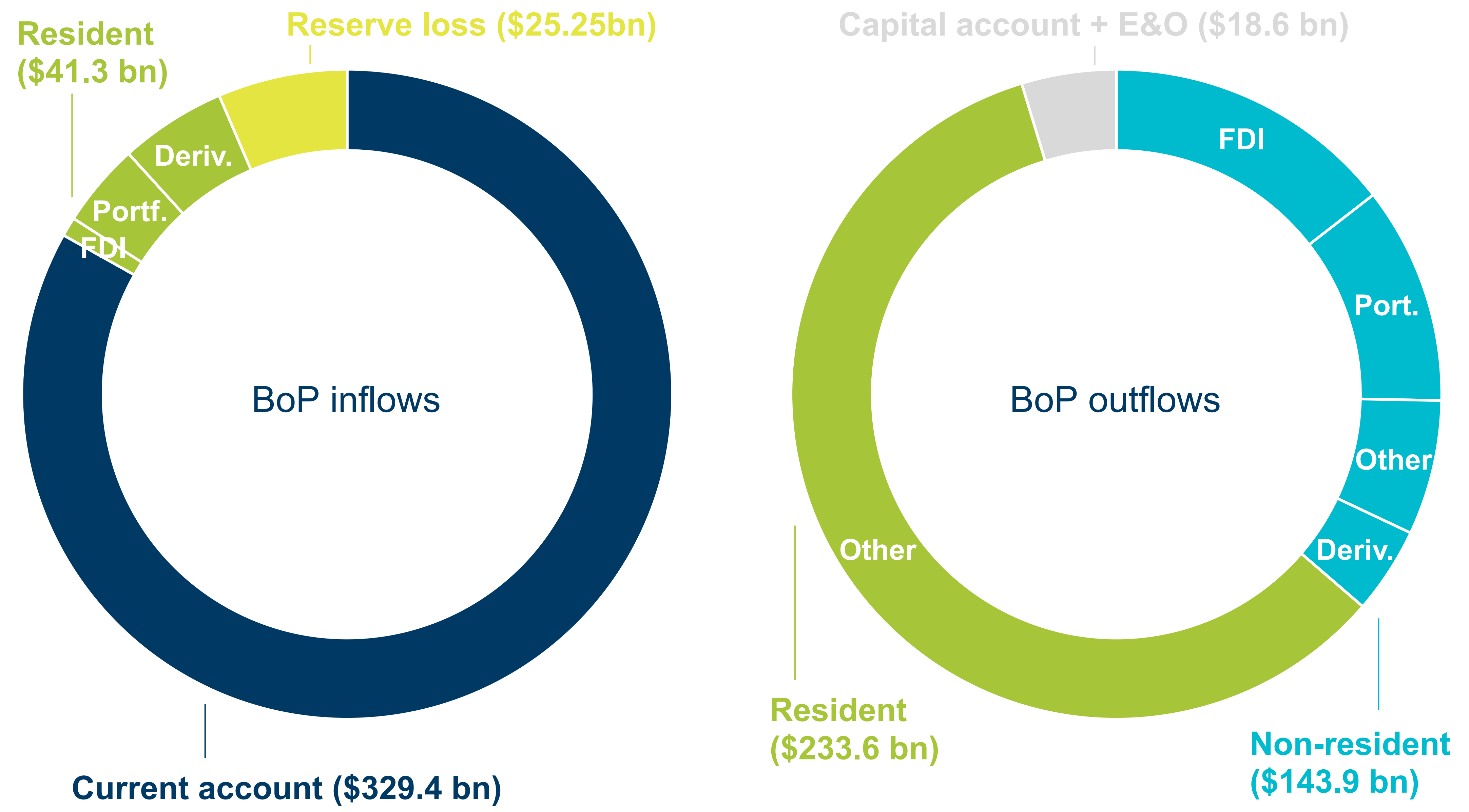
- With the ruble under pressure and regular reserves immobilized, it is time to focus on other Russian assets abroad.
- Non-resident capital outflows partially ate up the large current account surplus and resident inflows in Q1 2022-Q2 2024.
- But Russian banks and corporates were able to acquire $234 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

2022Q1-2024Q1 balance of payments flows, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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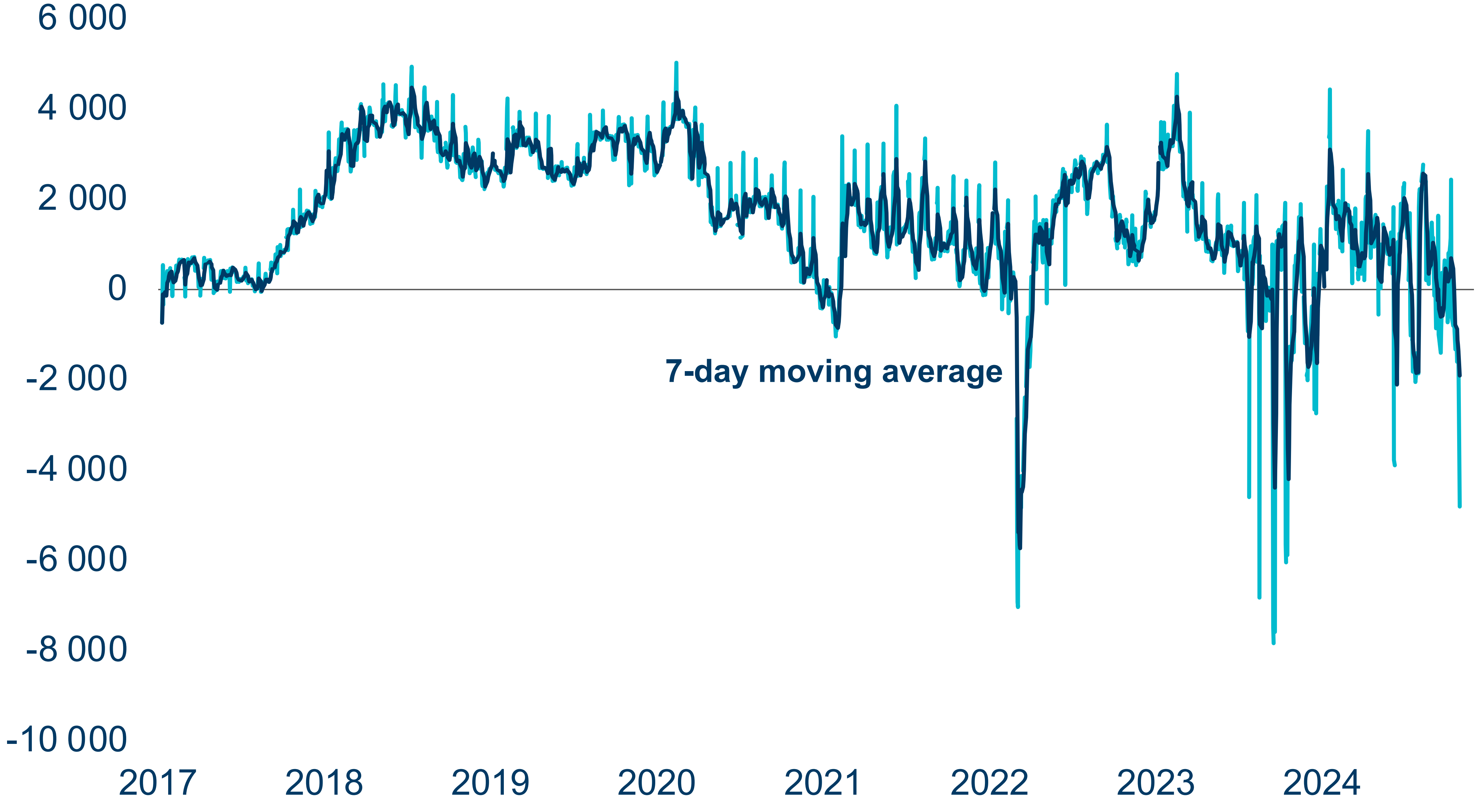
CBR rate hikes have impacted banking system liquidity in recent months.

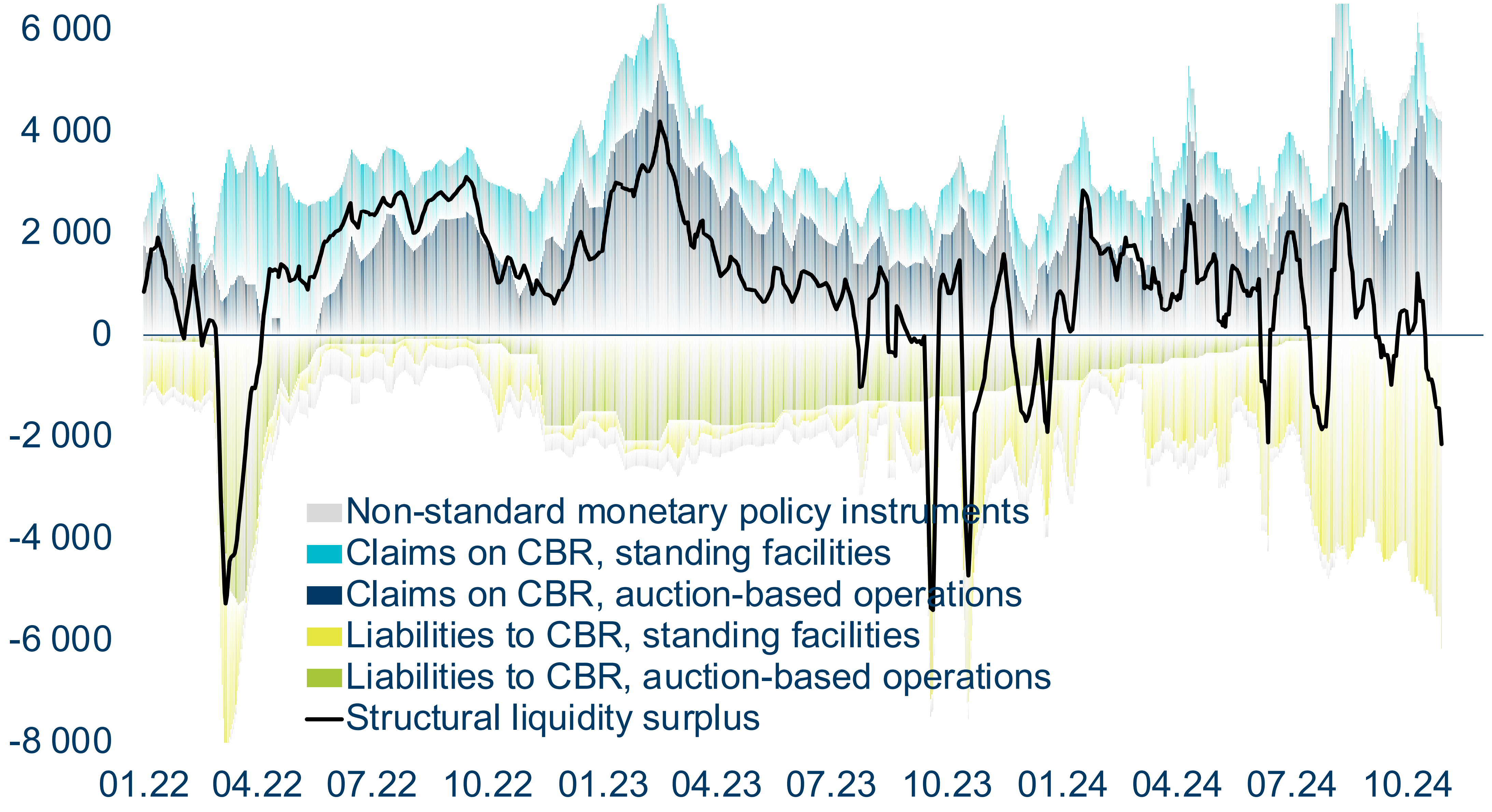
- Liquidity conditions recovered quickly after the initial shock from the full-scale war and imposition of sanctions.
- A closer look at the composition of the structural liquidity surplus points to some stress in the interbank market.
- The data clearly shows the effects of the CBR's monetary tightening since mid-2023 (cumulative +1,350 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

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Inflation elevated despite CBR tightening; tight labor market, government spending, and significant credit growth create pressure.

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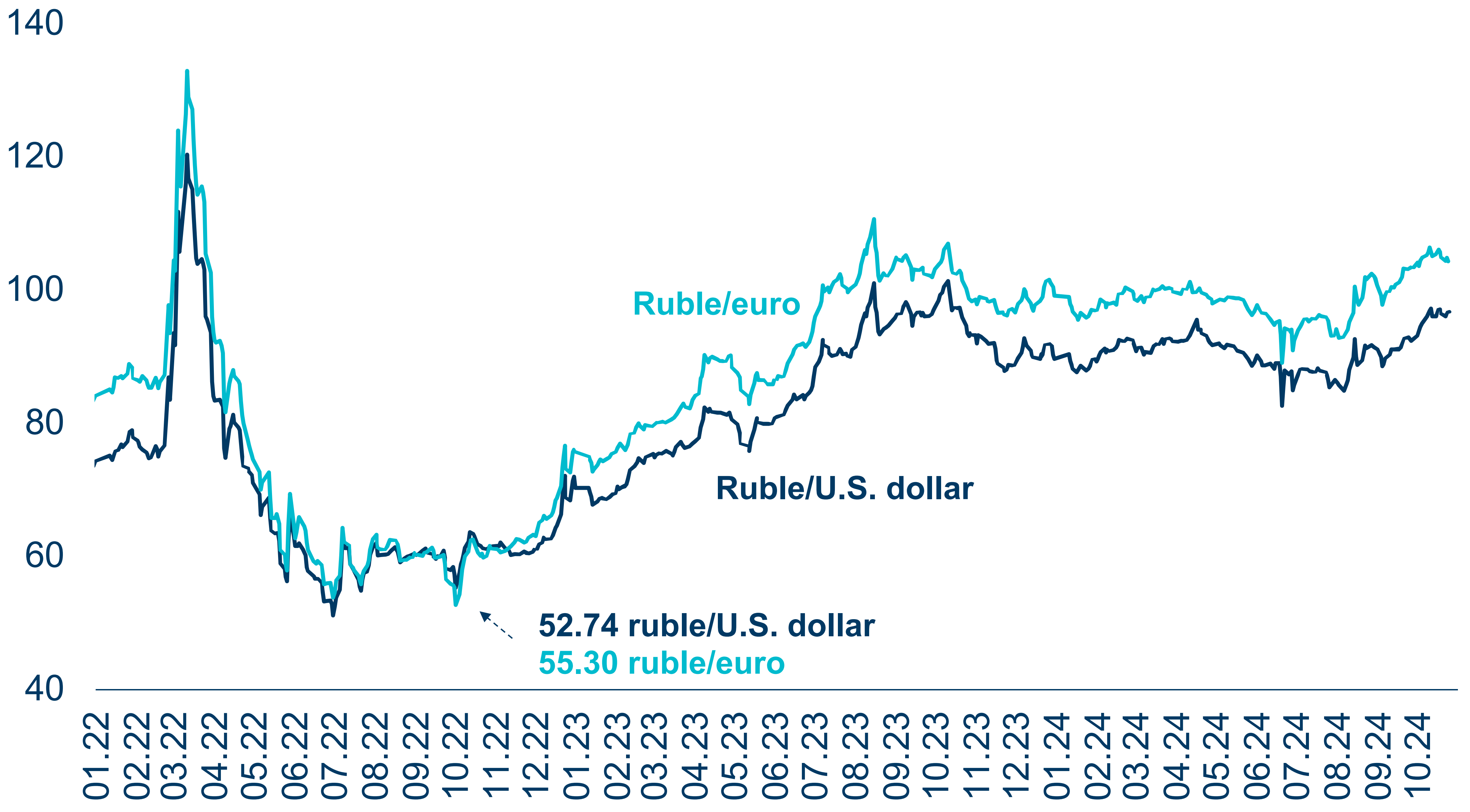
Ruble is weakening again; inflation remains elevated.

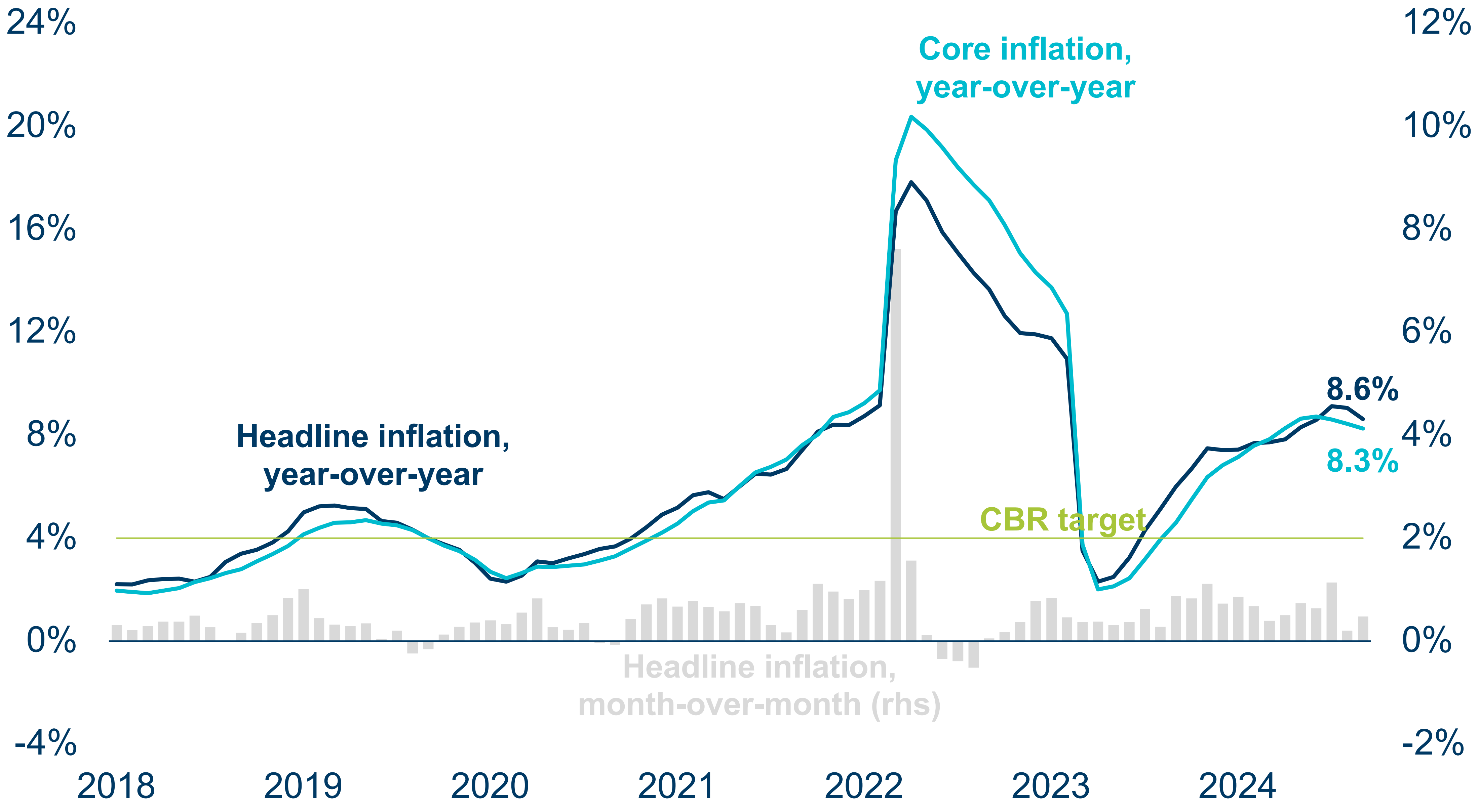
- The ruble exchange rate was stable for around a year but has come under pressure again in recent weeks.
- Altogether, Russia's currency lost 43% of its value vs. the dollar and 50% vs. the euro since the fall of 2022.
- Despite a broadly stable exchange rate, inflation has persistently risen for 1.5 years, reaching 8.6% in Sep.

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



Source: Bank of Russia, KSE Institute

Inflation, in %



Source: Bank of Russia, KSE Institute

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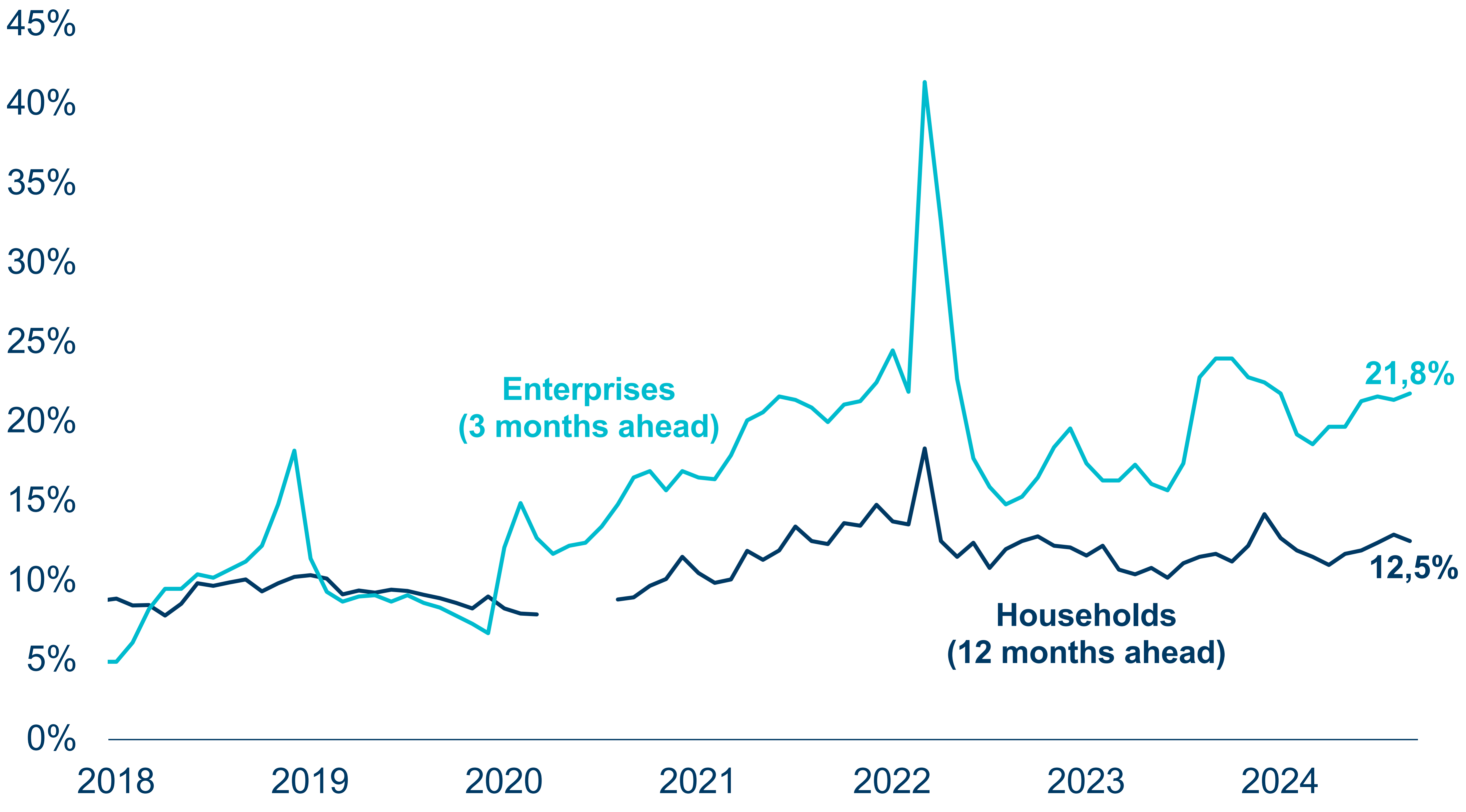
CBR has been forced to undertake dramatic monetary tightening.

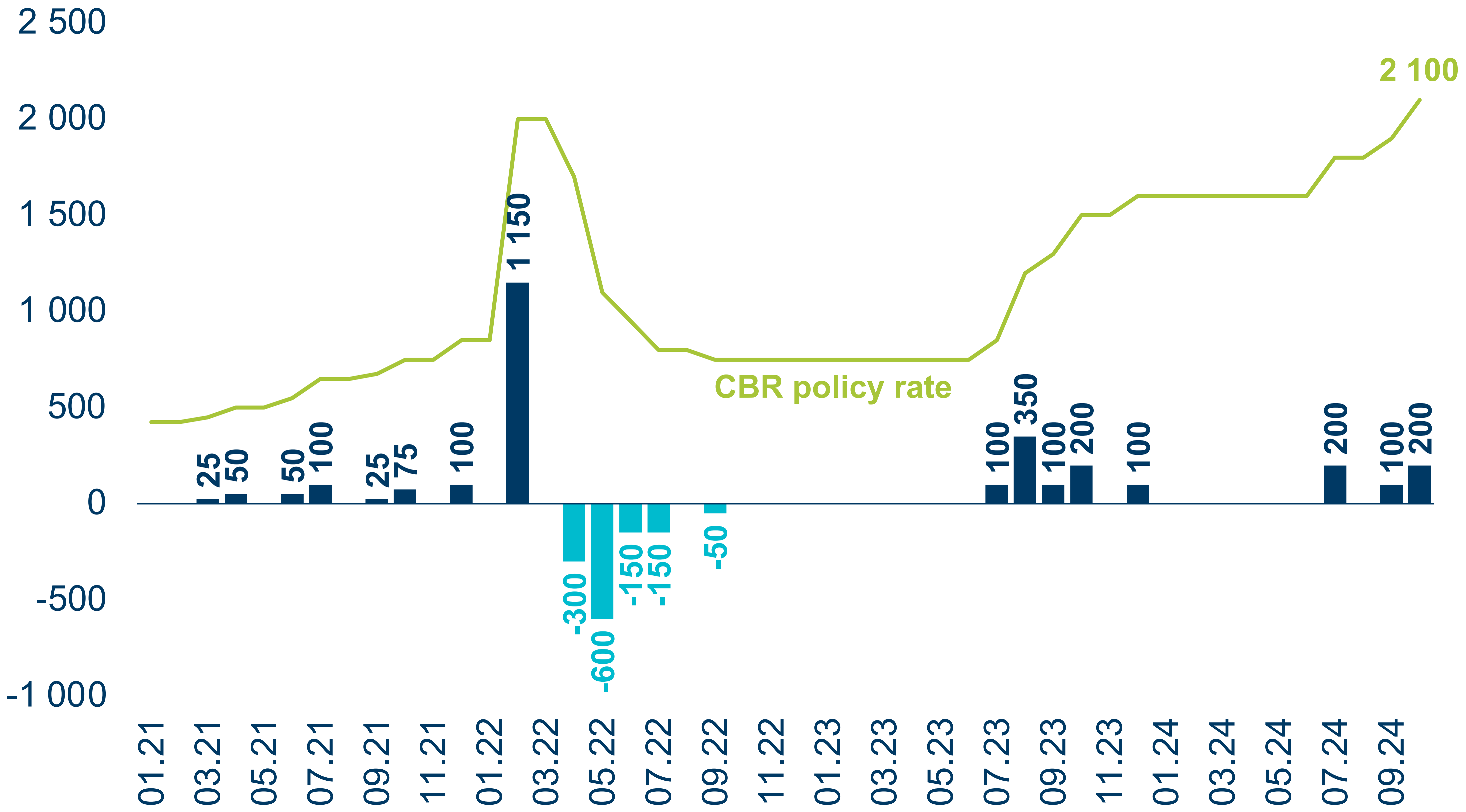
- Drivers of inflation are fiscal stimulus, credit expansion, tight labor market, and ruble depreciation.
- Cumulative interest rate hikes of 1,350 bps have brought the key rate above its Feb.-Mar. 2023 peak.
- So far, significant tightening of monetary policy has failed to bring rising inflation under control.

Inflation expectations, in %



Source: Bank of Russia, KSE Institute

CBR policy rate and MPC decisions, in basis points



Source: Bank of Russia, KSE Institute

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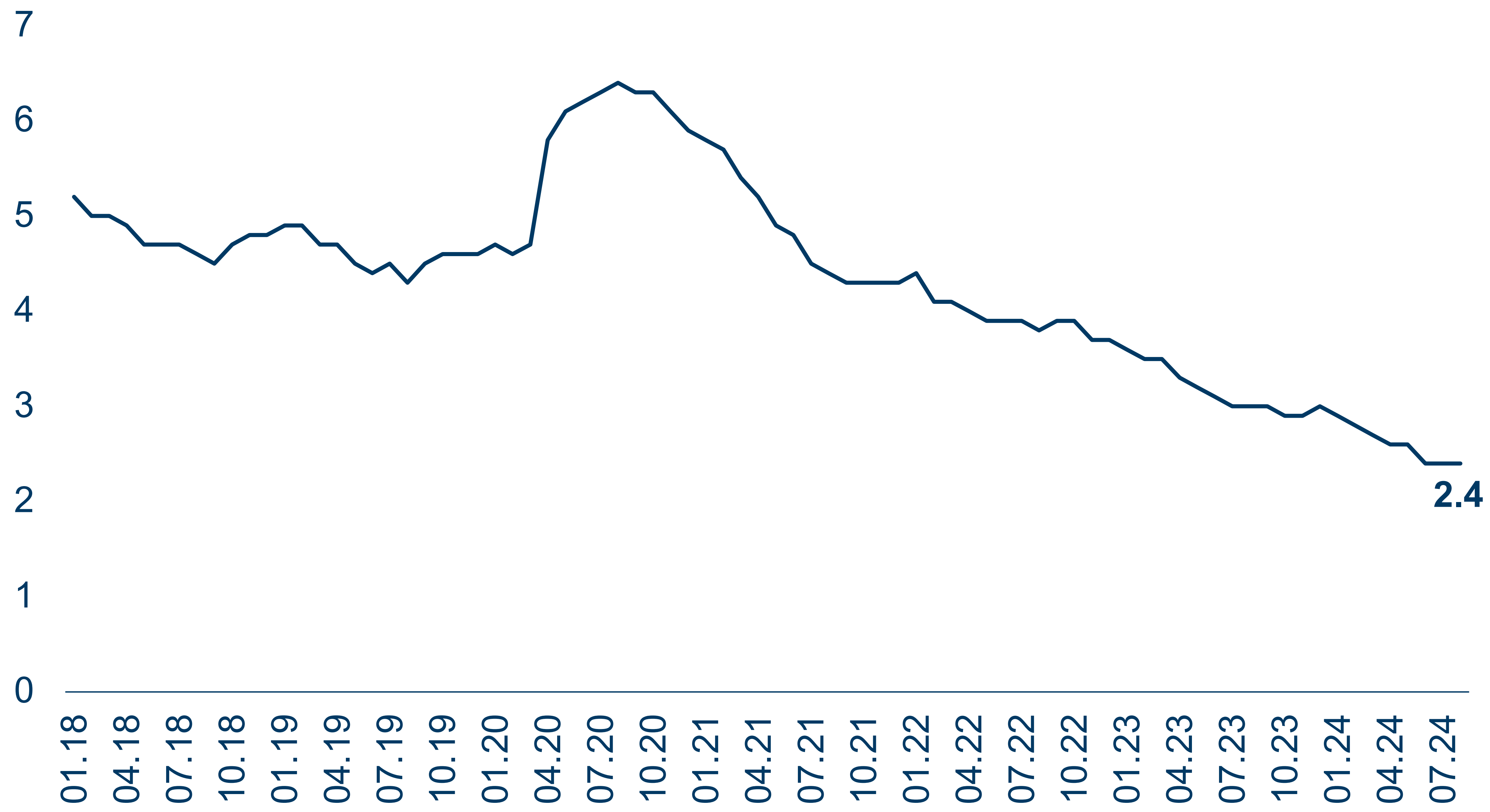
Tight labor market is driving up wages and inflation.

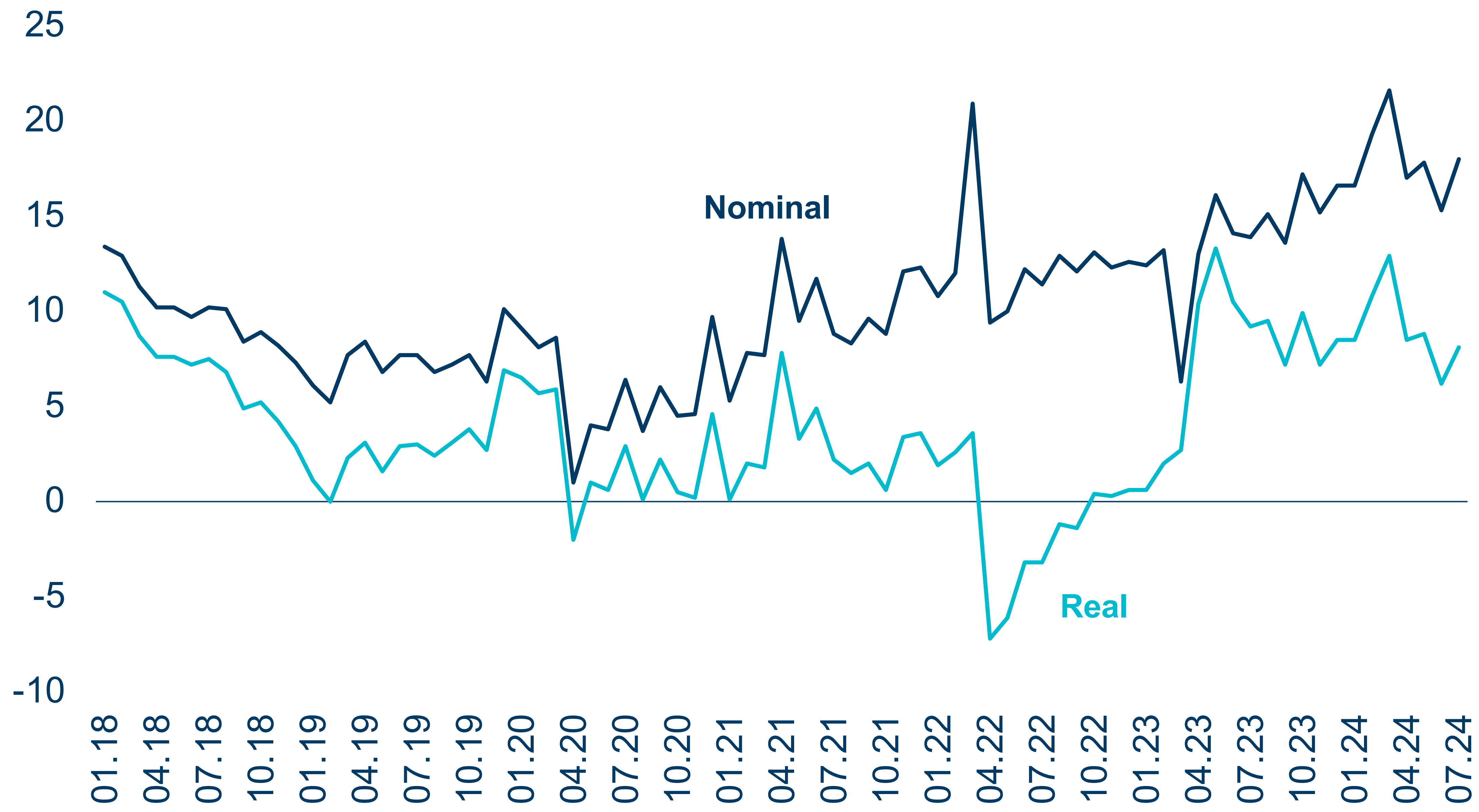
- The unemployment rate remains at record-low level of 2.4%—which technically means full employment.
- Nominal wage growth has trended up since the start of the full-scale invasion and stood at 18.0% in July.
- In addition to creating inflationary pressures, the economy has effectively no spare capacity left to draw from.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

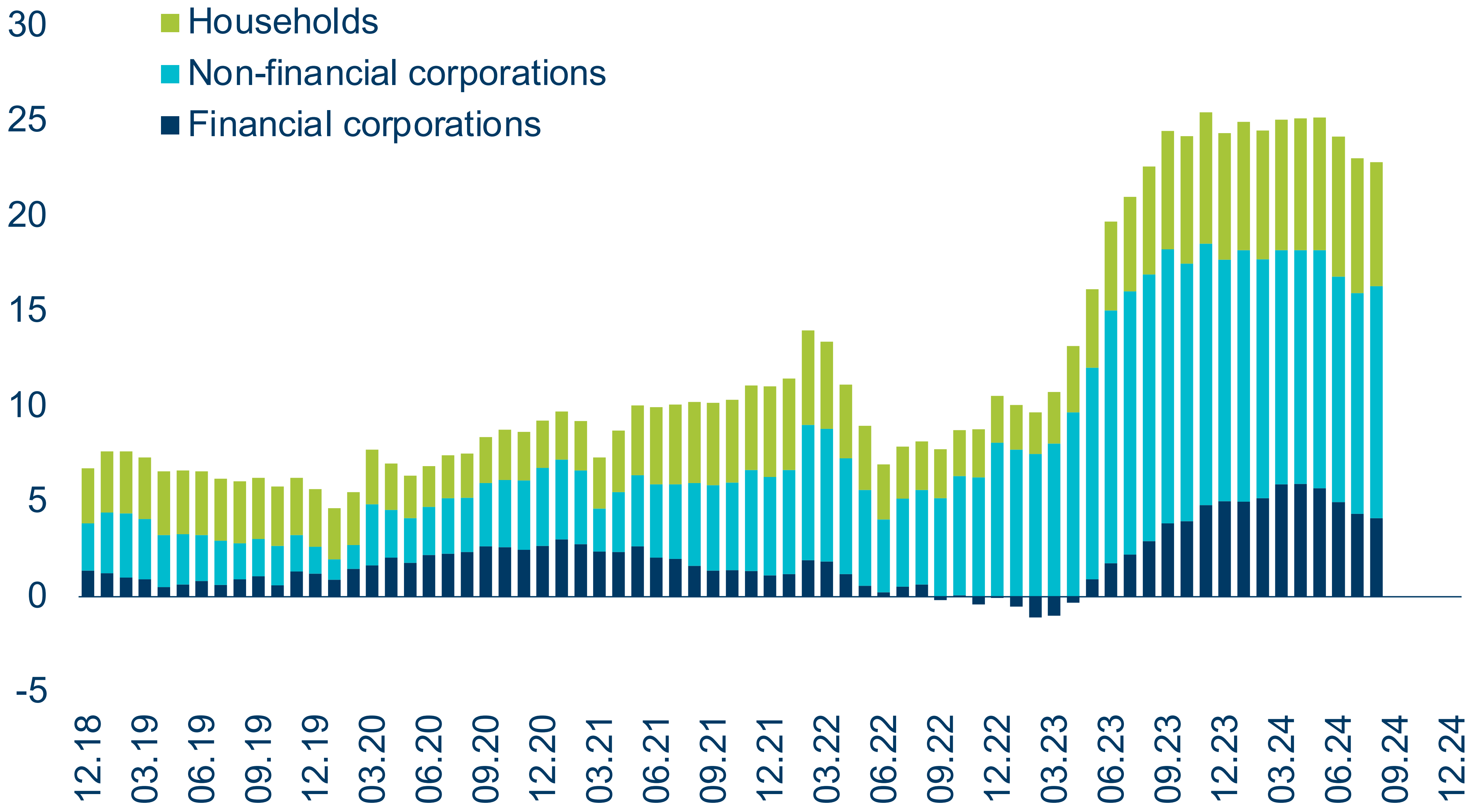


Source: Rosstat

Significant credit growth also makes CBR's job harder.

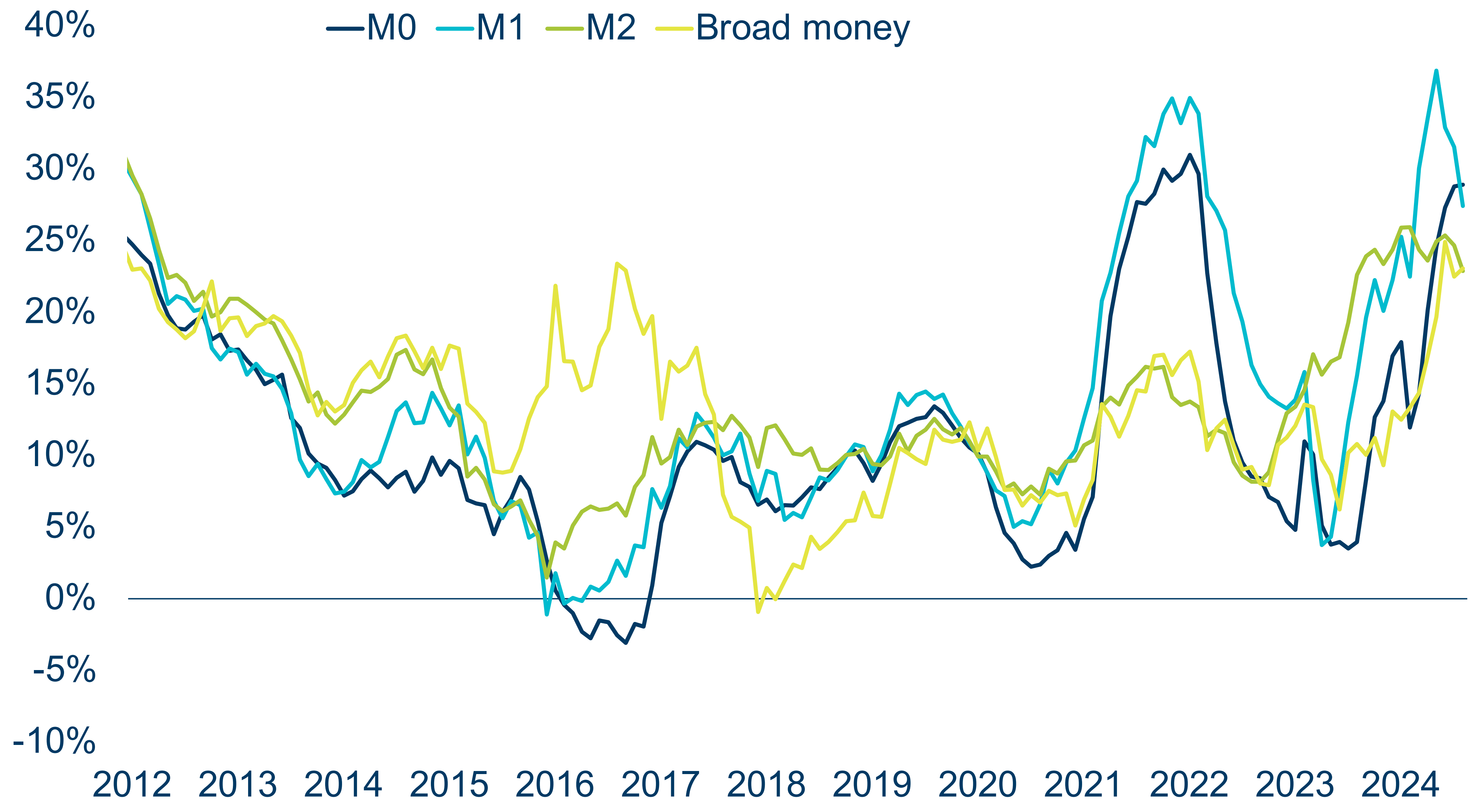
- Credit to the private sector, especially households and non-financial corporations, has grown sharply since early 2023.
- This is on top of the substantial amounts of money that the government has inserted into the economy via the budget.
- Monetary aggregates also reflect that the system is flush with money, which makes it more difficult to control inflation.

Change in credit to the private sector, year-over-year in rube trillion*



Source: Bank of Russia, KSE Institute *by depository corporation excluding the CBR

Growth of monetary aggregates, in % year-over-year



Source: Bank of Russia, KSE Institute

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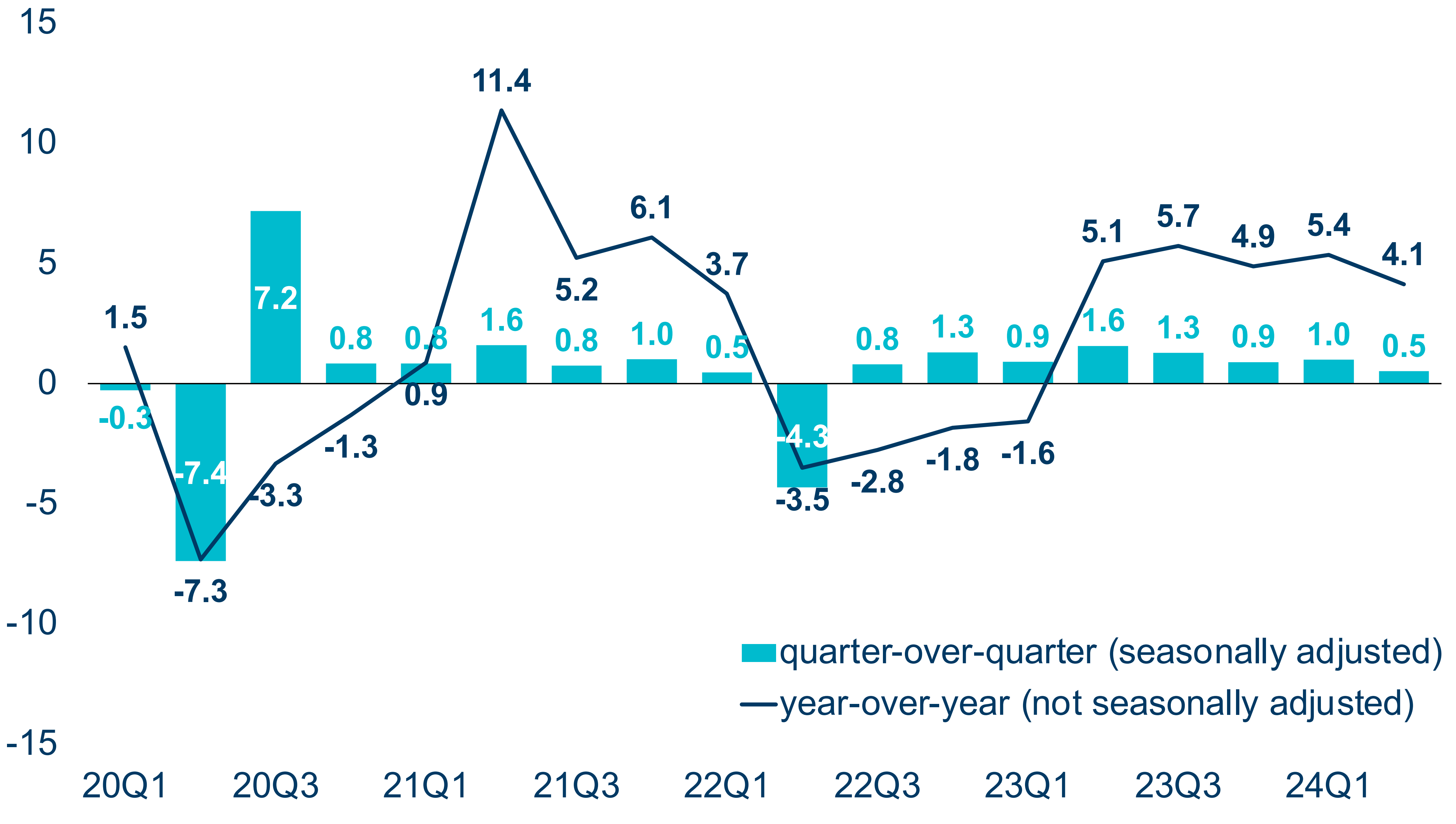
The Russian economy is projected to grow more slowly going forward.

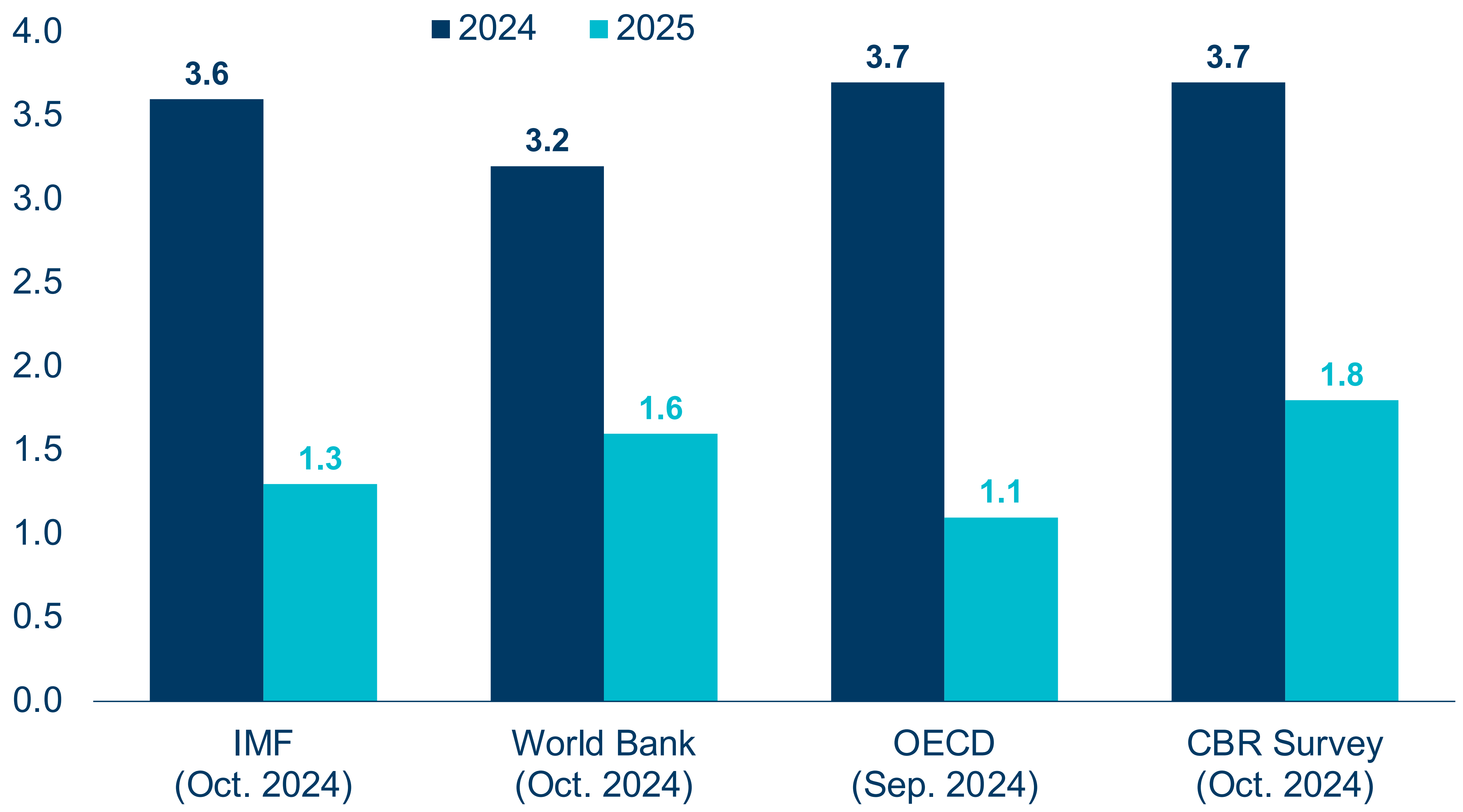
- Real GDP growth in Q2 2024 was reported at 4.1% year-over-year by Russia's statistics agency Rosstat.
- Most institutions, including IMF, World Bank, and CBR, project that growth will decline significantly in 2025.
- Key drivers: labor market constraints, missing (foreign) investment, significantly tighter monetary conditions

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute

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



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

Previous editions of KSE Institute’s Russia Chartbook

- September 2024
- August 2024
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- May 2024
- April 2024
- March 2024
- February 2024
- January 2024
- December 2023
- November 2023
- October 2023
- September 2023
- July 2023
- May 2023
- April 2023
- March 2023
- February 2023
- December 2022