

# KSE INSTITUTE RUSSIA CHARTBOOK

## RUSSIA'S ECONOMY AT THE END OF 2024: WEAK RUBLE, GROWING MACRO IMBALANCES, ECONOMIC MANAGEMENT INCREASINGLY CHALLENGING

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**Benjamin Hilgenstock**  
Head of Macroeconomic  
Research and Strategy  
[bhilgenstock@kse.org.ua](mailto:bhilgenstock@kse.org.ua)



**Yuliia Pavytska**  
Manager of the  
Sanctions Programme  
[ypavytska@kse.org.ua](mailto:ypavytska@kse.org.ua)



**Vira Ivanchuk**  
Research Analyst  
[vivanchuk@kse.org.ua](mailto:vivanchuk@kse.org.ua)

## Executive Summary

- 1. Ruble remains under considerable depreciation pressure.** Following an extended period of exchange rate stability, Russia's currency started depreciating again in the fall and the pace of this development has accelerated in recent weeks. The ruble has now risen above 100 per U.S. dollar again. Altogether, the ruble has lost more than 50% of its value vs the U.S. dollar and the Euro. Overall, depreciation has been broad-based and occurred vs most developed and emerging market currencies. A reduction in net hard currency inflows play an important role as do sanctions on financial institutions and the Moscow Exchange.
- 2. Central bank struggles to contain inflation despite tightening.** The CBR has not yet been able to meaningfully push down inflation even though it has increased the key policy rate by 1,350 bps to 21%. In November, headline inflation stood at 8.9% year-over-year and core inflation at 8.2%. Several factors create inflationary pressures that are difficult to contain: a very tight labor market leading to close to double-digit real wage growth, the large war-related stimulus, a significant expansion of credit to the private sector by Russian banks (+61% or almost \$650 billion since mid-2022), and ruble depreciation. As a result, the central bank will likely be forced to tighten monetary policy further in December with markets expecting an increase in the key interest rate of 200 bps.
- 3. Lower oil prices but broadly supportive external environment.** Russian oil export prices have decreased somewhat in November (to \$64.4/barrel) on the back of lower global prices, while the discount remains at its lowest level since the start of the full-scale invasion (below \$10/barrel). The Russian shadow fleet, which accounted for 90% of all seaborne crude oil exports in November, has allowed Russia to generate significant extra export earnings—\$9.4 billion from crude oil alone in the first eleven months of the year. The recent stepping-up of measures against shadow tankers could weigh on Russia's ability to evade the price cap. The overall external environment remains broadly supportive, with the current account surplus reaching \$57.4 billion in January-November.
- 4. No significant constraints on the budget and war spending.** Russia's federal budget balance reached a deficit of 389 billion rubles over the first eleven months of the year (vs a deficit of 878 billion in January-November 2023). Sharply higher O&G revenues (+26%) and other revenues (+26%) more than offset higher spending (+24%). Due to constrained macroeconomic buffers, Russia had to rely heavily on domestic debt issuance in recent weeks (1.9 trillion in December to date) to finance the budget deficit. To attract sufficient interest from banks, the CBR set up a repo scheme through which it provided almost 1.2 trillion in liquidity.

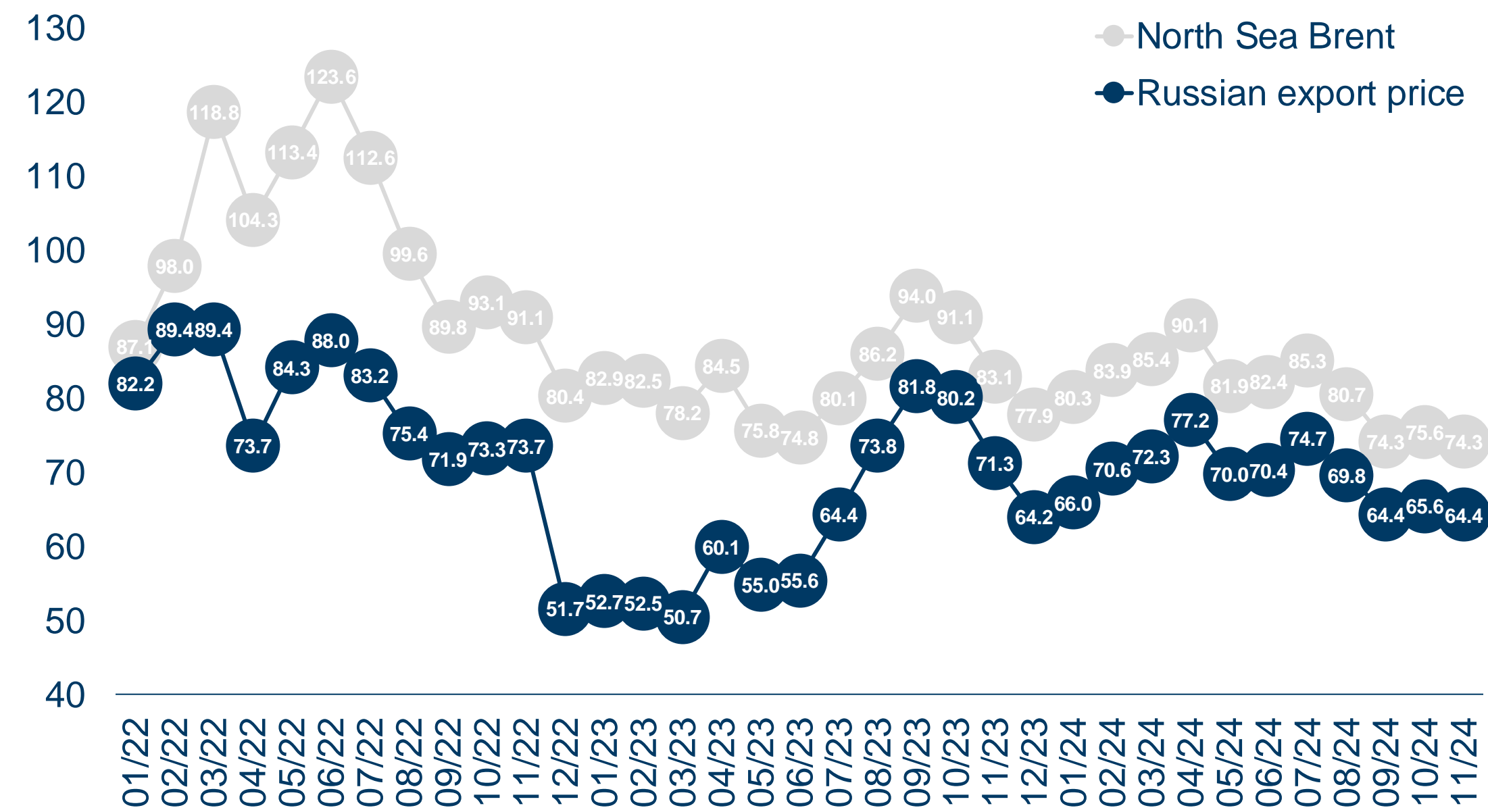
**Russian oil export revenues still  
insufficiently constrained; shadow  
fleet allows for extra earnings.**



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

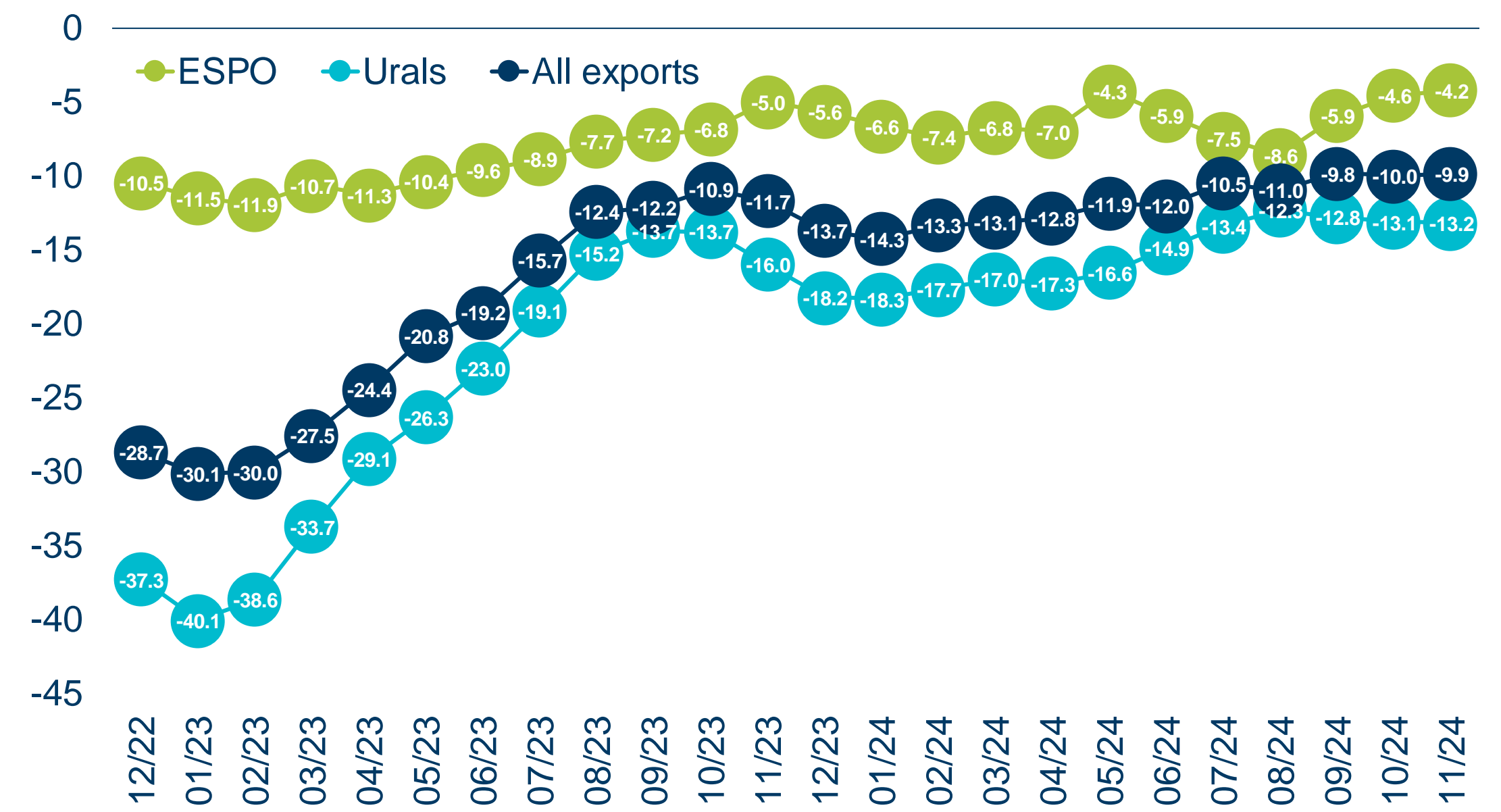
- Prices for Russian oil exports have remained relatively close to the price cap's \$60/barrel threshold since Sep.
- However, the discount on Russian oil vs Brent is also at its lowest level since the start of the full-scale invasion.
- Thus, this has nothing to do with stricter sanctions enforcement and is entirely driven by weaker global 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

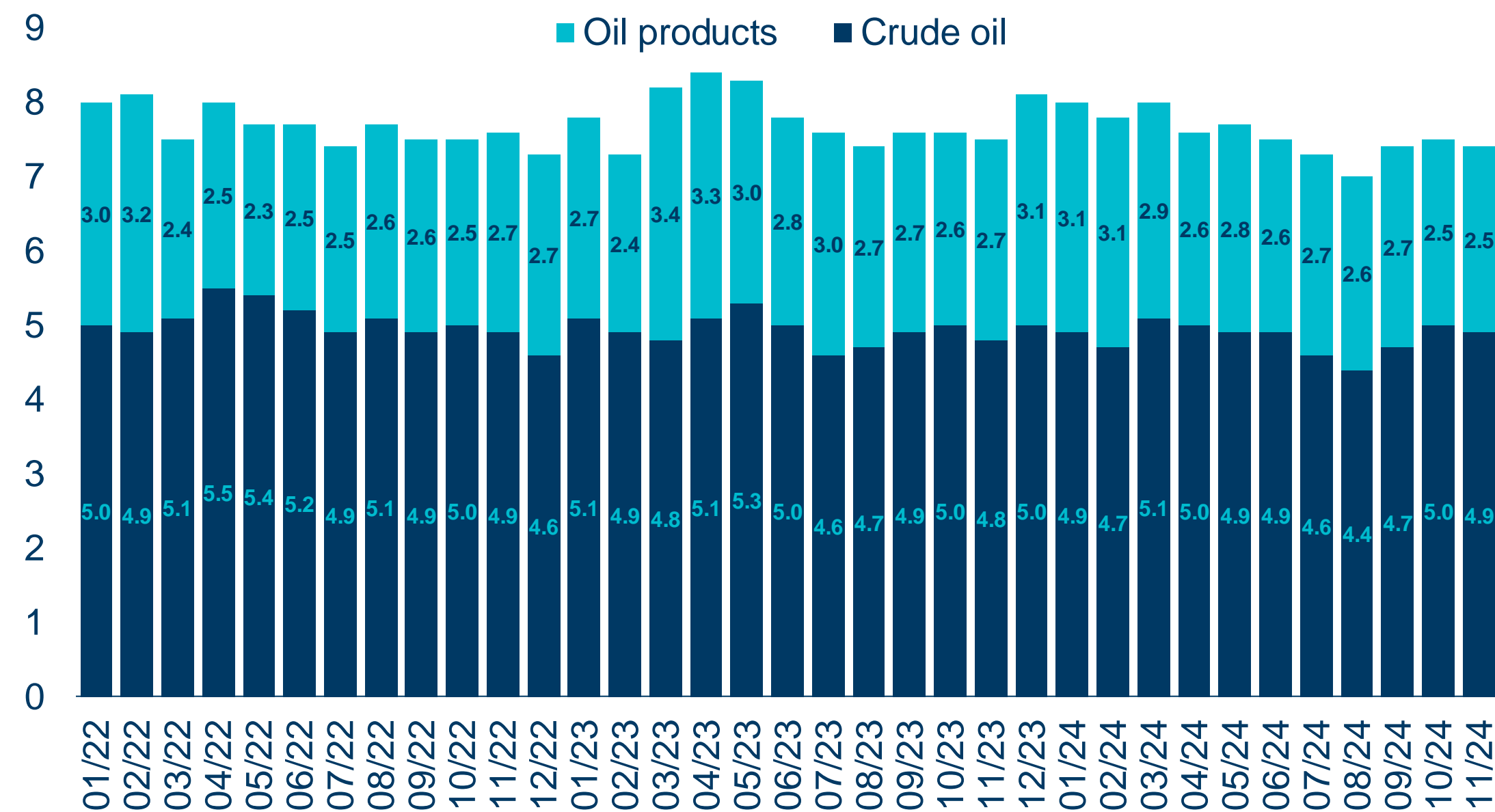


Source: International Energy Agency, KSE Institute

## Supply of Russian oil to the global market remains stable.

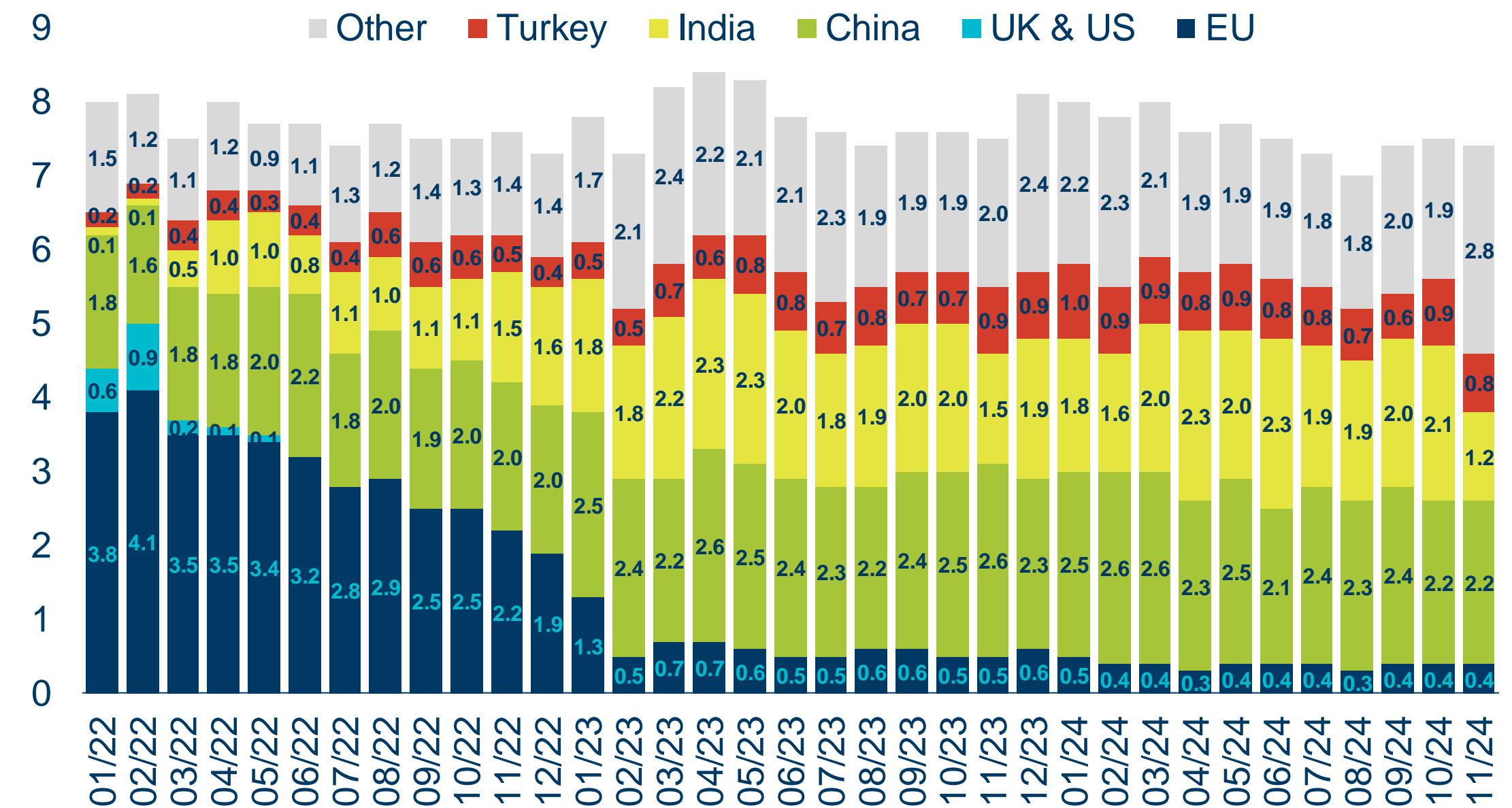
- Russian oil export volumes have been remarkably steady over the last 2.5 years despite sanctions.
- Thus, the price cap has succeeded at keeping Russian oil on the market and prevent supply issues.
- China, India, and Turkey are the most important buyers, together accounting for 60-70% of exports.

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\*

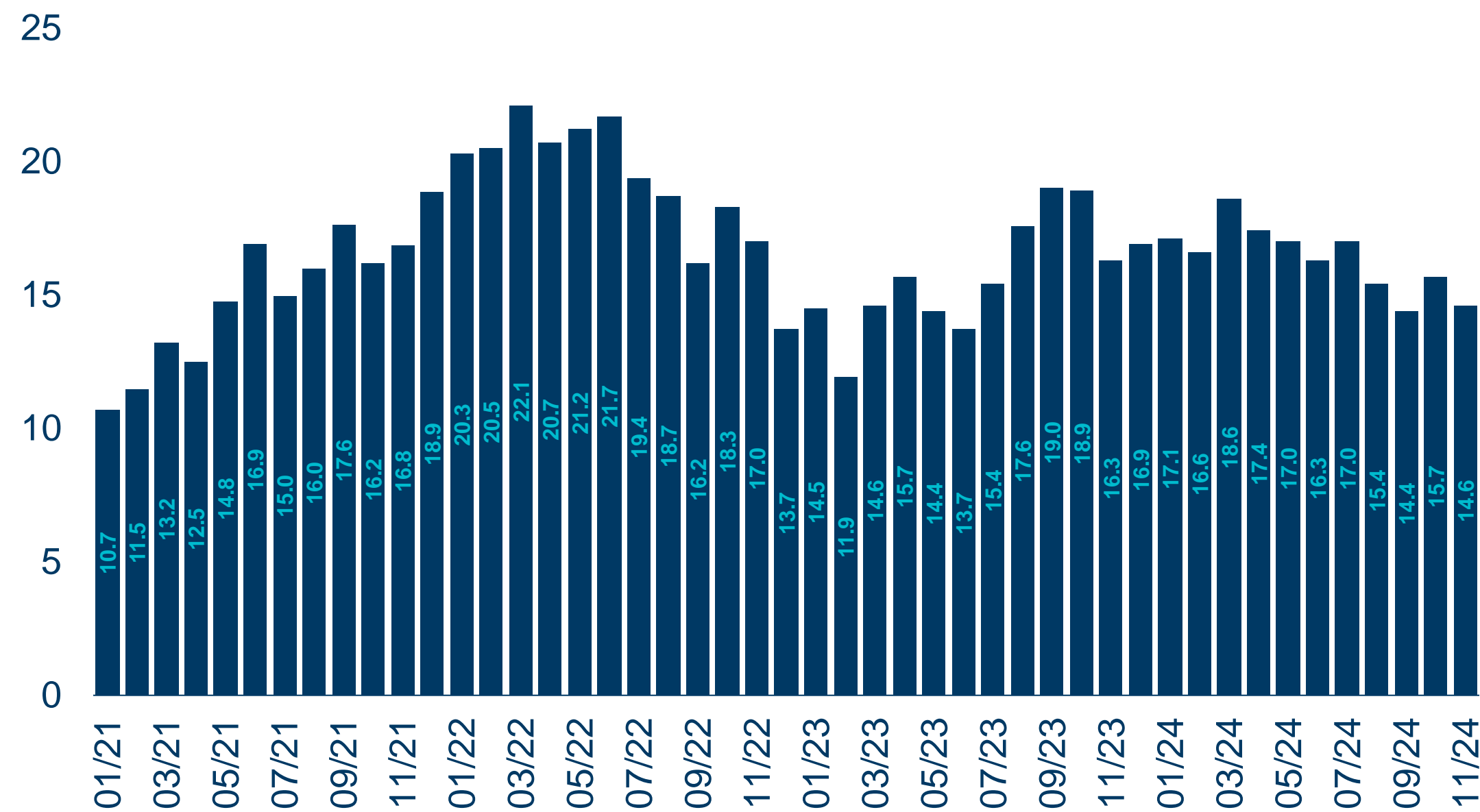


Source: International Energy Agency, KSE Institute \*no March data from IEA

## Ineffective price cap helps Russia with exports and budget revenues.

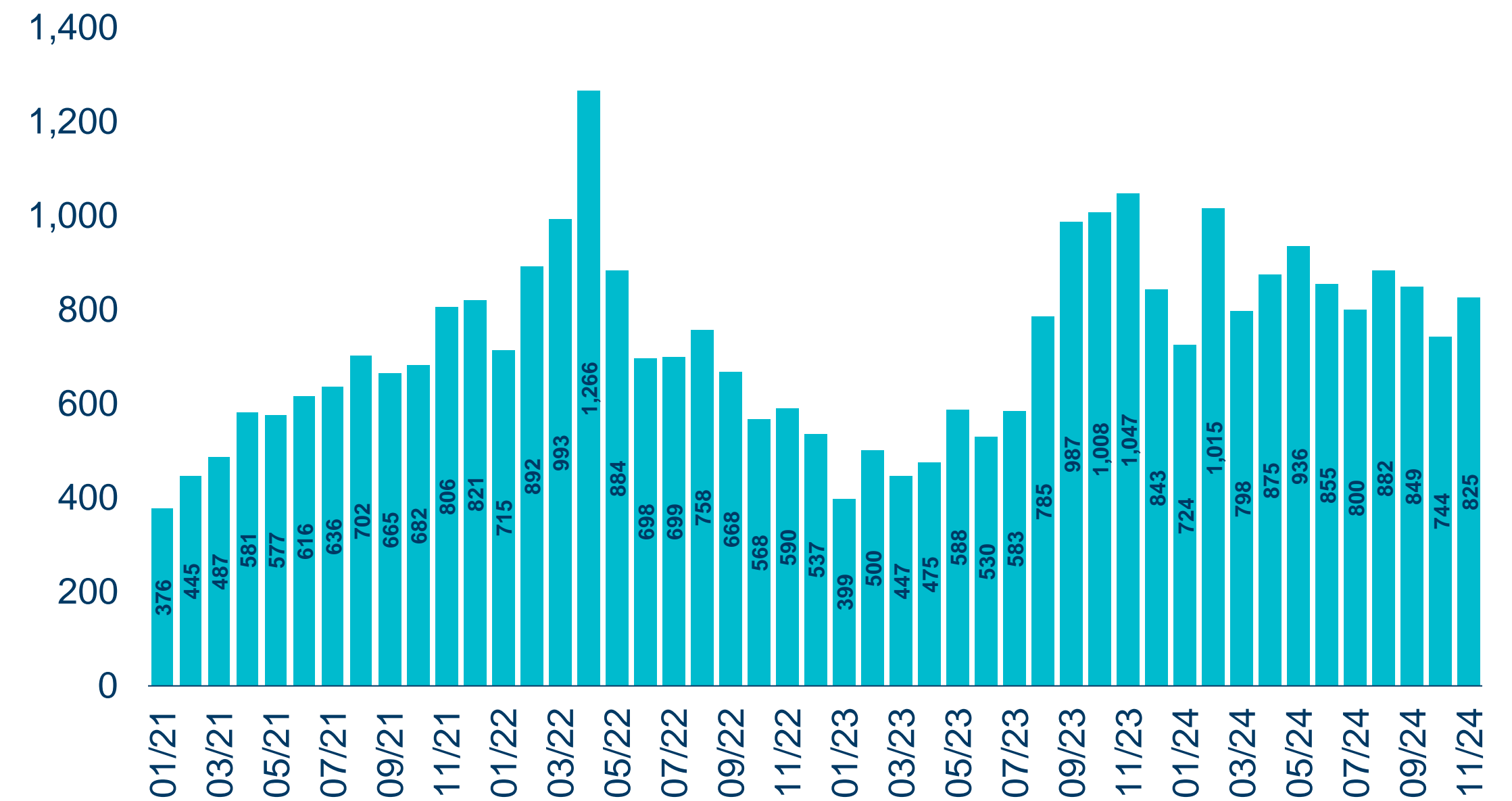
- Russian oil export earnings decreased to \$14.6 billion in Nov. on the back of somewhat lower prices.
- For 11M 2024, earnings were 5% higher than in 11M 2023 and only 17% weaker than in 11M 2022.
- Budget revenues for 11M 2024 were 27% higher than in 11M 2023 (and 7% higher than in 11M 2022).

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\*



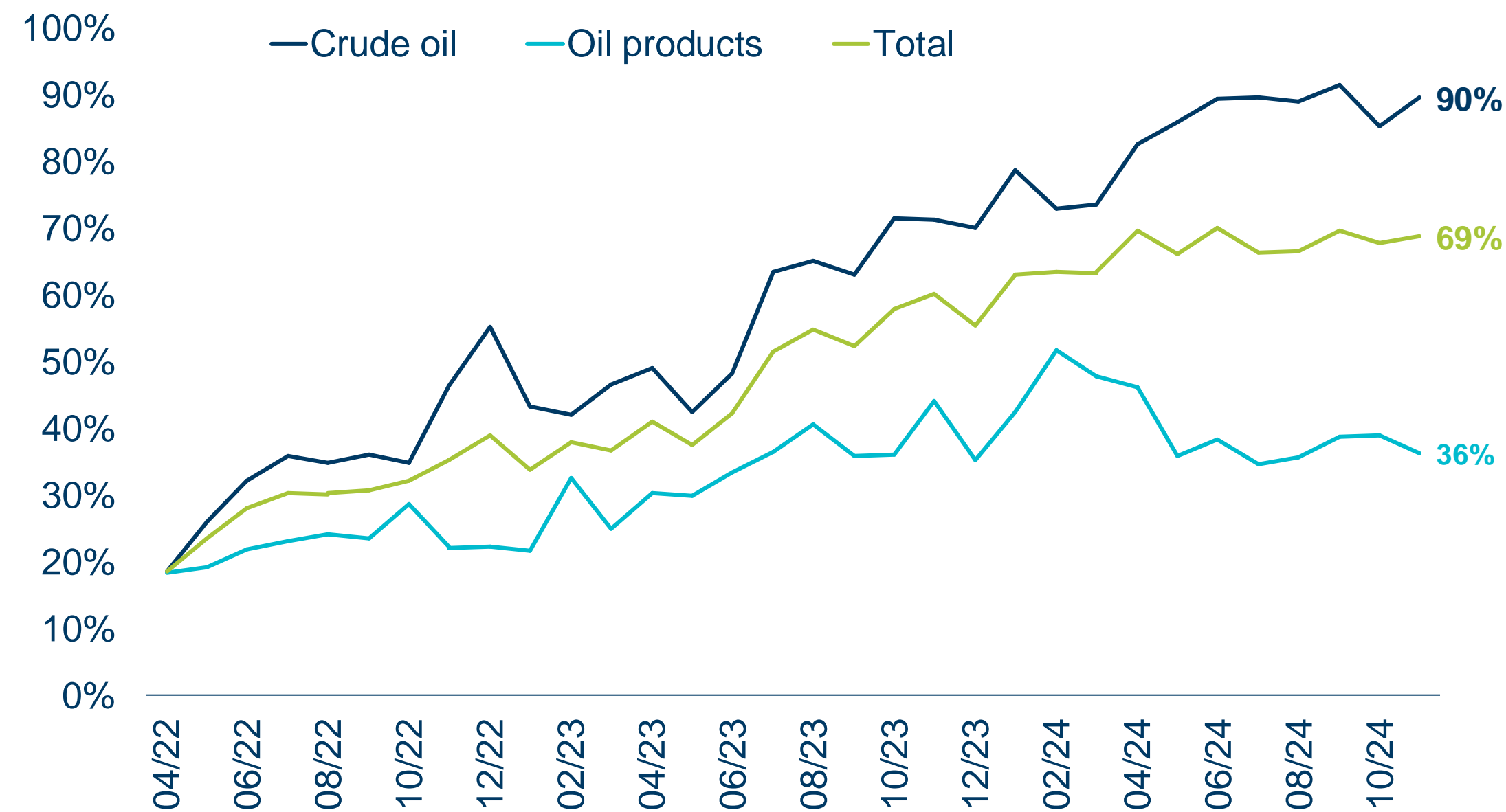
Source: Ministry of Finance, KSE Institute \*includes extraction tax and export duty

## Shadow fleet has fundamentally eroded the price cap's leverage.

- The shadow fleet allows Russia to evade the G7+ oil price cap for a large share of its exports.
- In Nov. 2024, 90% of seaborne crude oil was transported without involvement of G7+ services.
- This has allowed Russia to generate \$9.4 billion in extra export earnings over Jan.-Nov. 2024.

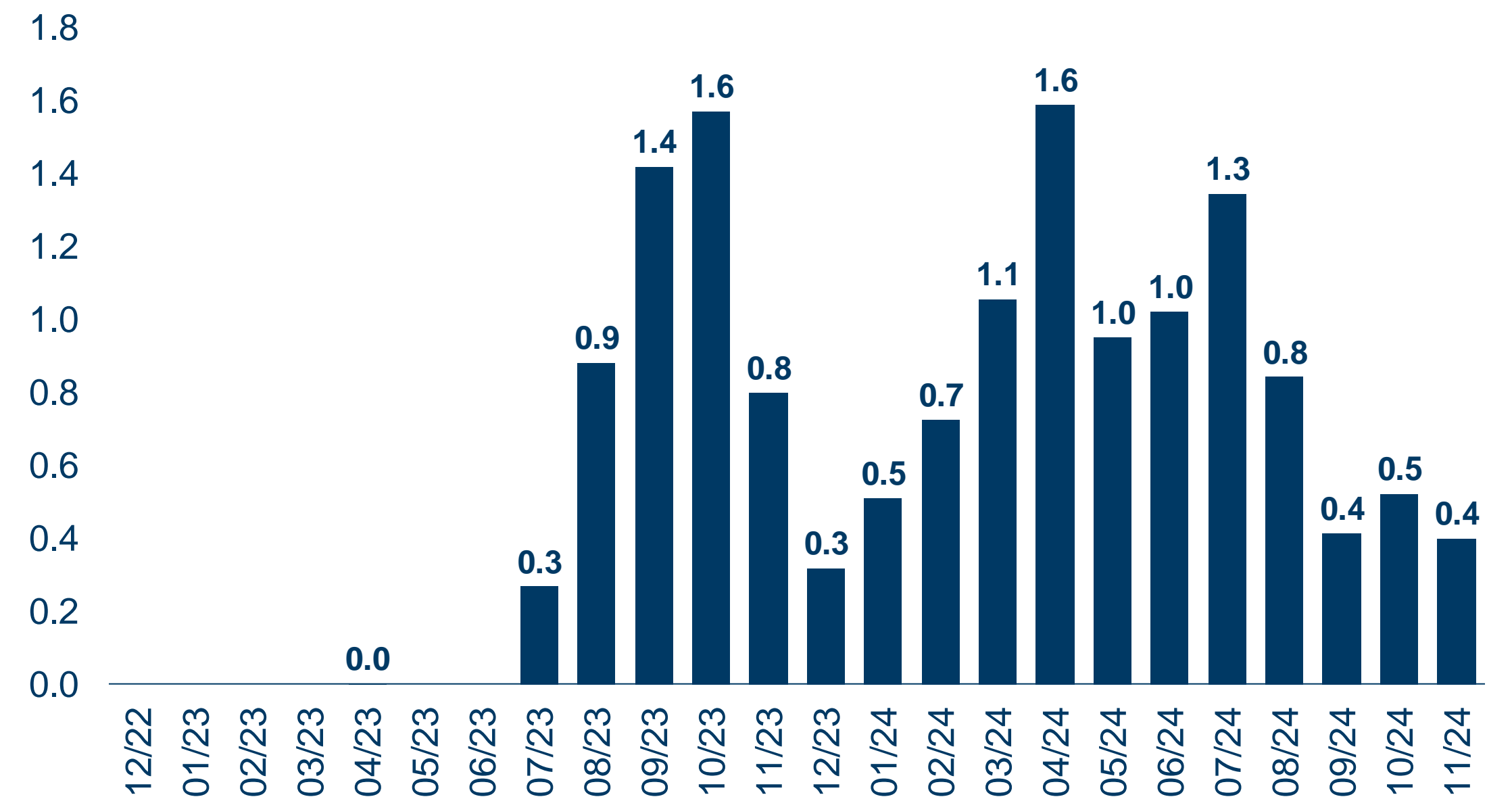
Read KSE Institute's in-depth assessments of the shadow fleet [here](#), [here](#), and [here](#).

Composition of seaborne oil exports, in %



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

Additional export earnings from crude oil, in U.S. dollar billion



Source: Equasis, International Energy Agency, Kpler, P&I Clubs, KSE Institute



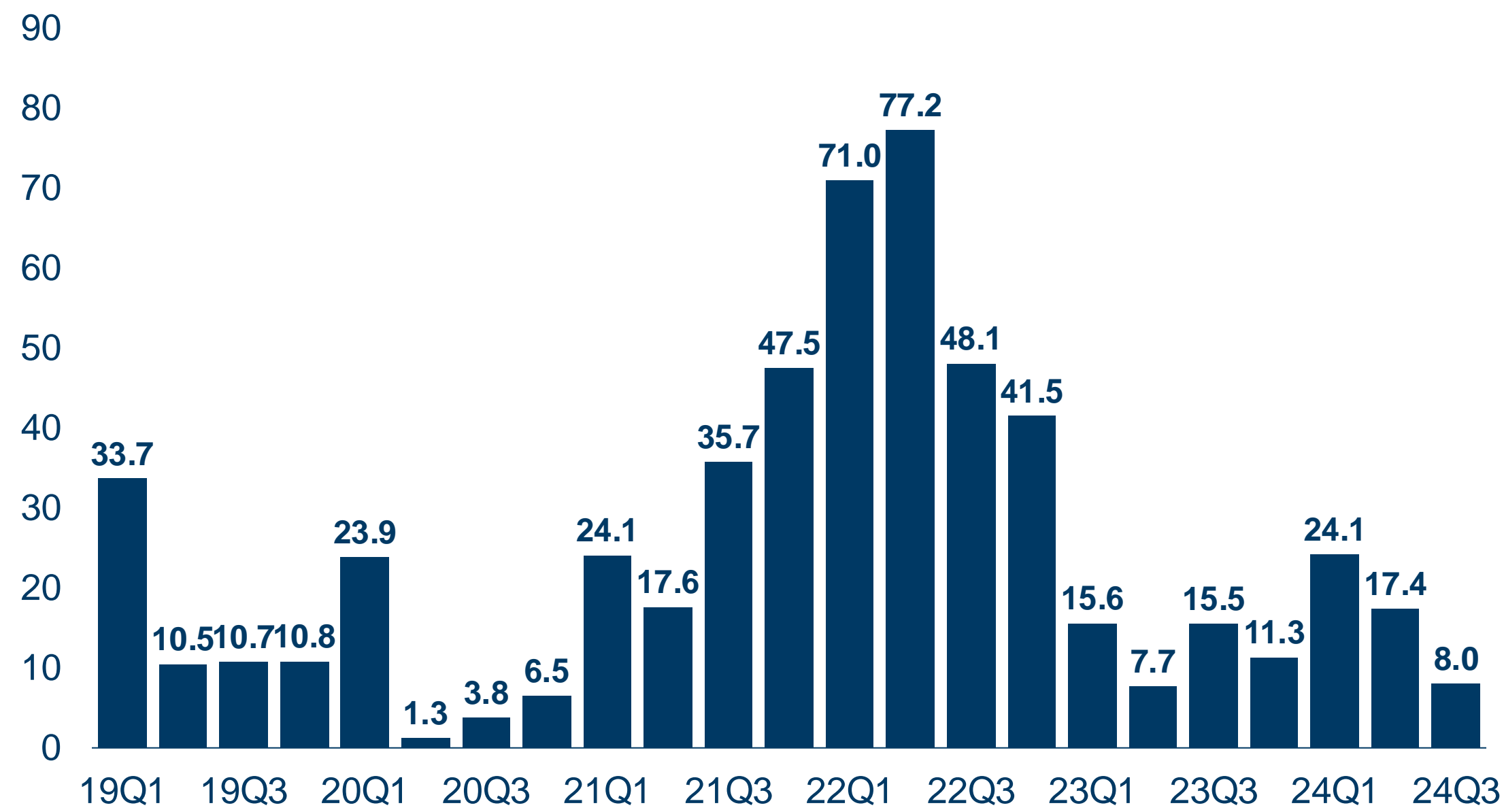
**External conditions remain supportive;  
weak sanctions enforcement helps Russia;  
hard currency inflows remain limited.**



## External environment has become more supportive in 2024.

- Russia’s current account surplus was \$3.2 billion in Nov. (vs \$4.7 billion in Oct. and \$6.2 billion in Sep.).
- Goods exports continued to decline, while imports weakened, and the services and income deficits shrunk.
- The 11M 2024 surplus of \$57.4 billion is 16% bigger than in 11M 2023 and 15% 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

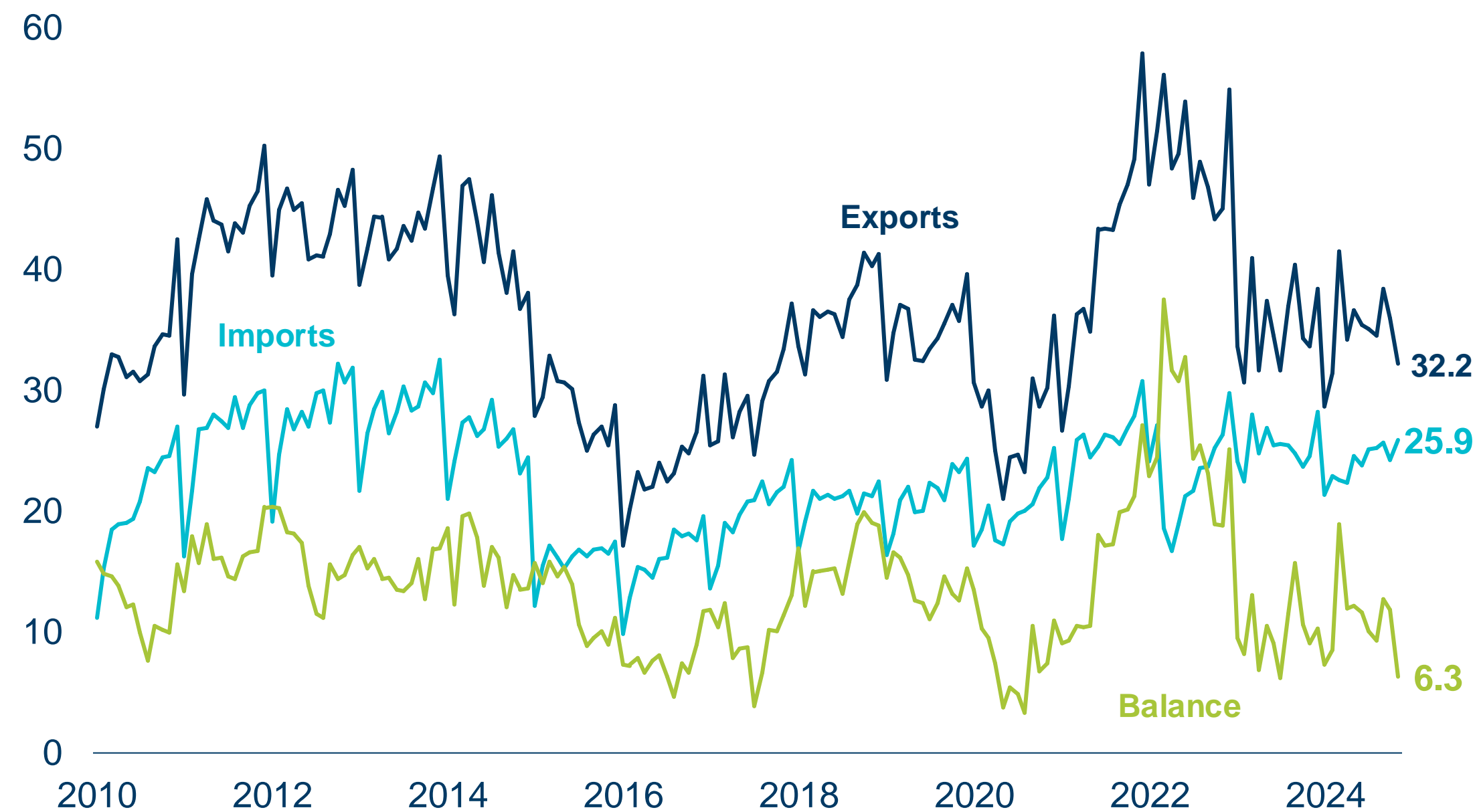
Time period	C/A		Goods		Services			Income & transfers		
	Bal.	Bal.	Exp.	Imp	Bal.	Cred.	Deb.	Bal.	Cred.	Deb.
Q1 2024	24.1	34.9	101.4	66.5	-7.3	10.2	17.5	-3.5	9.3	12.8
Q2 2024	17.4	35.8	105.7	69.9	-9.4	9.9	19.3	-9.1	8.5	17.5
Q3 2024	8.0	32.4	110.1	77.7	-12.7	10.3	23.0	-11.7	8.5	20.1
September 2024	6.2	12.4	39.1	26.8	-3.7	3.3	7.0	-2.5	2.9	5.5
October 2024	4.7	9.1	36.6	27.5	-2.8	3.7	6.4	-1.6	3.1	4.7
November 2024	3.2	6.3	32.2	25.9	-2.1	3.4	5.5	-1.1	2.7	3.8
Jan.-Nov. 2024	57.4	118.6	386.0	267.5	-34.3	37.4	71.7	-26.9	32.0	58.9
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
Sep. 2023	9.9	15.5	40.3	24.8	-2.5	3.2	5.7	-3.1	3.5	6.6
Oct. 2023	5.4	10.9	34.3	23.4	-2.4	3.4	5.7	-3.2	3.3	6.5
Nov. 2023	5.3	9.5	33.8	24.3	-1.9	3.3	5.2	-2.3	3.0	5.3
Jan.-Nov. 2023	49.5	110.7	385.8	275.1	-31.1	36.6	67.7	-30.1	40.4	70.5

Source: Bank of Russia, KSE Institute

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

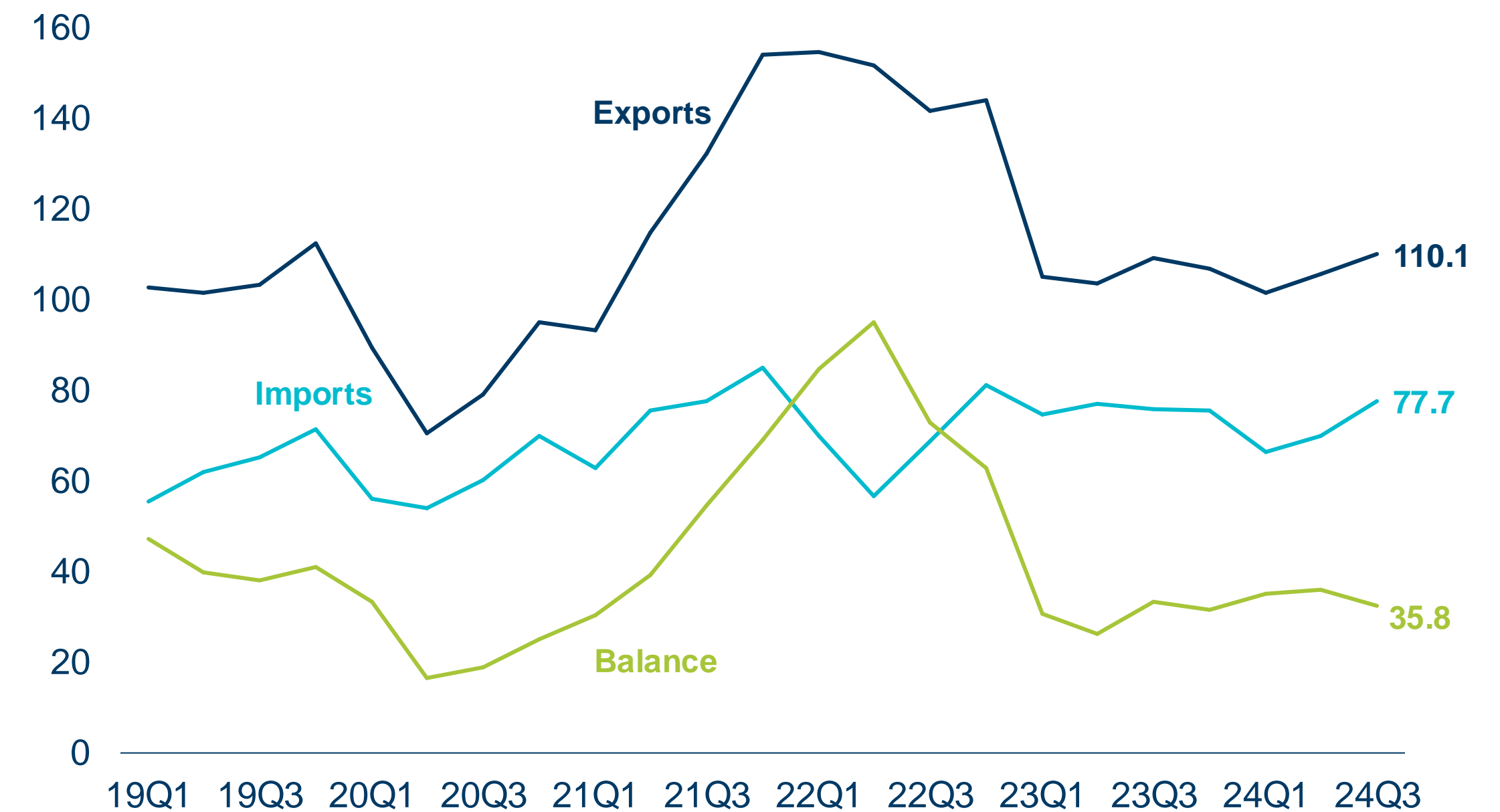
- Russia’s foreign trade has stabilized at a new baseline of ~\$100 billion in exports and ~\$75 billion in imports per quarter.
- This represents a significant change to 2022 when soaring commodity prices drove up exports while imports weakened.
- However, any further erosion of Russia’s external accounts 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

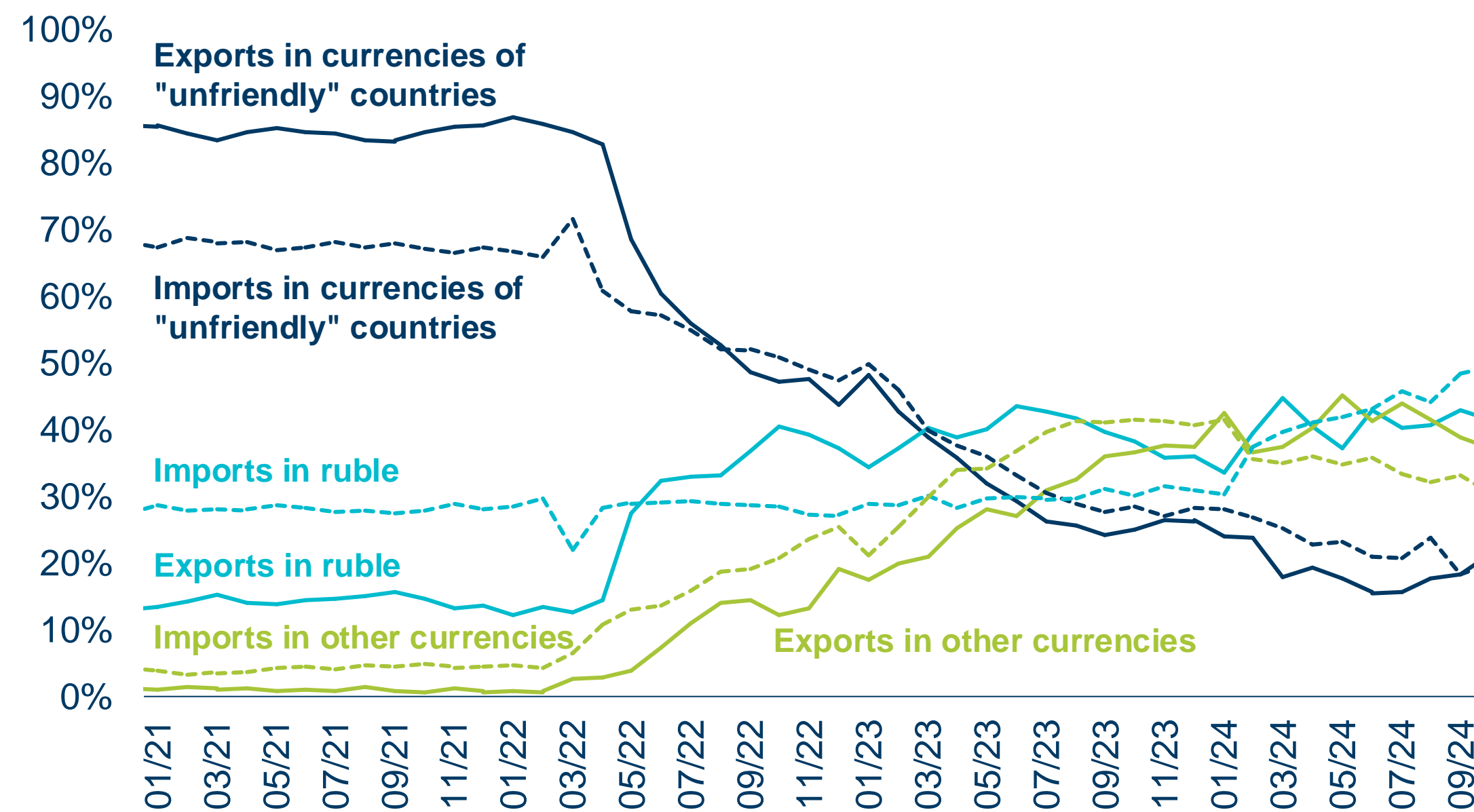


Source: Bank of Russia, KSE Institute

## Change to currency composition of trade creates hard currency shortage.

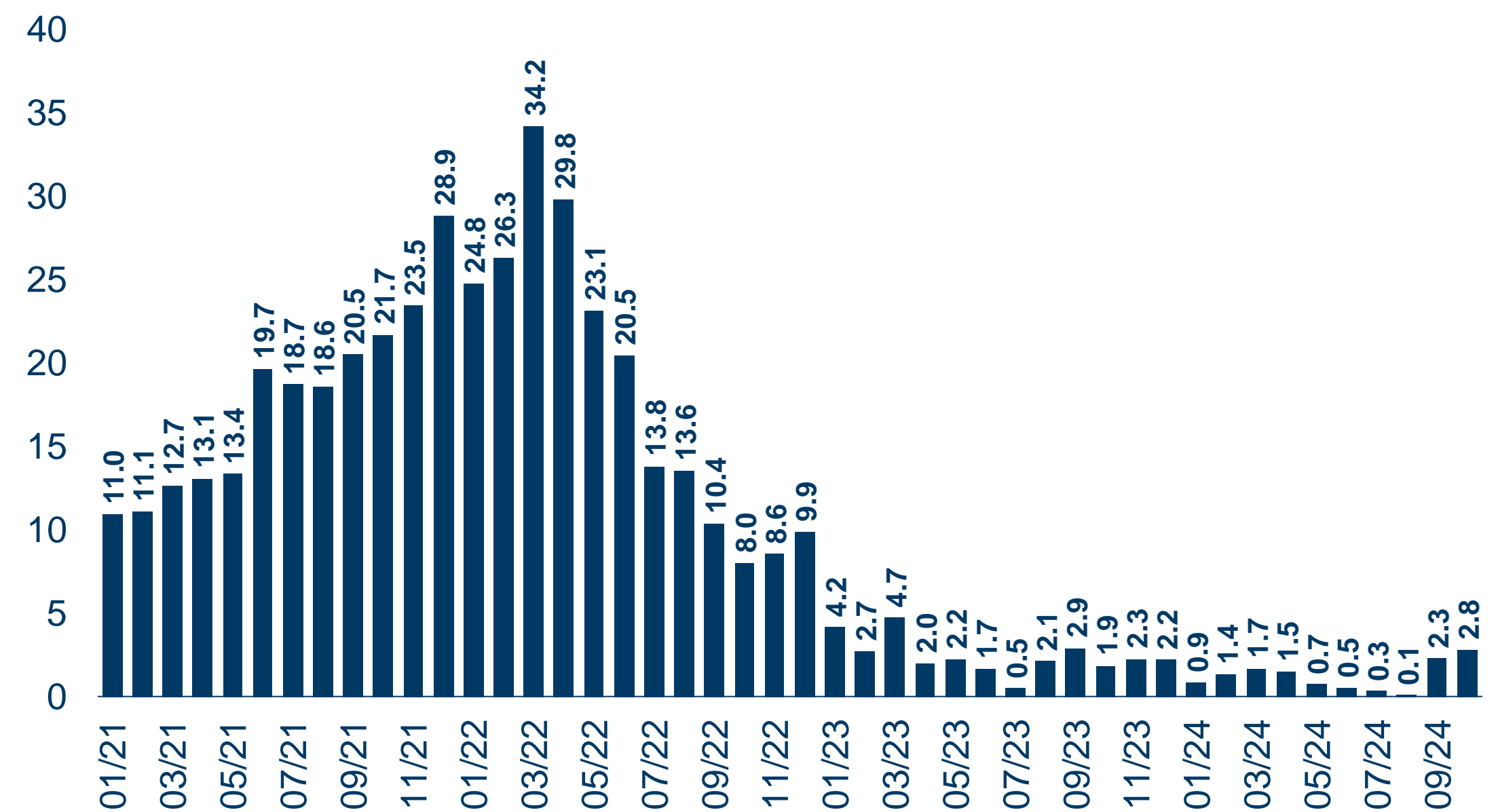
- The share of “unfriendly” countries’ currencies (e.g., USD, EUR, GBP, JPY, CHF) in Russian trade has been reduced.
- Other currencies have risen for both exports and imports, while the ruble has gained importance mostly for exports.
- These shifts have created a shortage of hard currency as net inflows from goods trade have fallen sharply since 2022.

Currency composition of Russia’s foreign trade, in %



Source: Bank of Russia

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

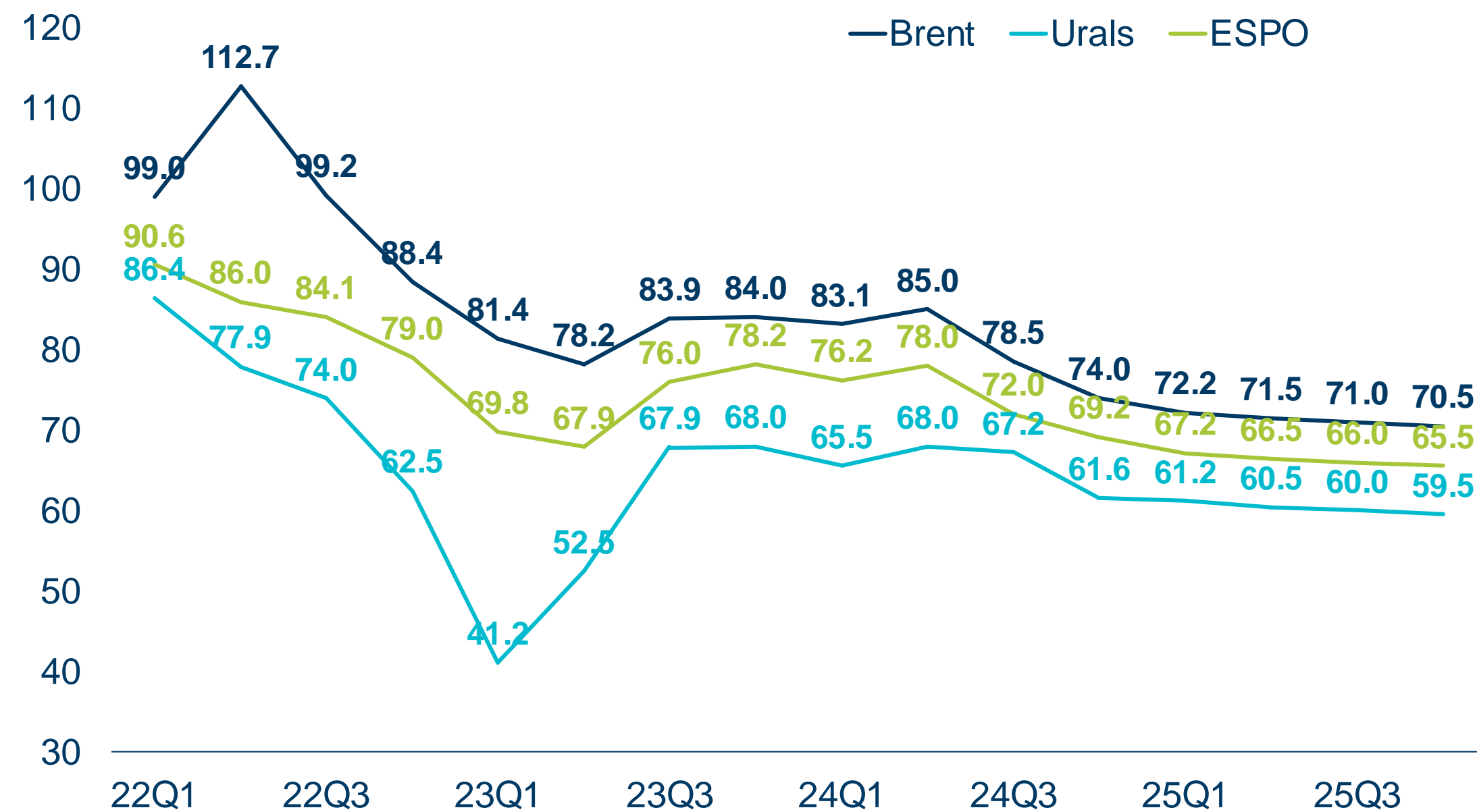


Source: Bank of Russia, KSE Institute \*includes currencies of “unfriendly” countries

## Weak sanctions enforcement scenario is increasingly likely.

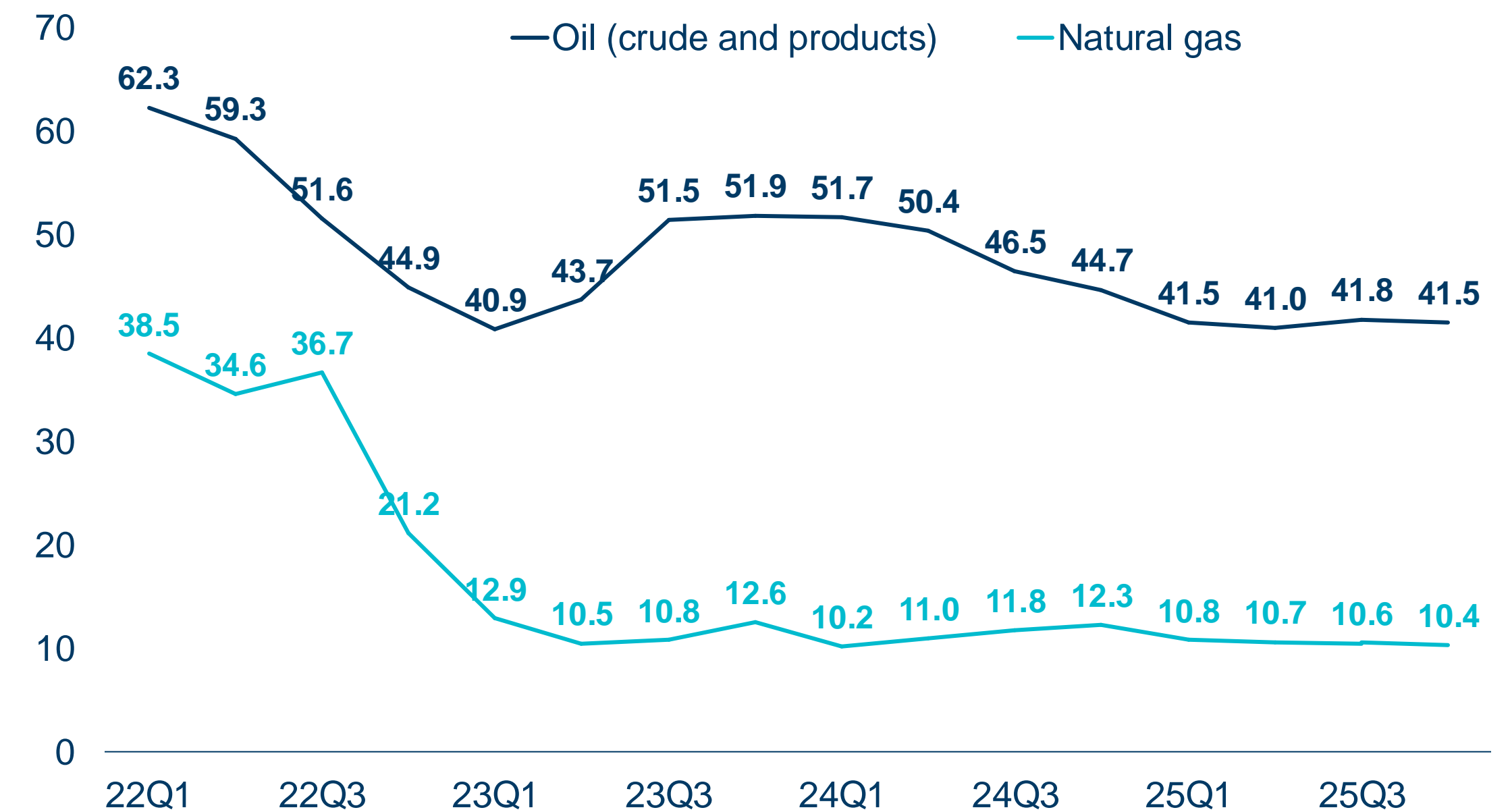
- It looks increasingly likely that our bearish scenario of weak energy sanctions enforcement is materializing.
- This scenario assumes an Urals discount of \$11/barrel and an ESPO discount of \$5/barrel going forward.
- In this situation, Russia would be able to generate significantly higher oil export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



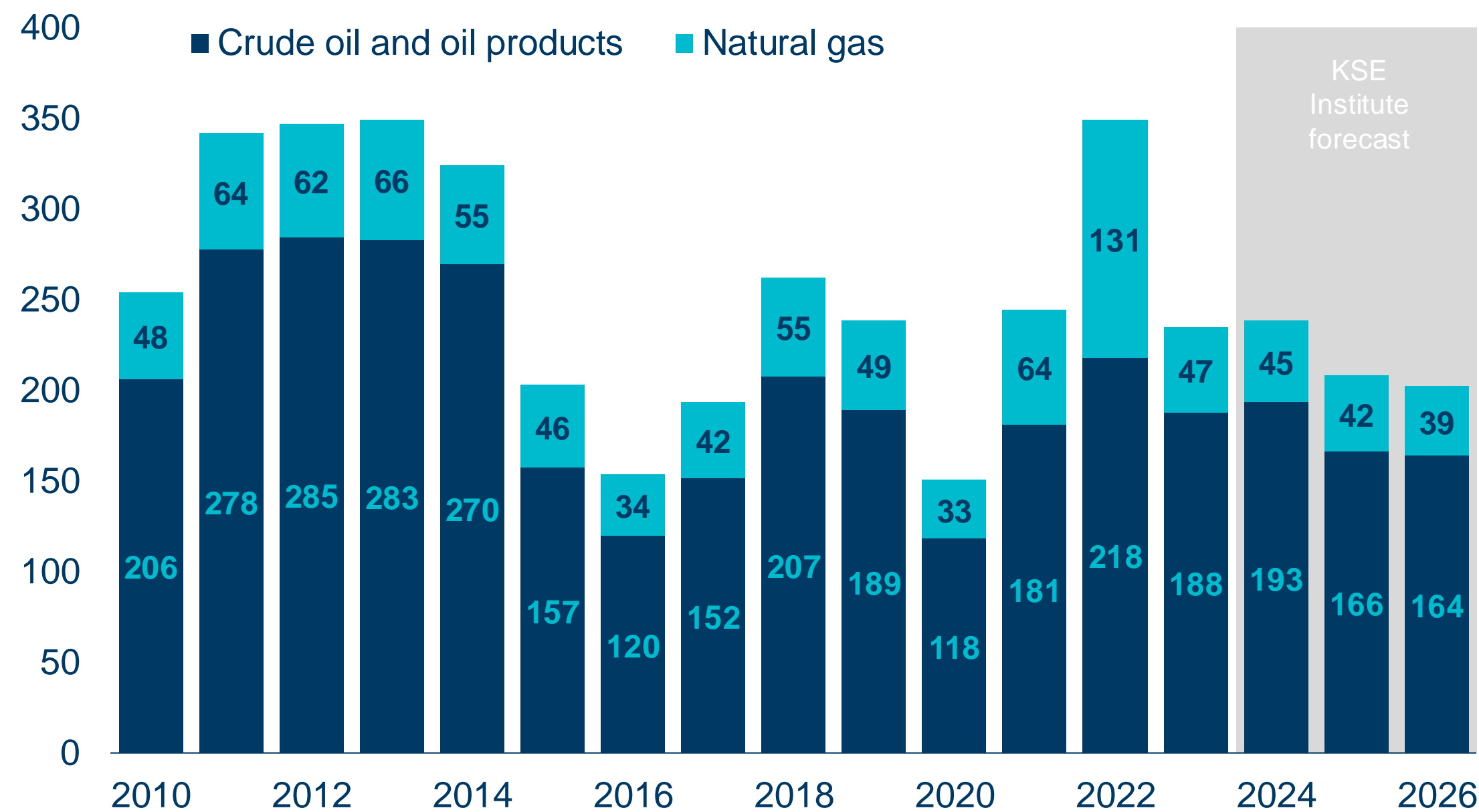
Source: KSE Institute



## Current account surplus to improve markedly this year.

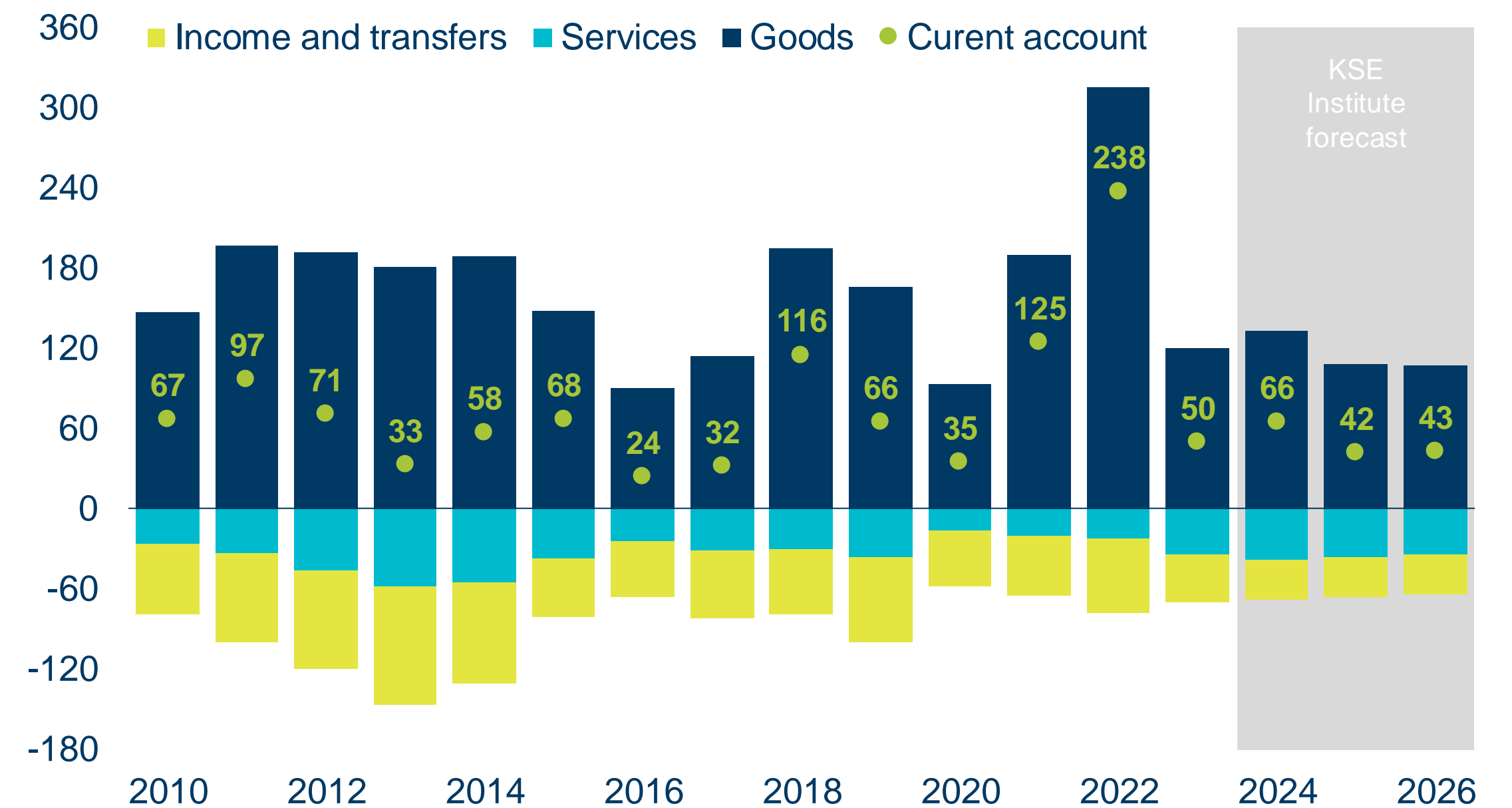
- Oil and gas exports are projected to reach \$239 billion in 2024 (vs \$235 billion in 2023) and decline to \$208 billion in 2025.
- As a result, the current account surplus is set to increase to \$66 billion this year before declining to \$42 billion in 2025.
- In terms of its external accounts, this leaves Russia in a relatively comfortable position and provides support to the ruble.

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



Source: Bank of Russia, KSE Institute

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



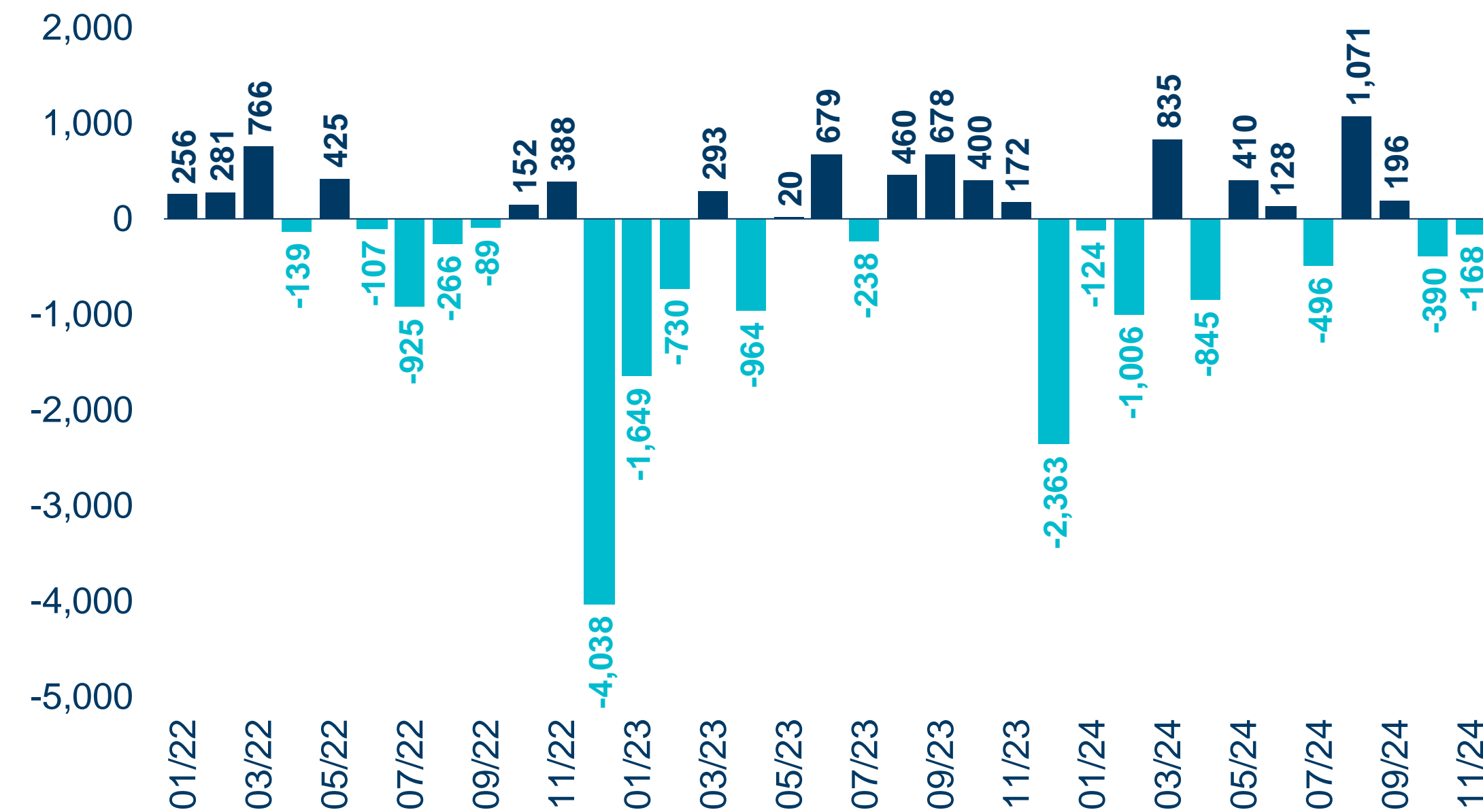
Source: Bank of Russia, KSE Institute

**Fiscal dynamics remain positive overall;  
CBR set up repo scheme to allow banks  
financing of budget deficit in December.**

## Sharp rise in revenues significantly improved fiscal situation.

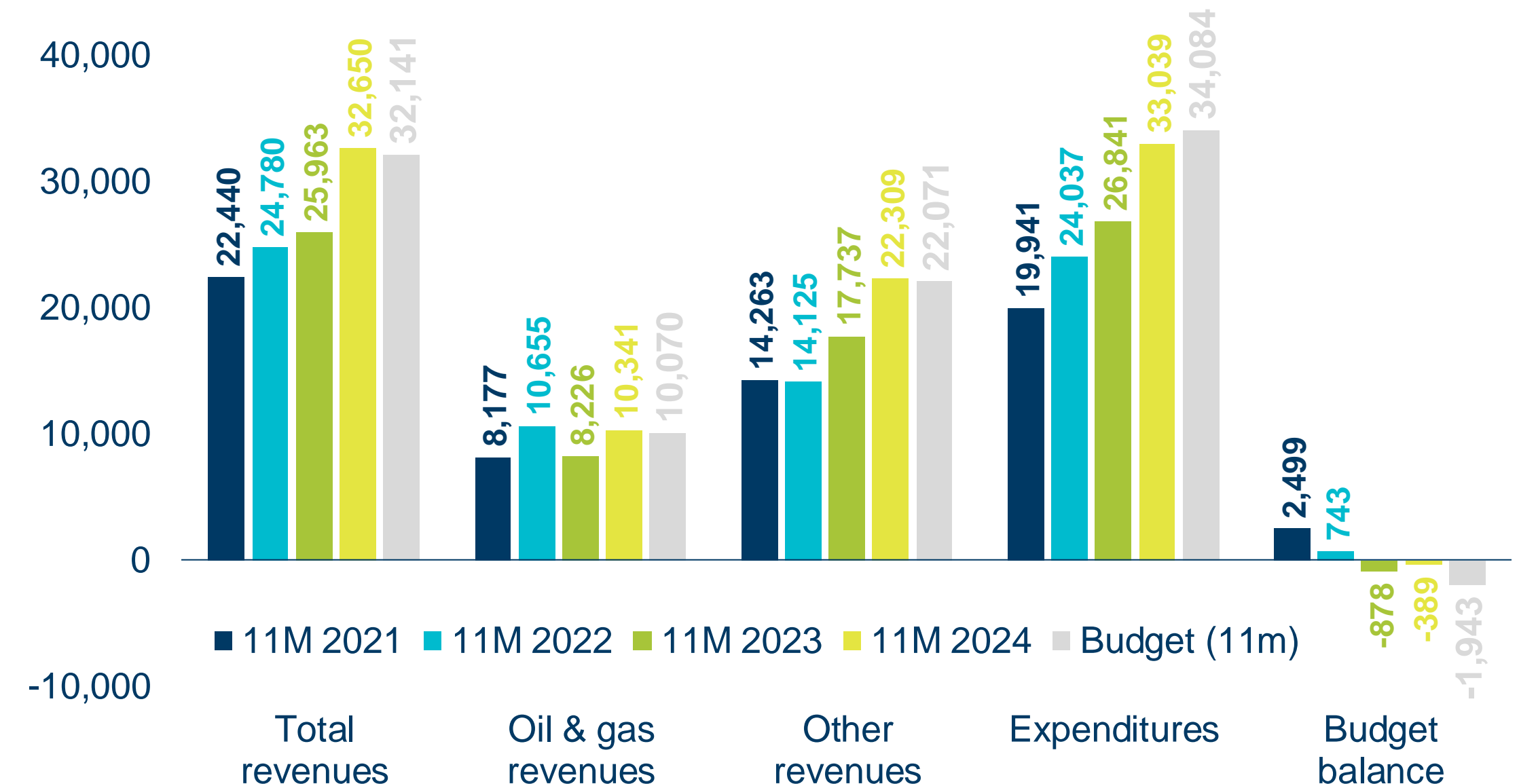
- In Jan.-Nov. 2024, Russia's federal budget reached a cumulative deficit of 389 billion rubles (168 billion in Nov.).
- Robust revenues (O&G and non-O&G) helped to more than offset large spending (3.3 trillion avg. in Sep.-Nov.).
- Oil and gas revenues were 26%, non-O&G revenues 26%, and expenditures 23% higher vs Jan.-Nov. 2023.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

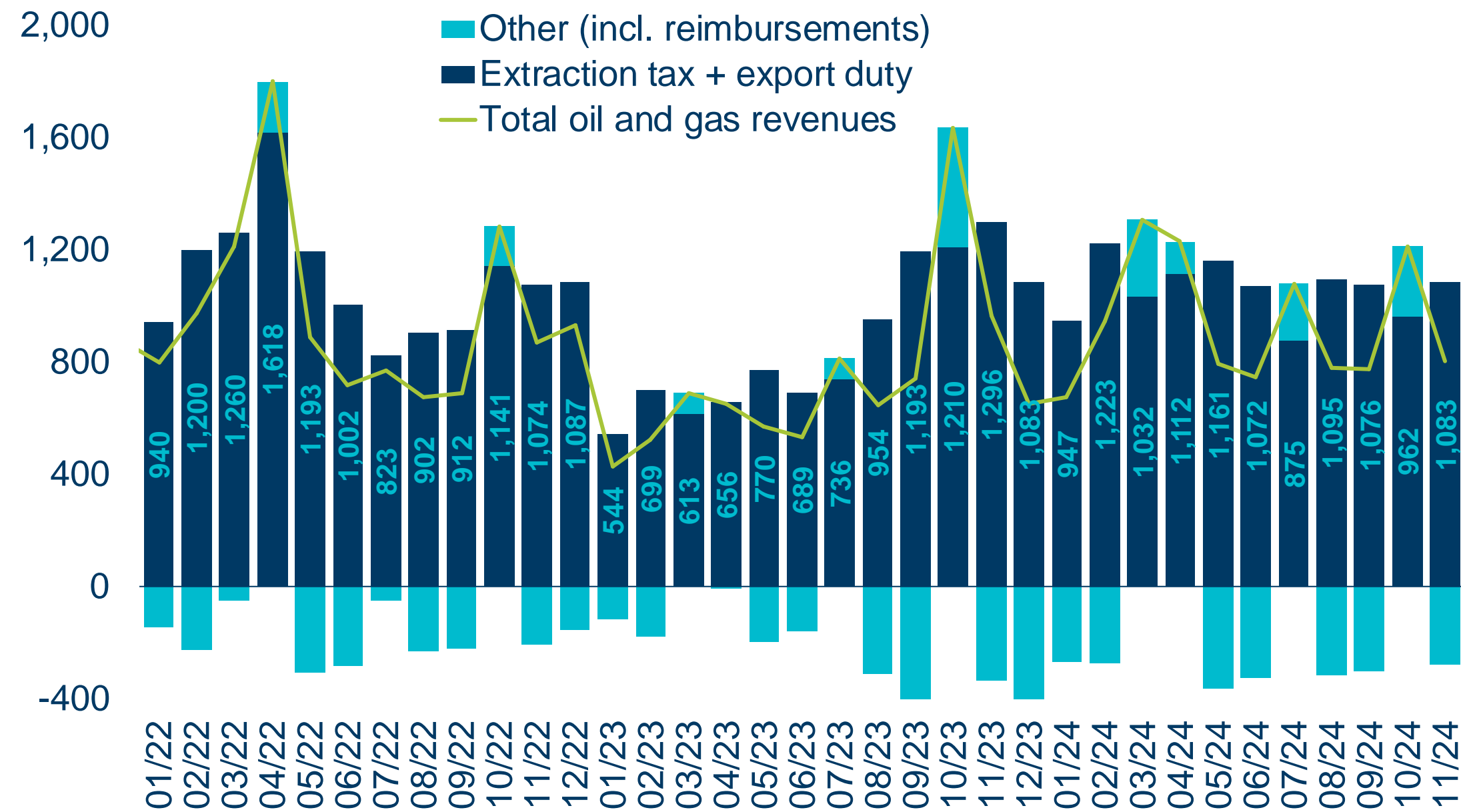


Source: Ministry of Finance, KSE Institute

## Strong oil and gas revenues provide support to the budget.

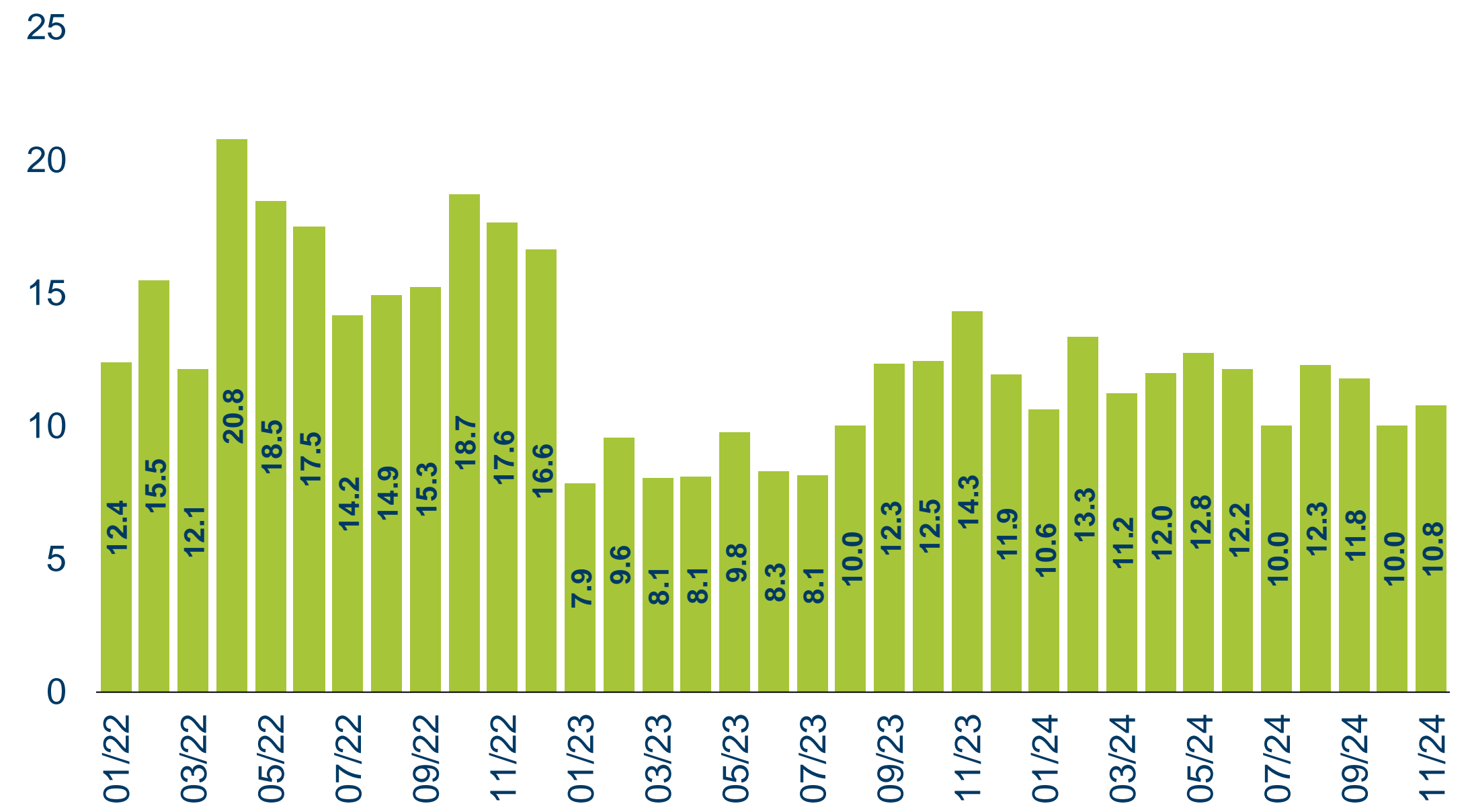
- O&G revenues from extraction taxes and export duties have averaged more than 1 trillion rubles this year.
- In Nov., revenues in \$ terms recovered somewhat and have remained remarkably stable throughout 2024.
- The weaker ruble will help offset negative effects from lower oil export prices and keep 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

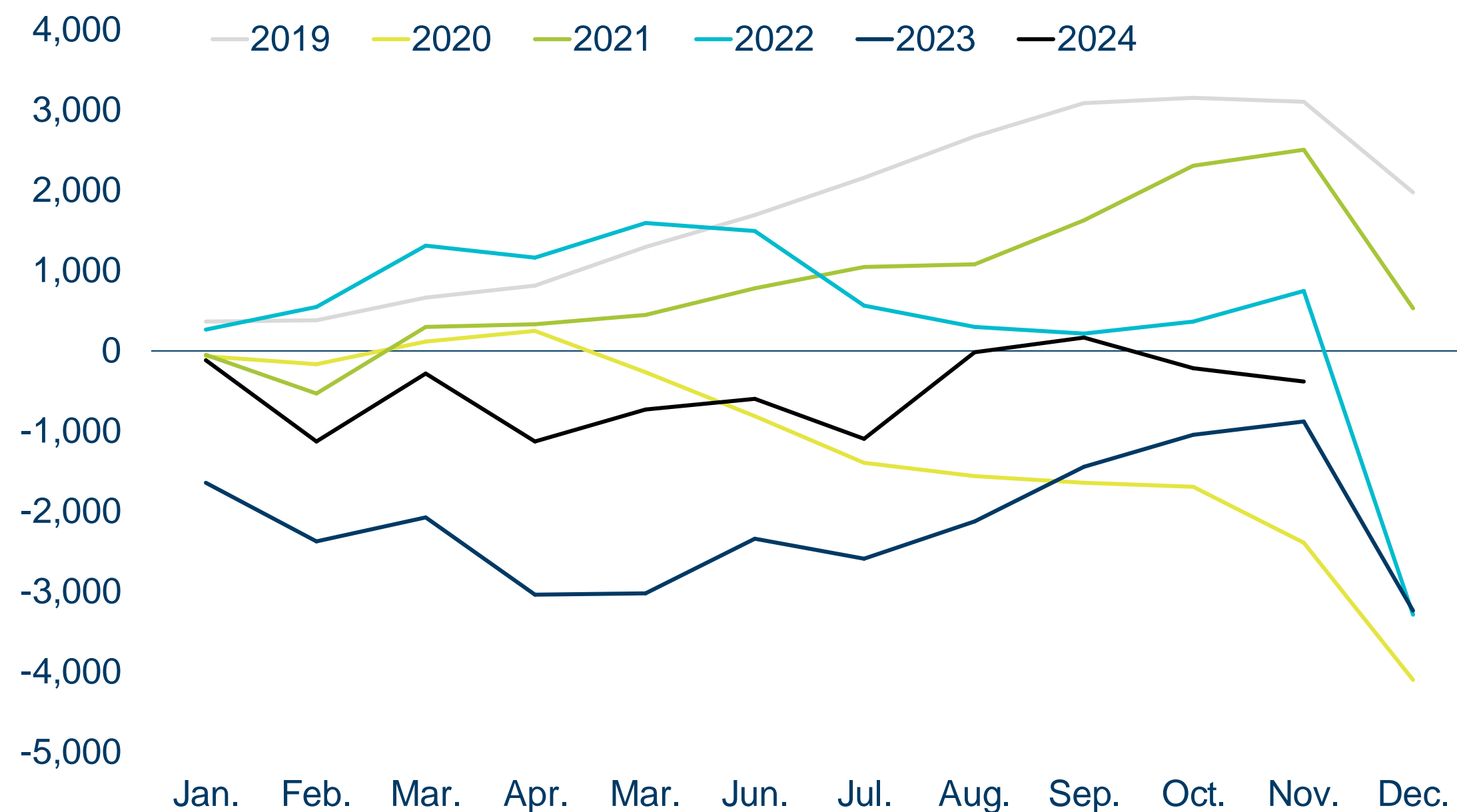
\*includes extraction tax and export duty; calculated with monthly average exchange rate



## OFZ issuance picked up significantly in December.

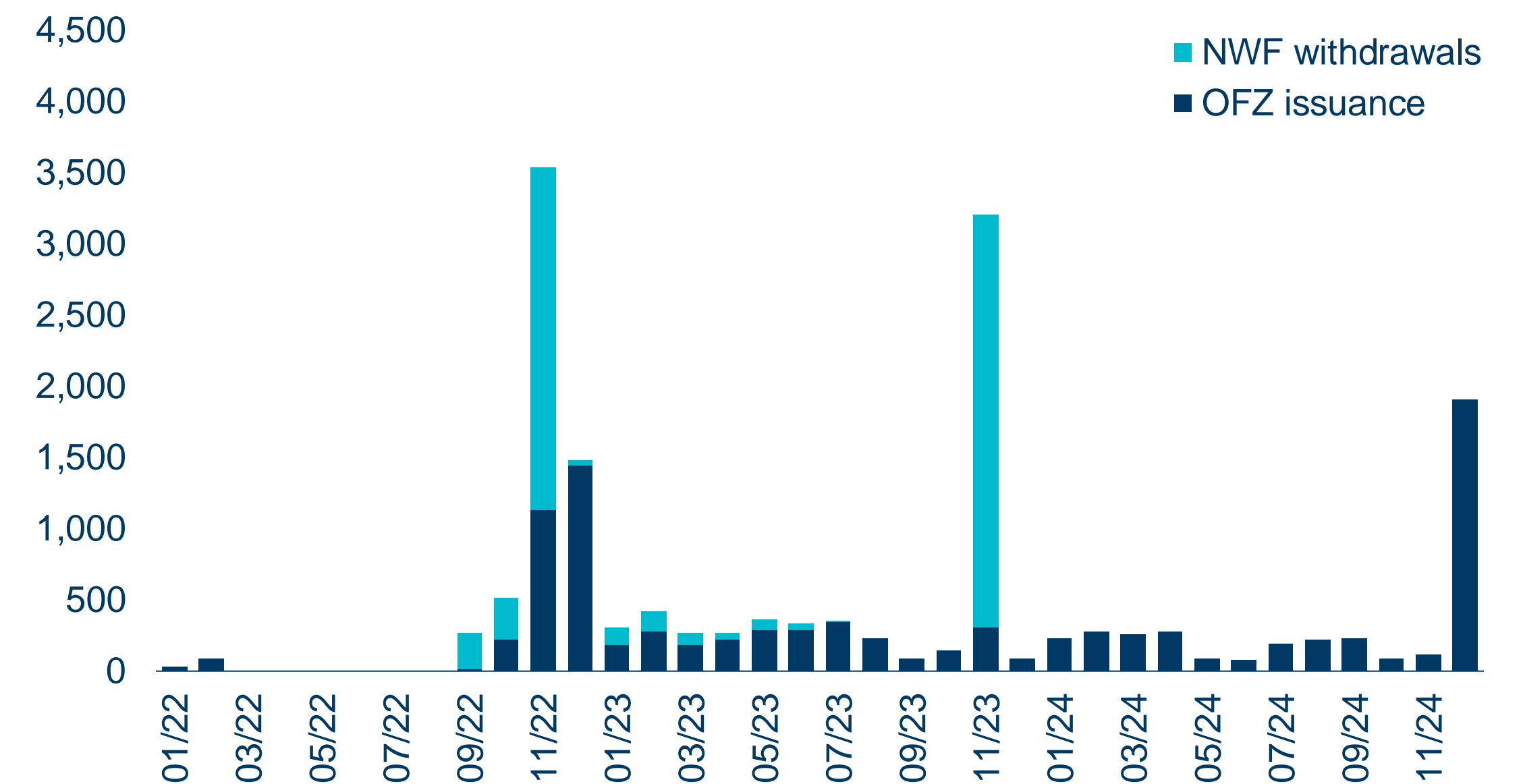
- Due to overall positive fiscal dynamics, Russia is unlikely to significantly miss its budget deficit target (of 2.1 trillion rubles).
- In anticipation of a large December deficit (typical for end of the year), MinFin borrowed heavily on the domestic market.
- New OFZ issuance stood at 1.9 trillion rubles as of mid-December—slightly less than the total for the first eleven months.

Cumulative federal budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Key fiscal financing channels, in ruble billion

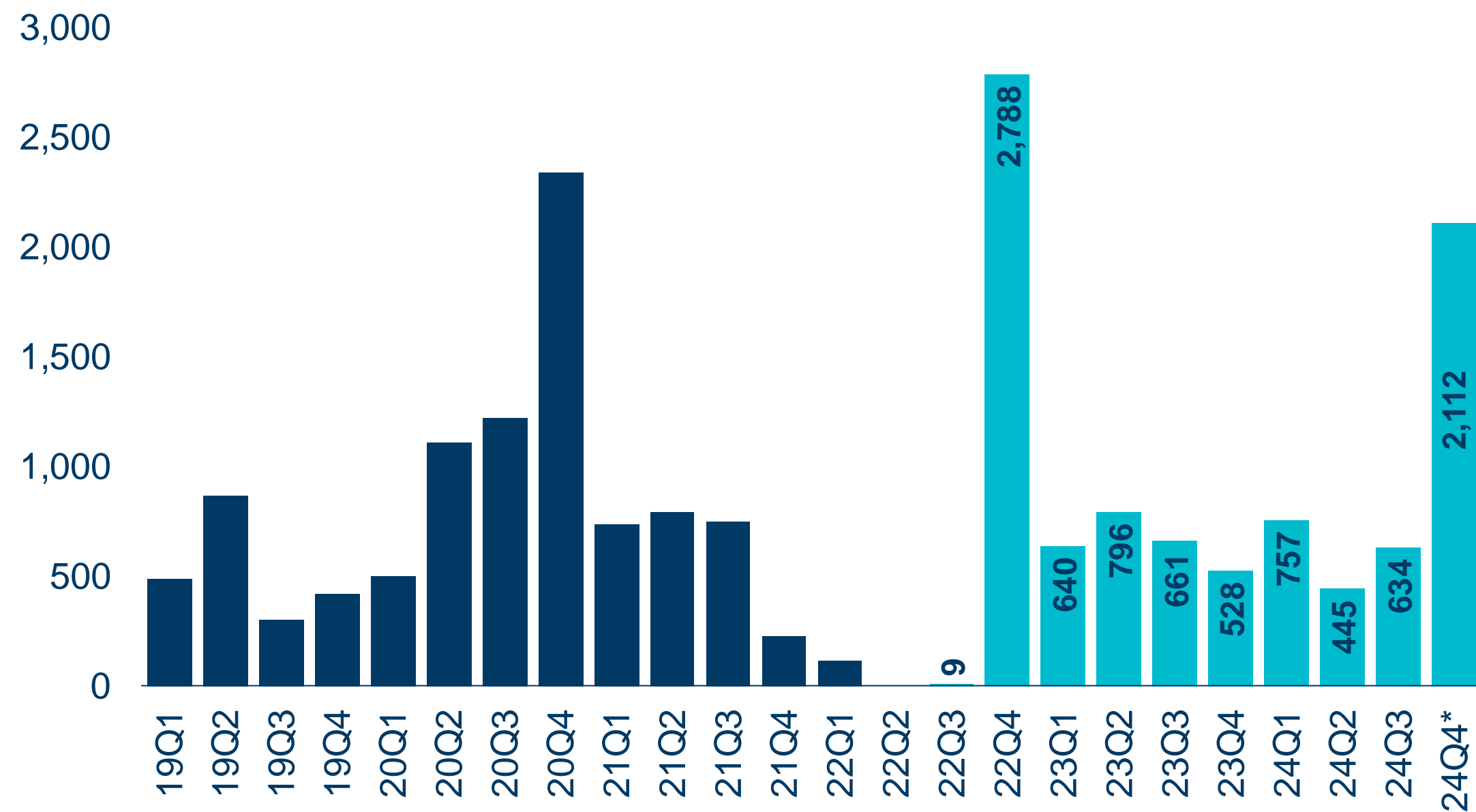


Source: Ministry of Finance, KSE Institute

## CBR incentivized banks to buy OFZs through repo operation.

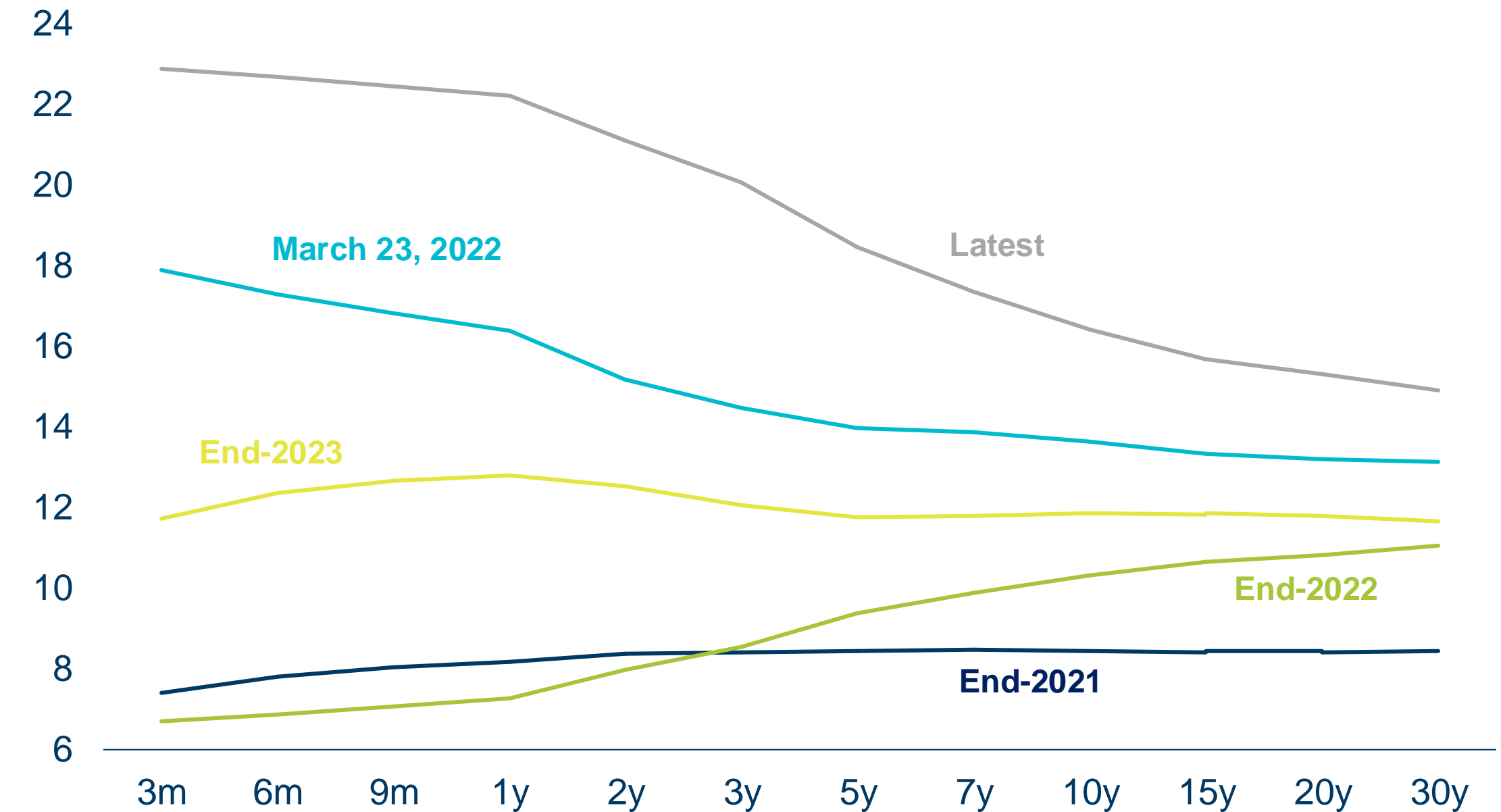
- To incentivize domestic banks to absorb new OFZ issuance, the CBR established an 800 billion rubles repo operation.
- Despite significantly higher yields following monetary tightening, banks apparently needed further incentives to buy OFZ.
- With domestic borrowing rising sharply following a period of moderate issuance, debt service costs are set to go up.

New domestic debt (OFZ) issuance, in ruble billion



Source: Ministry of Finance, KSE Institute \*as of December 17

OFZ yield curves, in %

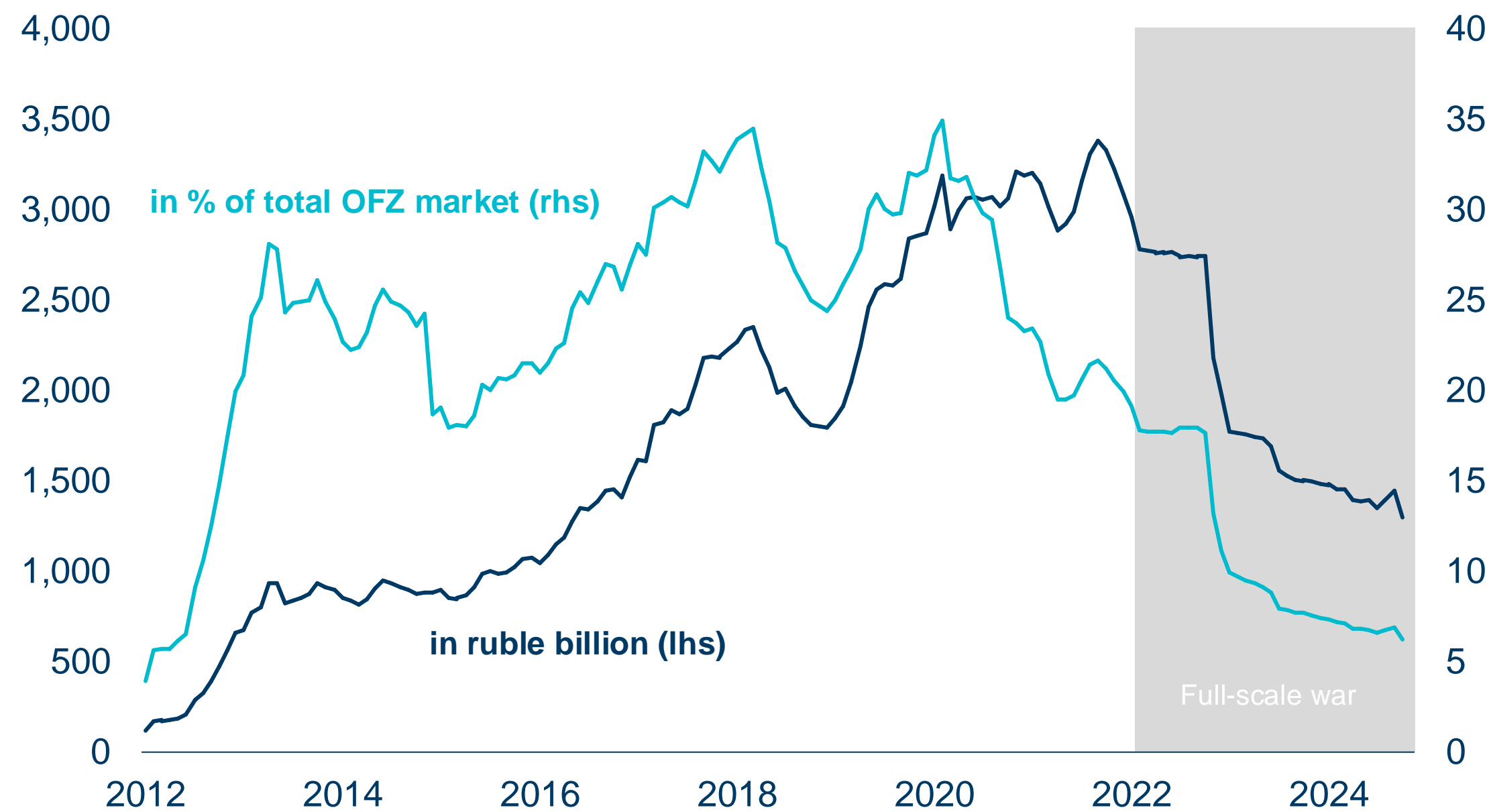


Source: Bank of Russia, KSE Institute

## Domestic banks are the only remaining buyers of OFZs.

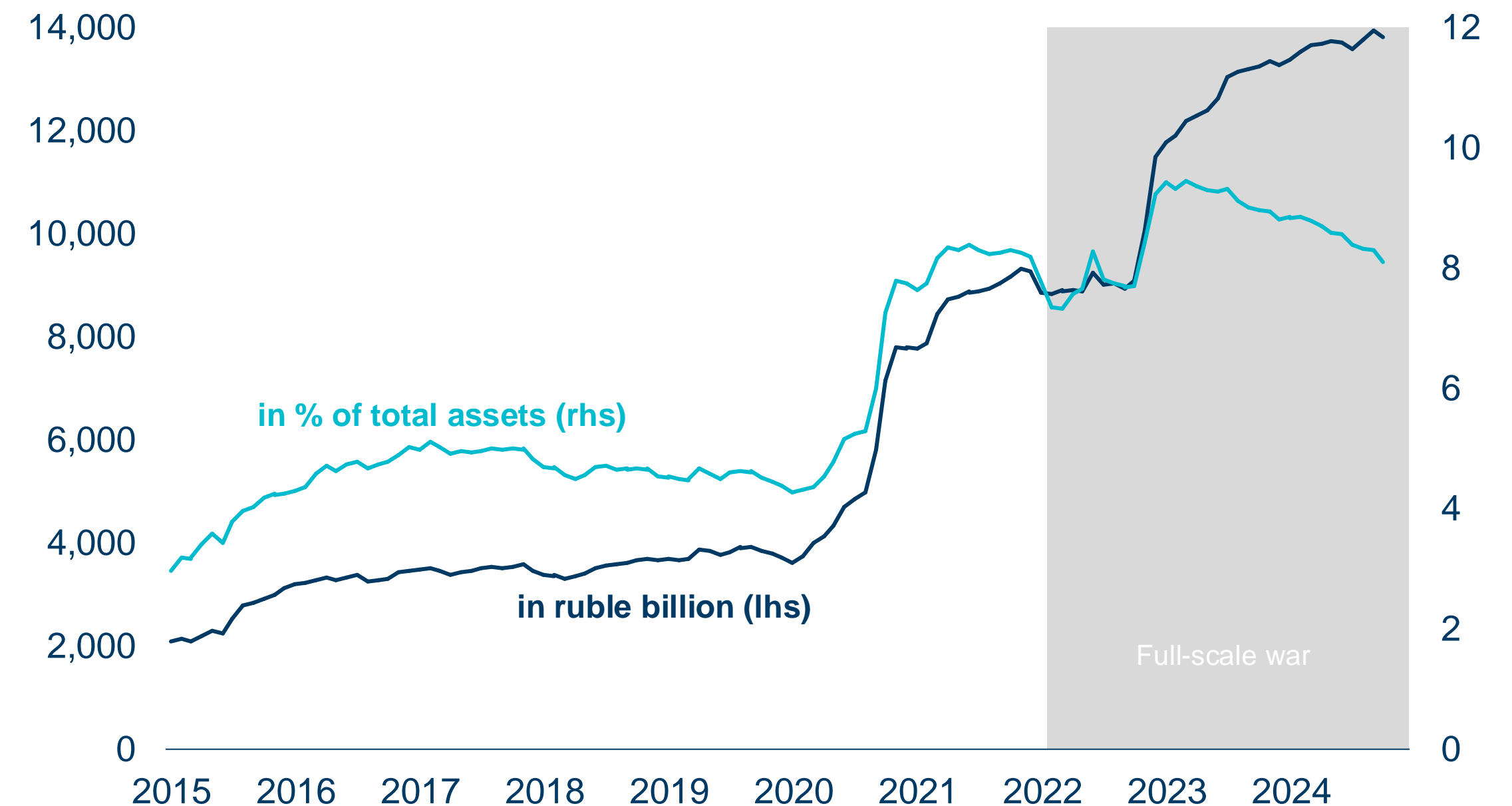
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 1.45 trillion rubles (or 53%) since October 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the 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

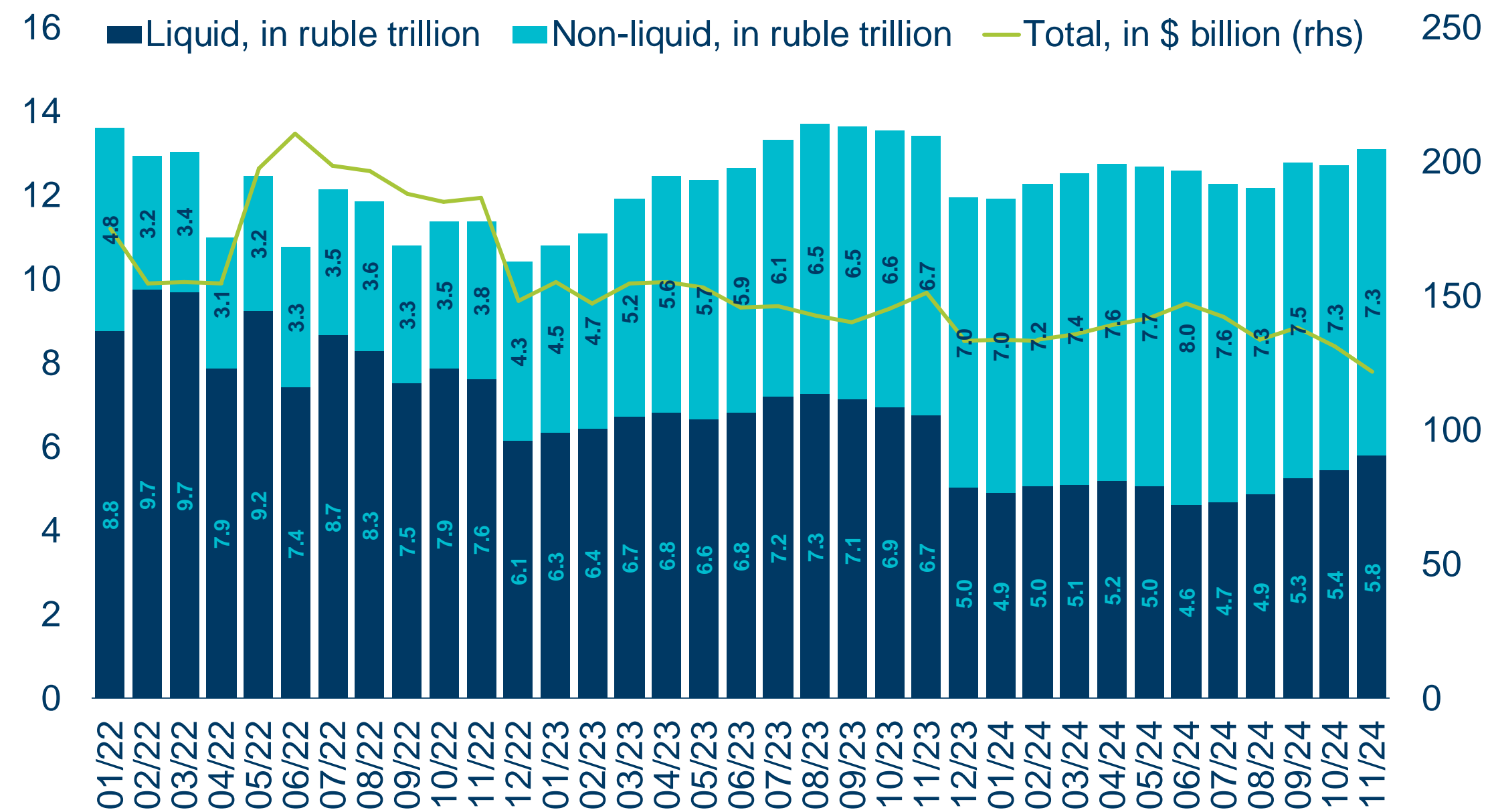
**Macro buffers seriously depleted by war and sanctions; limited policy options in the case of further ruble depreciation and inflation.**



## NWF assets increase on the back of the weaker ruble.

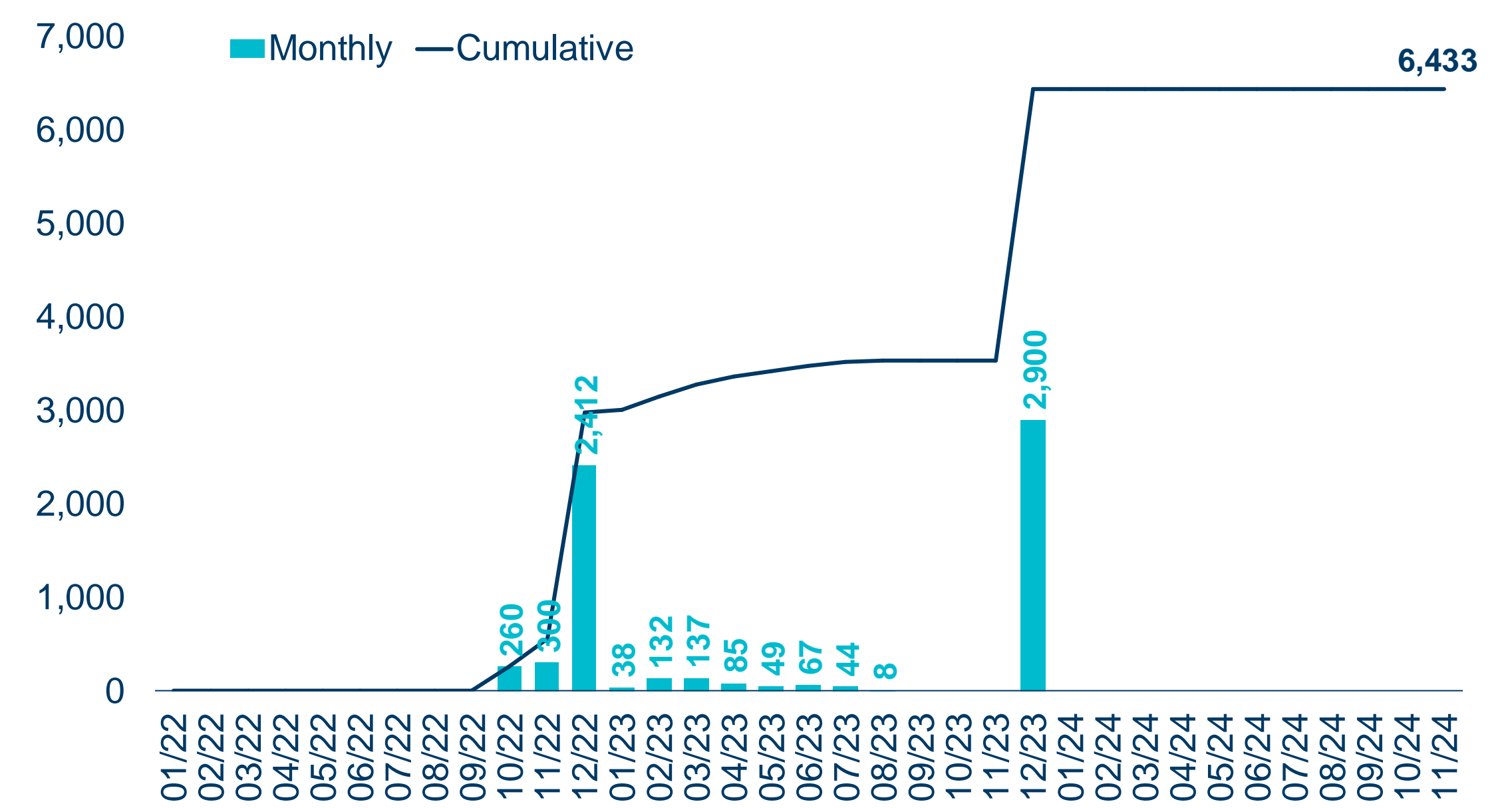
- Total assets of the National Welfare Fund stood at 13.1 trillion rubles (\$122 billion, 6.8% of GDP) in Nov. 2024.
- The liquid portion increased to 44% of total NWF assets due to the weaker ruble and persistently high gold prices.
- Since the start of the war, Russia has spent 6.4 trillion rubles on the budget and liquid assets have fallen by 34%.

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

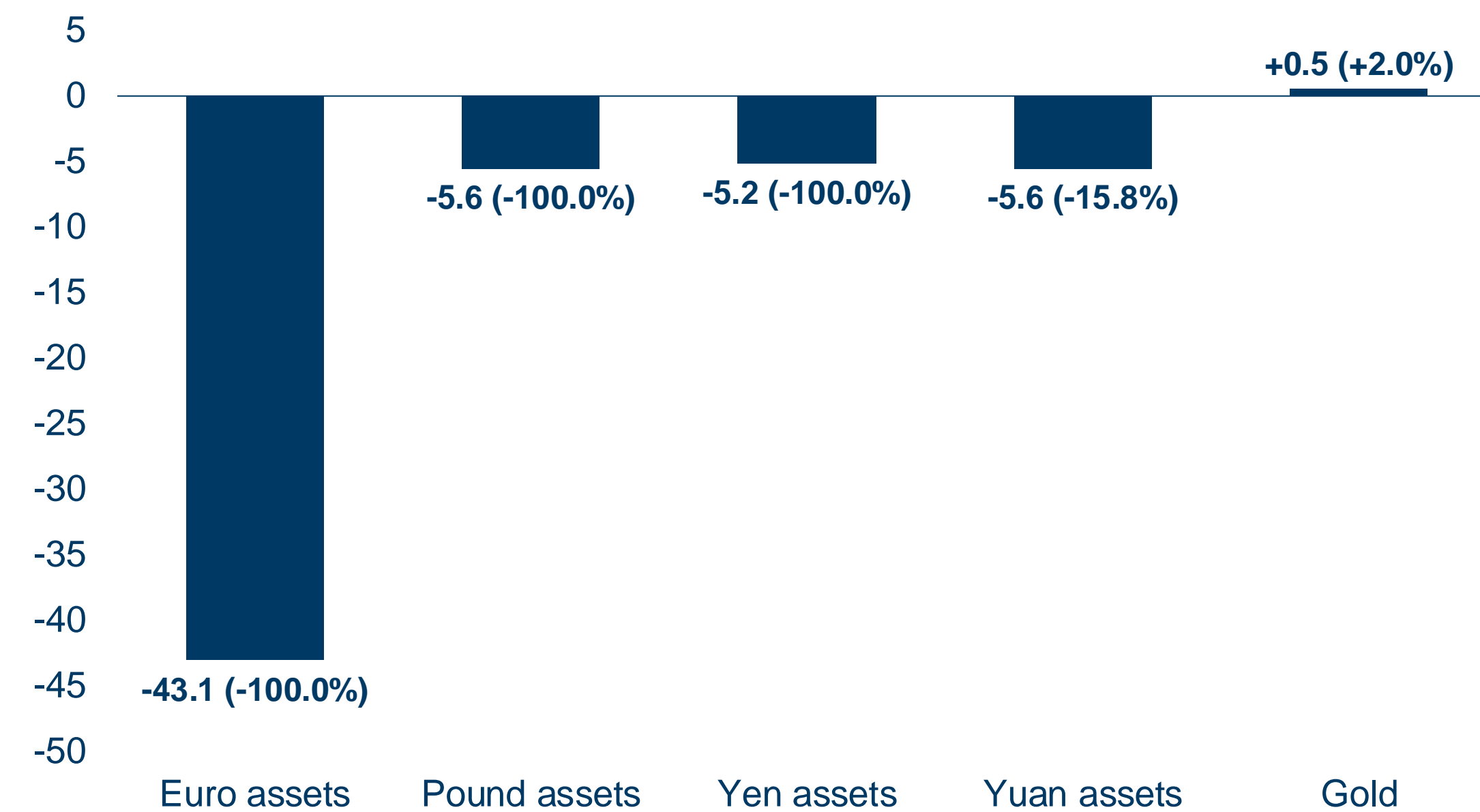


Source: Ministry of Finance, KSE Institute

## Headline NWF numbers conceal that hard currency assets are gone.

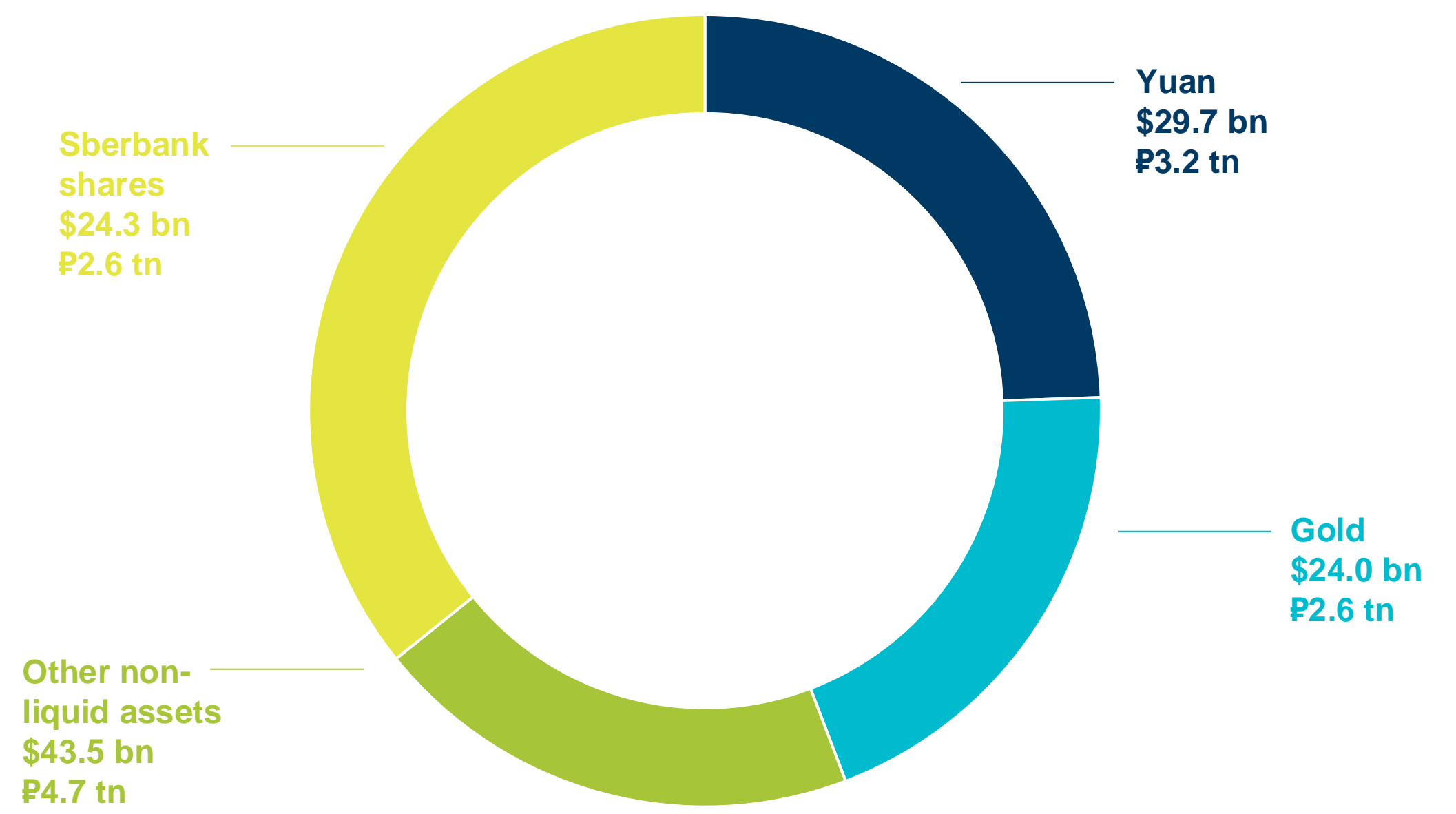
- Russia has depleted all hard-currency holdings of the NWF, with euro assets falling to zero in December 2023.
- Only yuan-denominated assets and gold remain in the liquid portion, totaling 5.8 trillion rubles (or \$54 billion).
- With OFZ issuance making up a large share of the December budget gap, reliance on NWF will likely be limited.

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 December 1, 2024\*

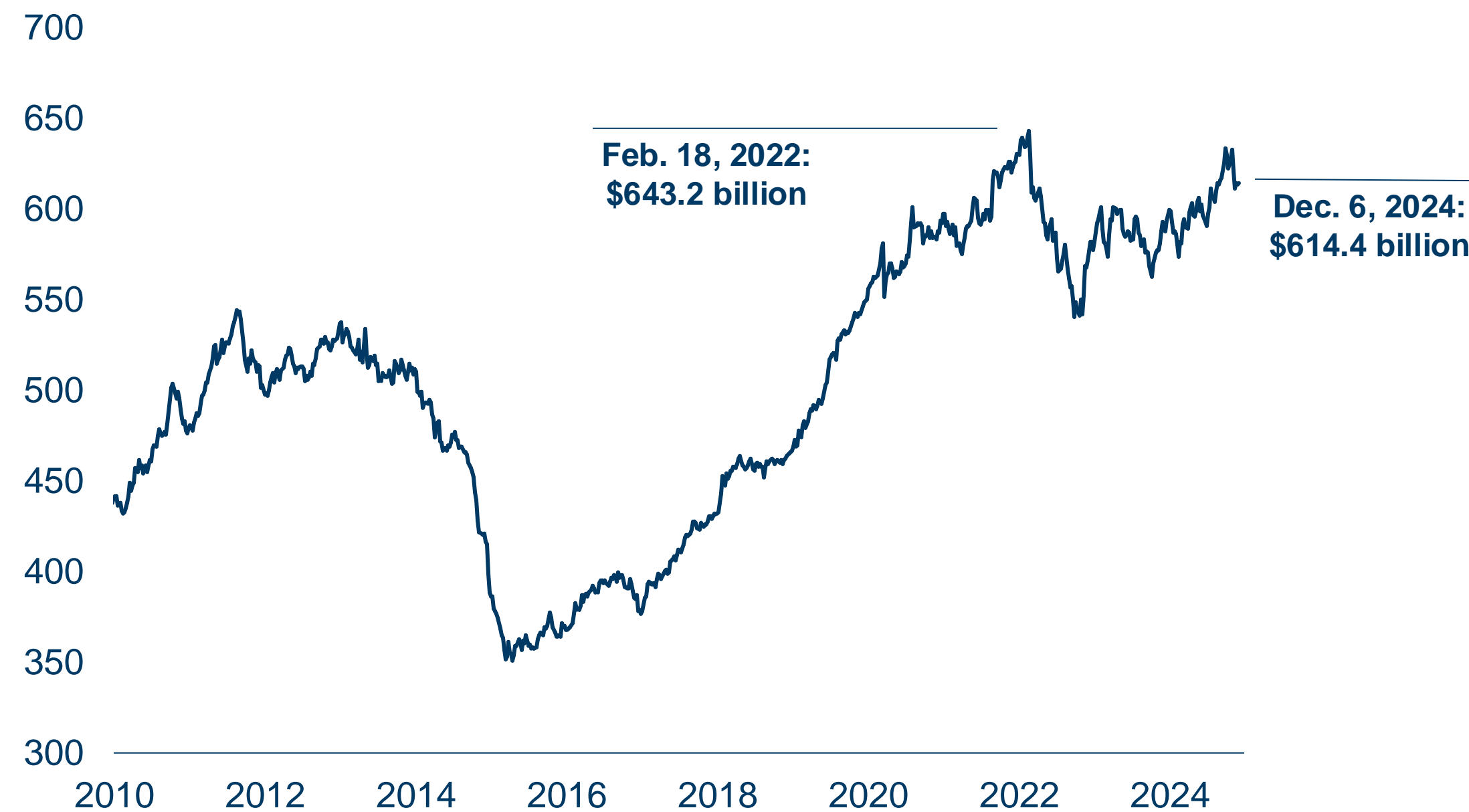


Source: Ministry of Finance, KSE Institute \*based on market exchange rates/prices

## A substantial share of international reserves remain immobilized.

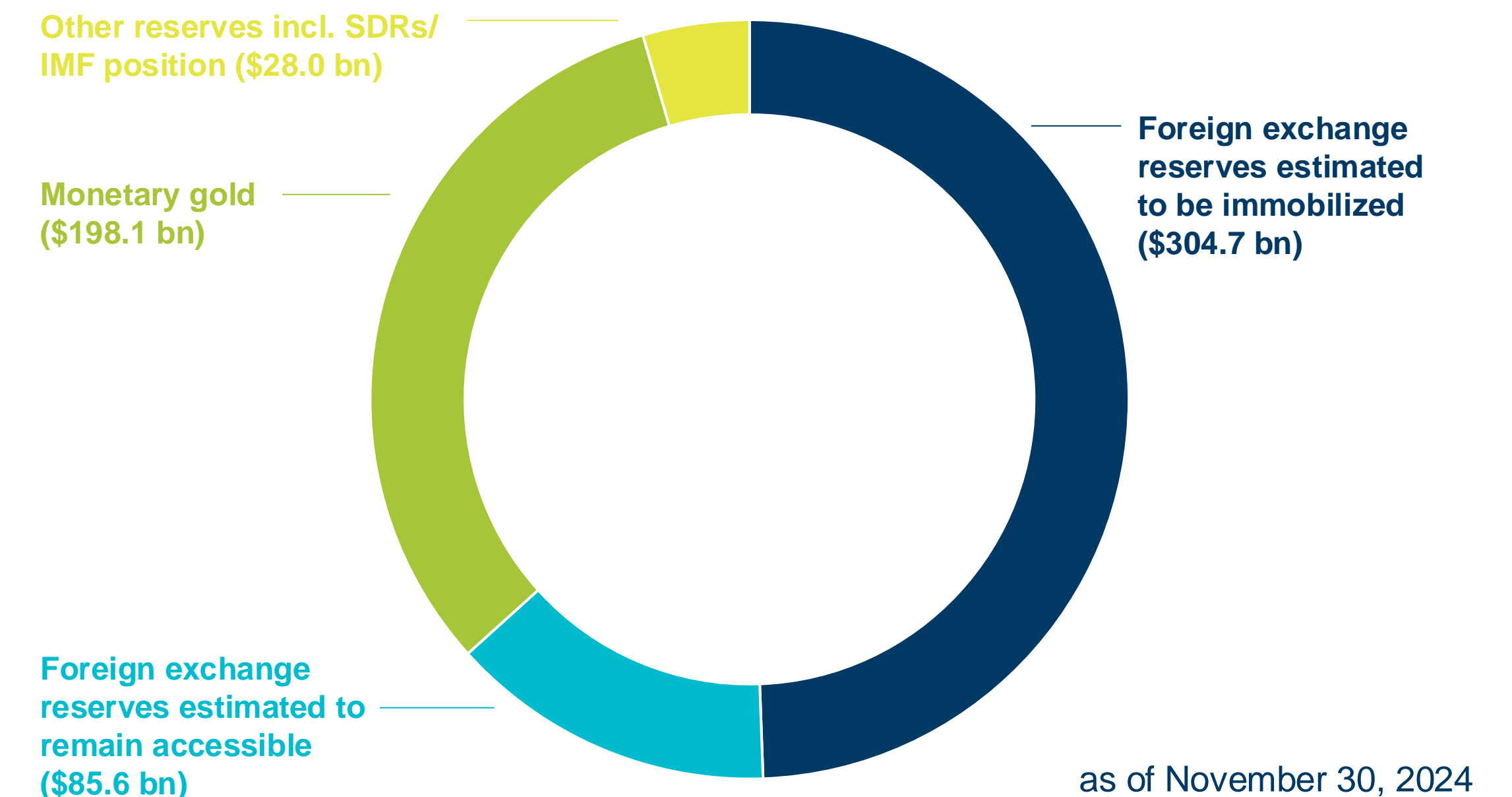
- Before the invasion, Russia held \$643 billion in international reserves, part of what is described as “Fortress Russia”.
- We estimate that around \$305 billion are currently immobilized due to international sanctions on CBR and NWF.
- This leaves Russia with access to \$198 billion in monetary gold 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

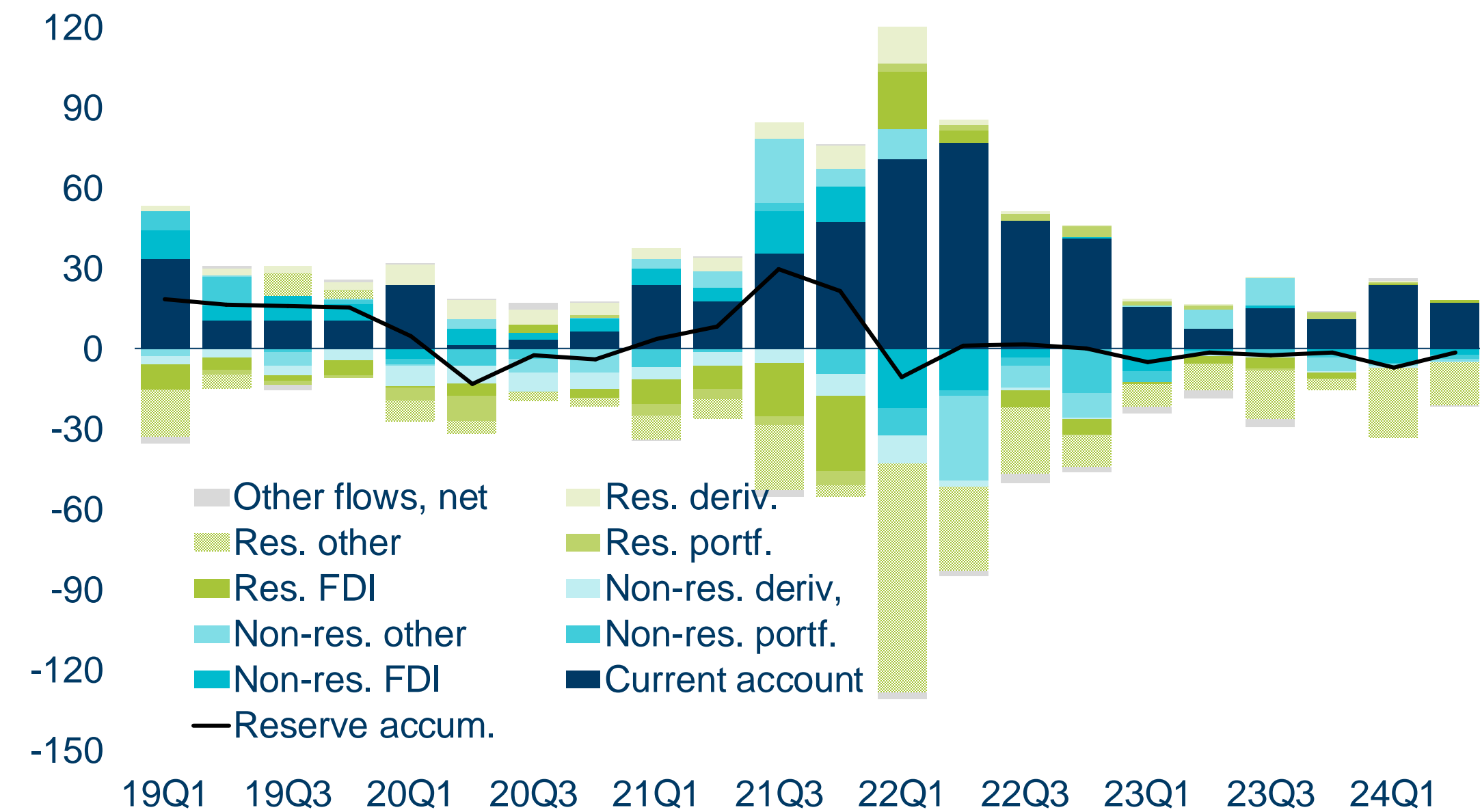


Source: Bank of Russia, KSE Institute

## Significant accumulation of new foreign assets since 2022.

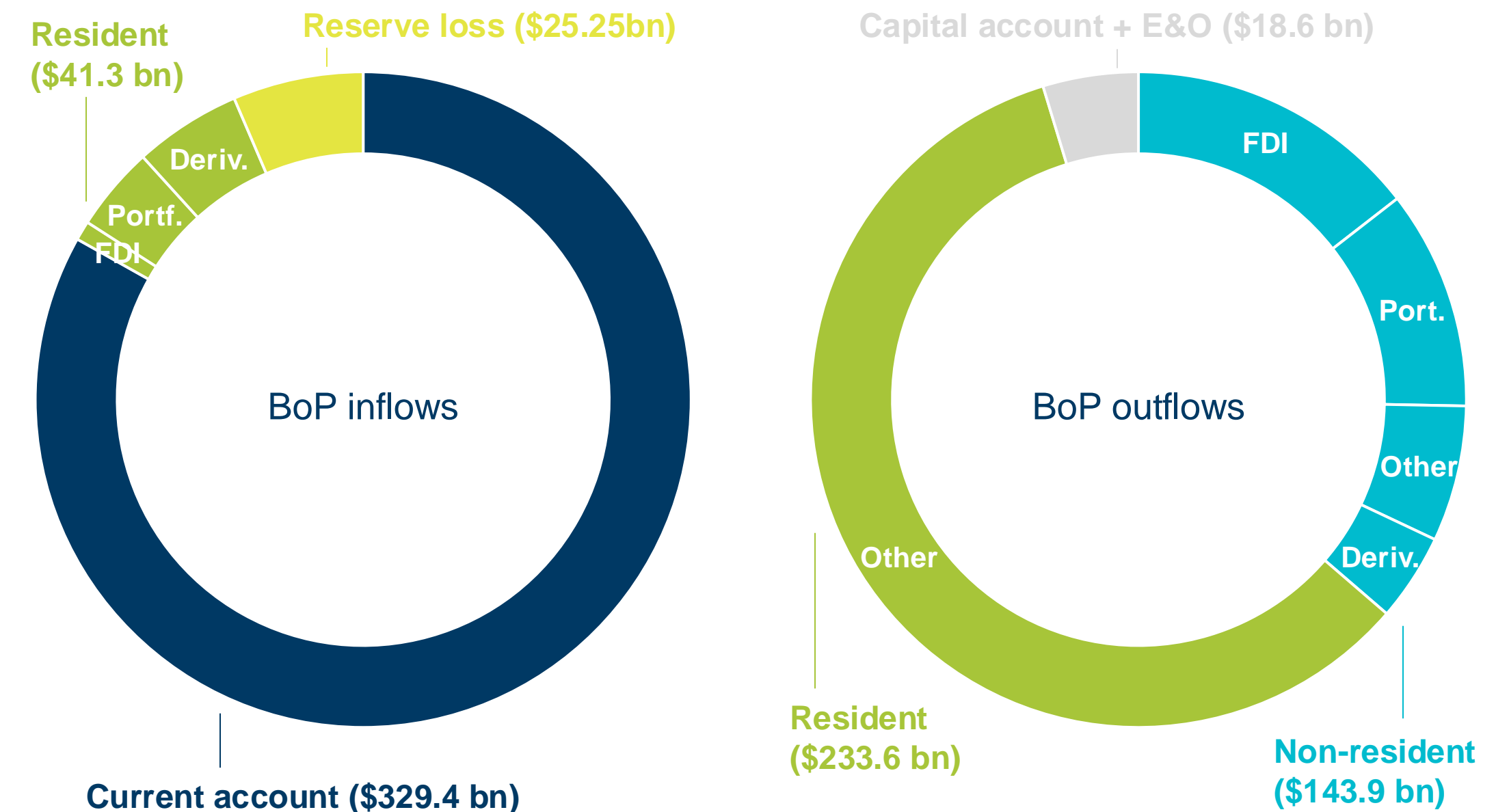
- With the ruble under pressure and regular reserves partly immobilized, it is time to focus on new Russian assets abroad.
- Non-resident capital outflows partially ate up the large current account surplus and resident inflows in Q1 2022-Q2 2024.
- But Russian banks and corporates were able to acquire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

2022Q1-2024Q2 balance of payments flows, in U.S. dollar billion



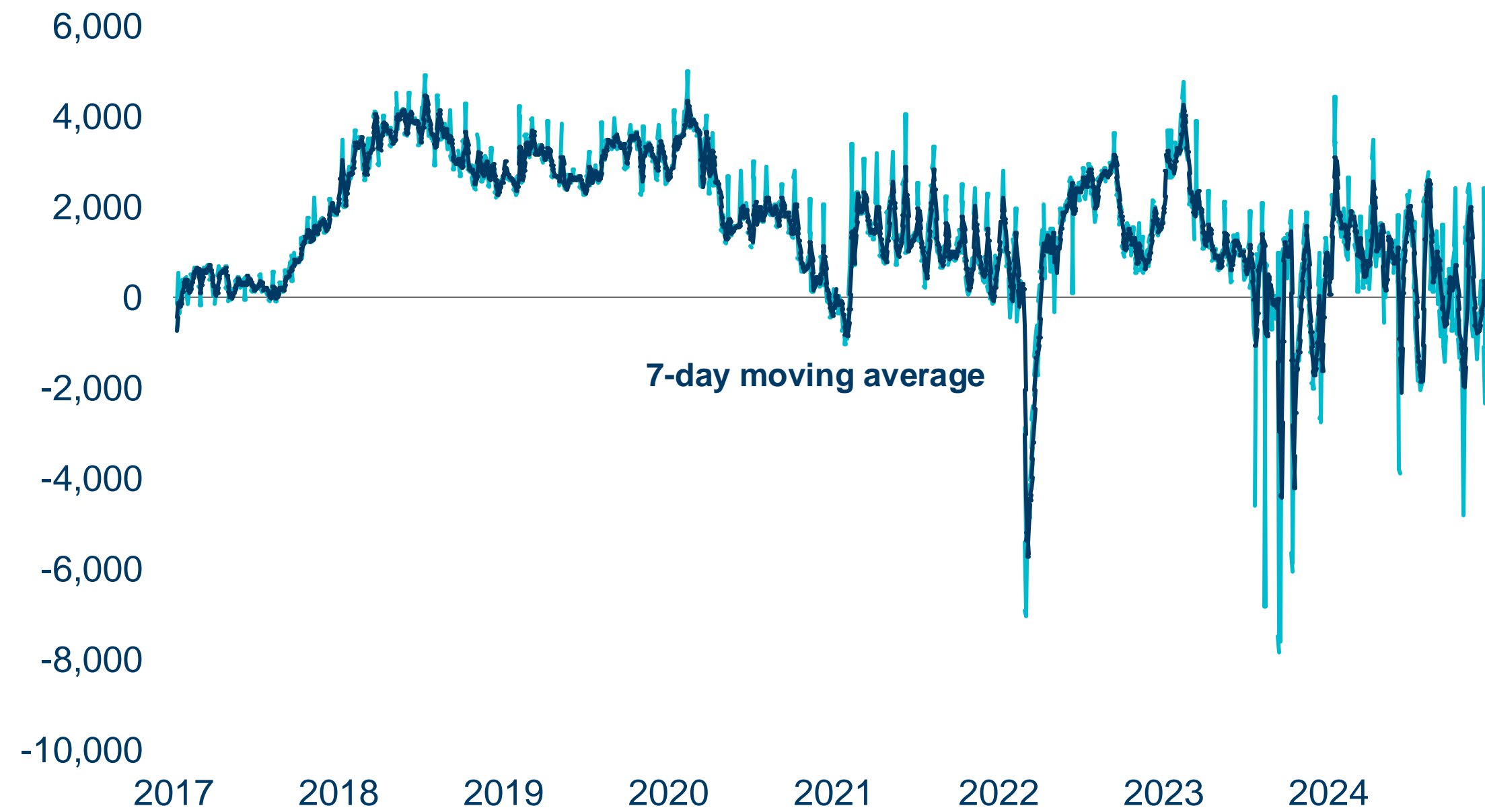
Source: Bank of Russia, KSE Institute



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

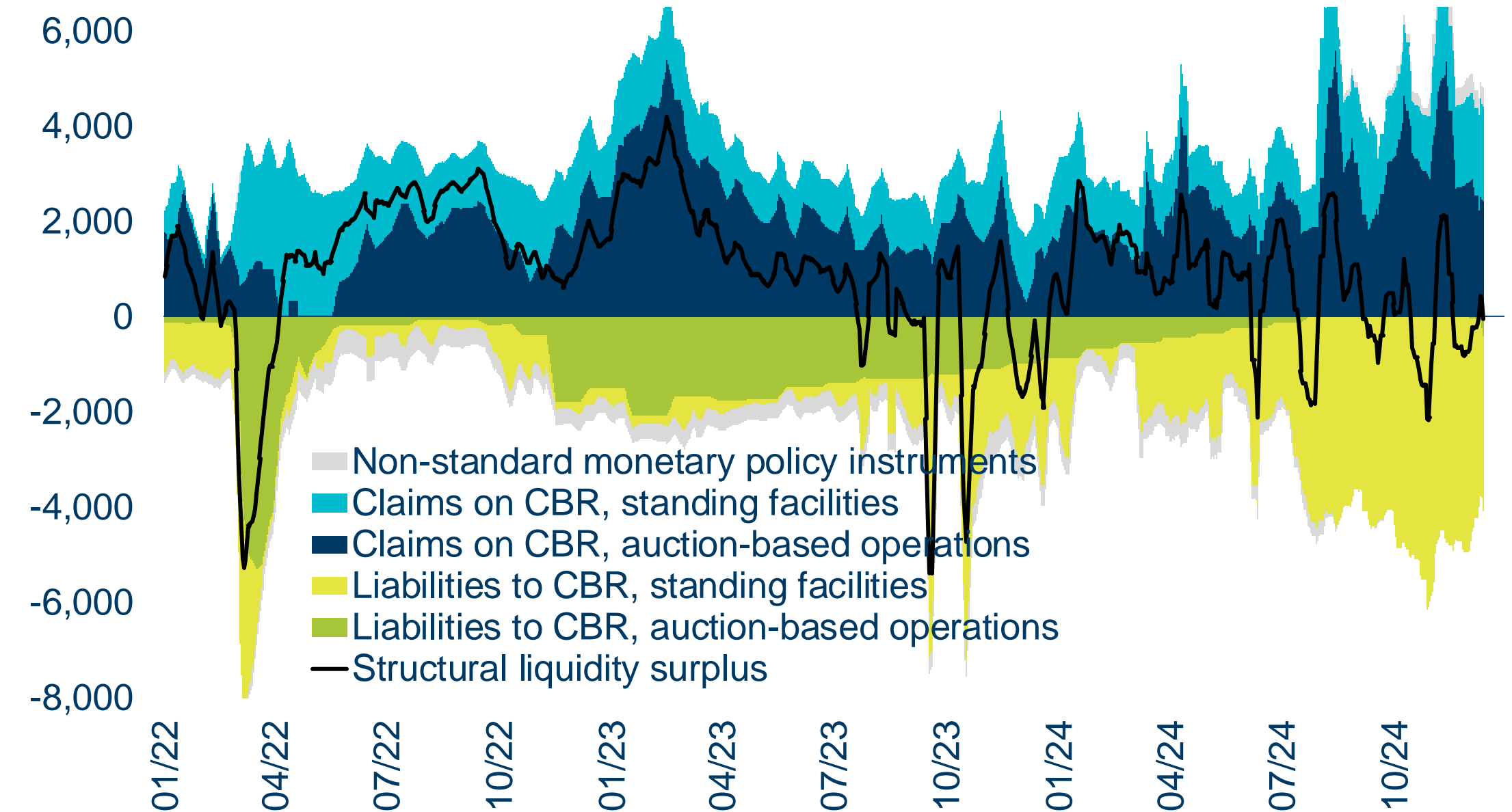
- Liquidity conditions recovered quickly after the initial shock from the full-scale war and imposition of sanctions.
- A closer look at the composition of the structural liquidity surplus points to some stress in the interbank market.
- The data clearly shows the effects of the CBR’s monetary tightening 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\*



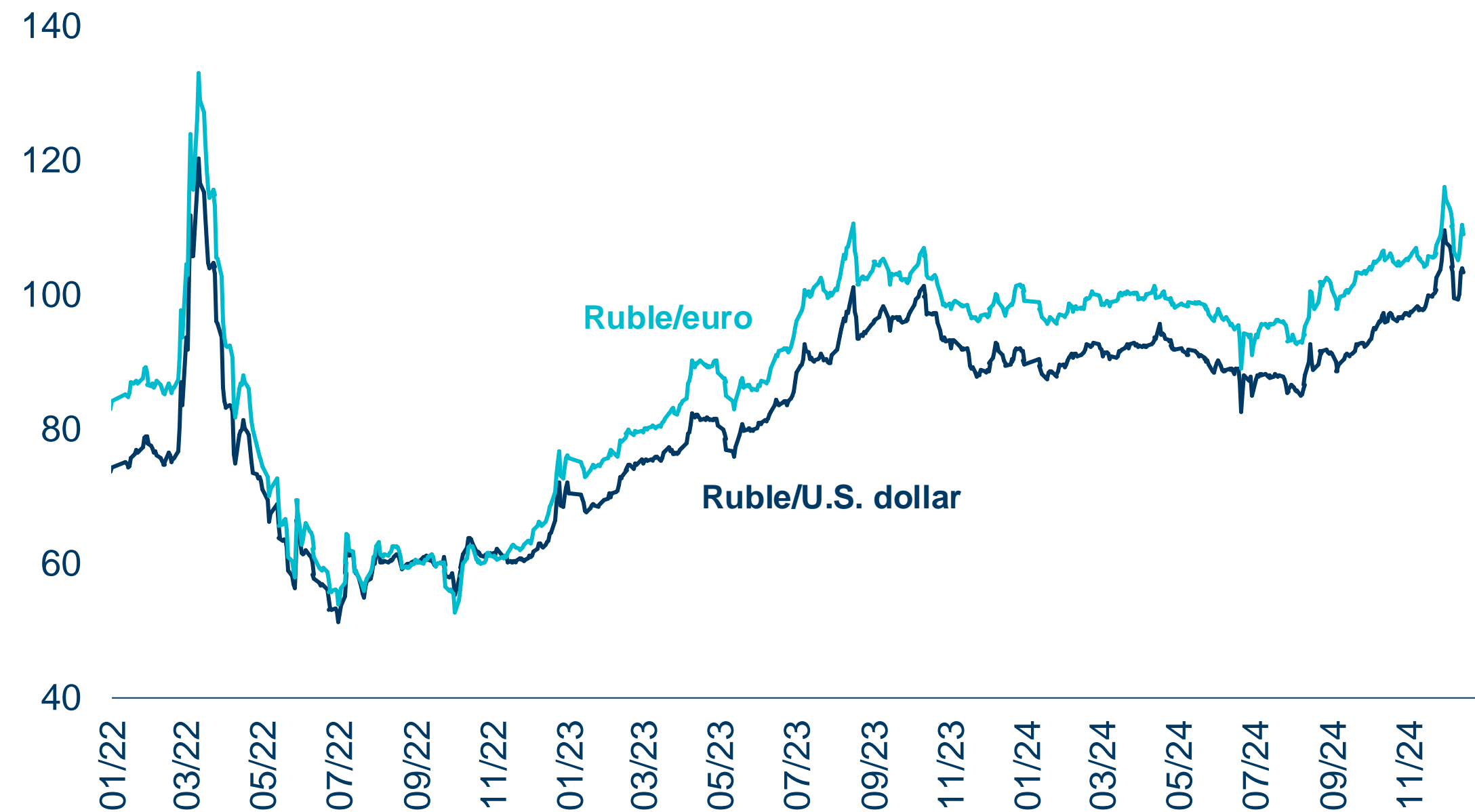
Source: Bank of Russia, KSE Institute \*7-day moving average

**Inflation elevated despite CBR tightening;  
government spending, high wage growth and  
significant credit expansion create pressure;  
Ruble depreciation accelerates again.**

## Ruble has weakened dramatically against major currencies.

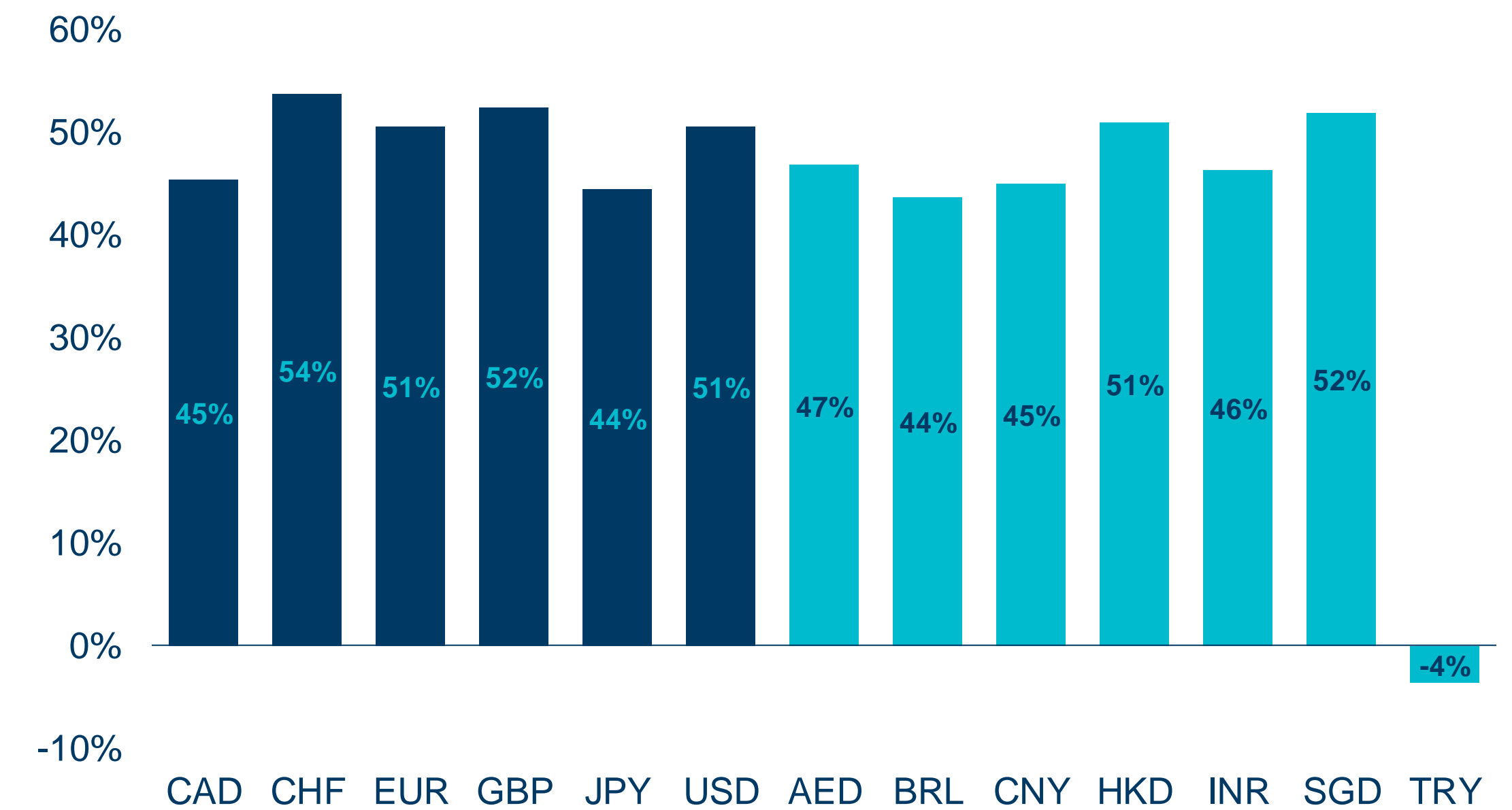
- Ruble depreciation, which restarted in summer after a period of stability, accelerated in recent weeks.
- Altogether, Russia's currency lost 51% of its value vs the dollar and 51% vs the euro since mid-2022.
- The value loss is consistent across essentially all major developed and emerging market currencies.

Ruble exchange rate vs U.S. dollar and euro



Source: Bank of Russia, KSE Institute

Ruble value loss vs key currencies since Q2 2022, in %

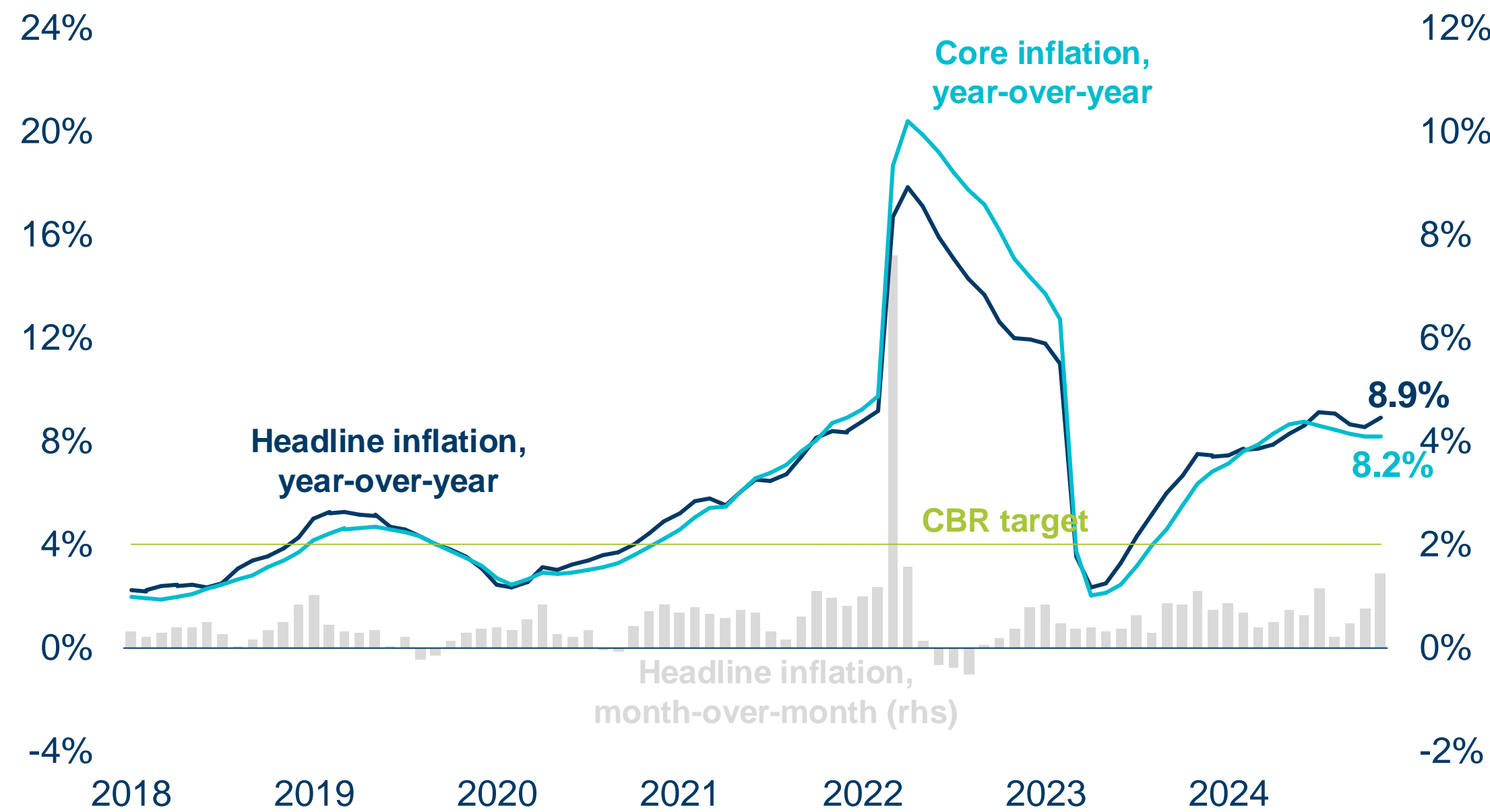


Source: Bank of Russia, KSE Institute

## Inflation remains elevated despite CBR policy response.

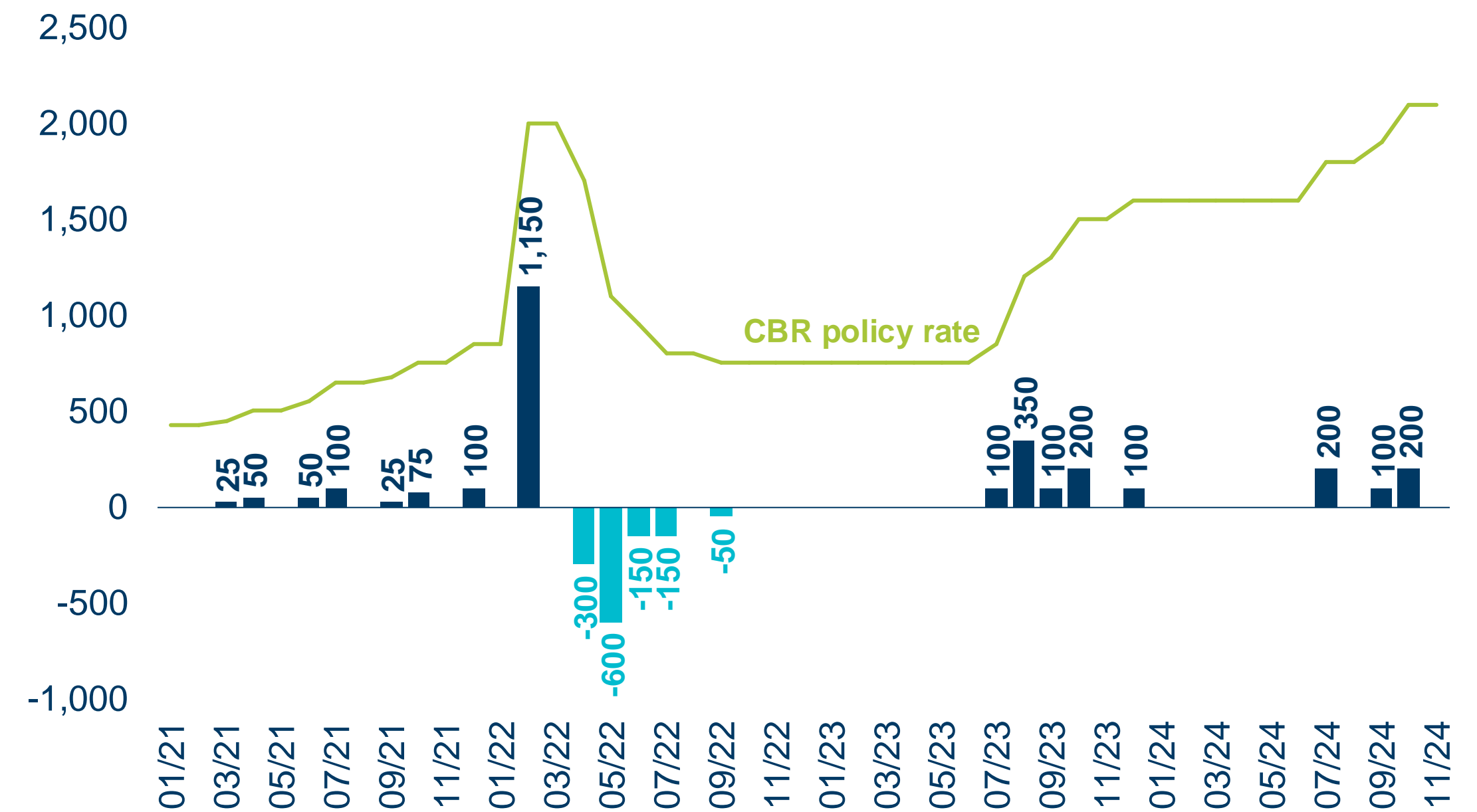
- Inflation has persistently risen for 1.5 years, reaching 8.9% in Nov., due to fiscal stimulus, high wage growth, etc.
- Inflation expectations are rising again, especially those of enterprises, despite significant monetary tightening.
- Markets expect the CBR to increase its key interest rate by another 200 bps at its December MPC meeting.

Inflation, in %



Source: Bank of Russia, KSE Institute

CBR policy rate and MPC decisions, in basis points



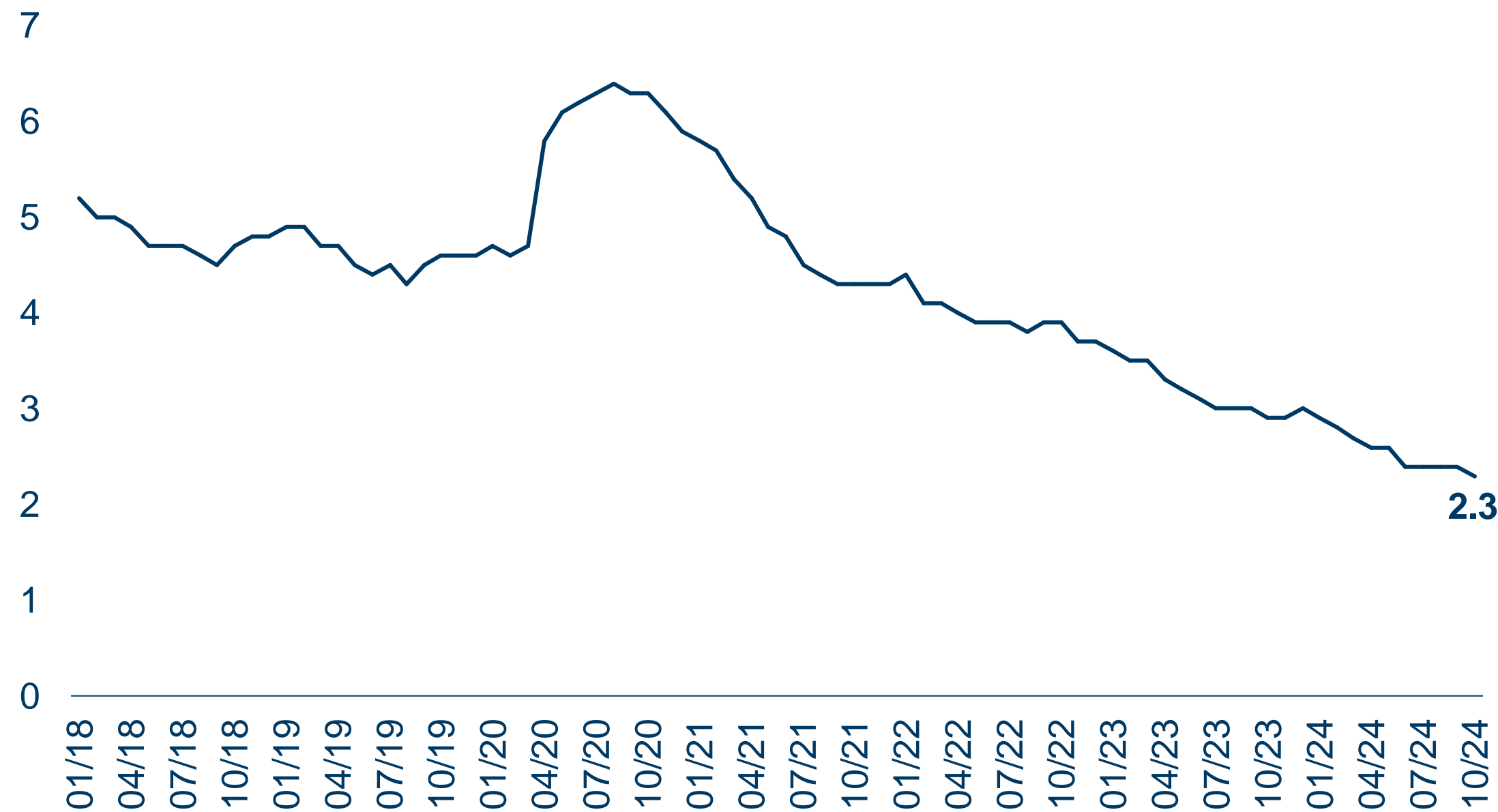
Source: Bank of Russia, KSE Institute



## Tight labor market is driving up wages and inflation.

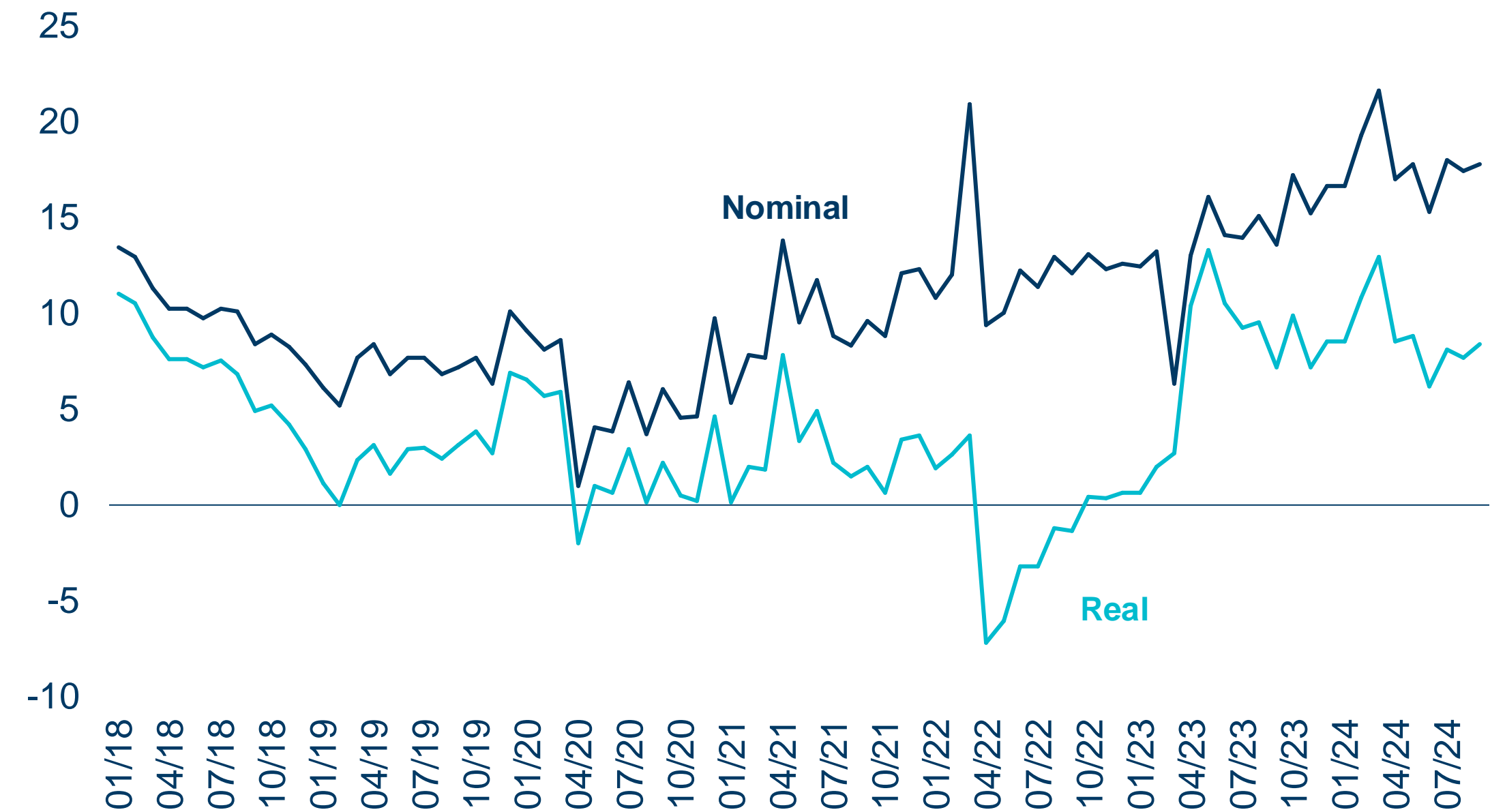
- The unemployment rate reached a new record low of 2.3% in Oct., which effectively means full employment.
- Nominal wage growth has trended up since the start of the full-scale invasion and stood at 17.8% in Sep.
- In addition to creating inflationary pressures, the economy has effectively no spare capacity left to draw from.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

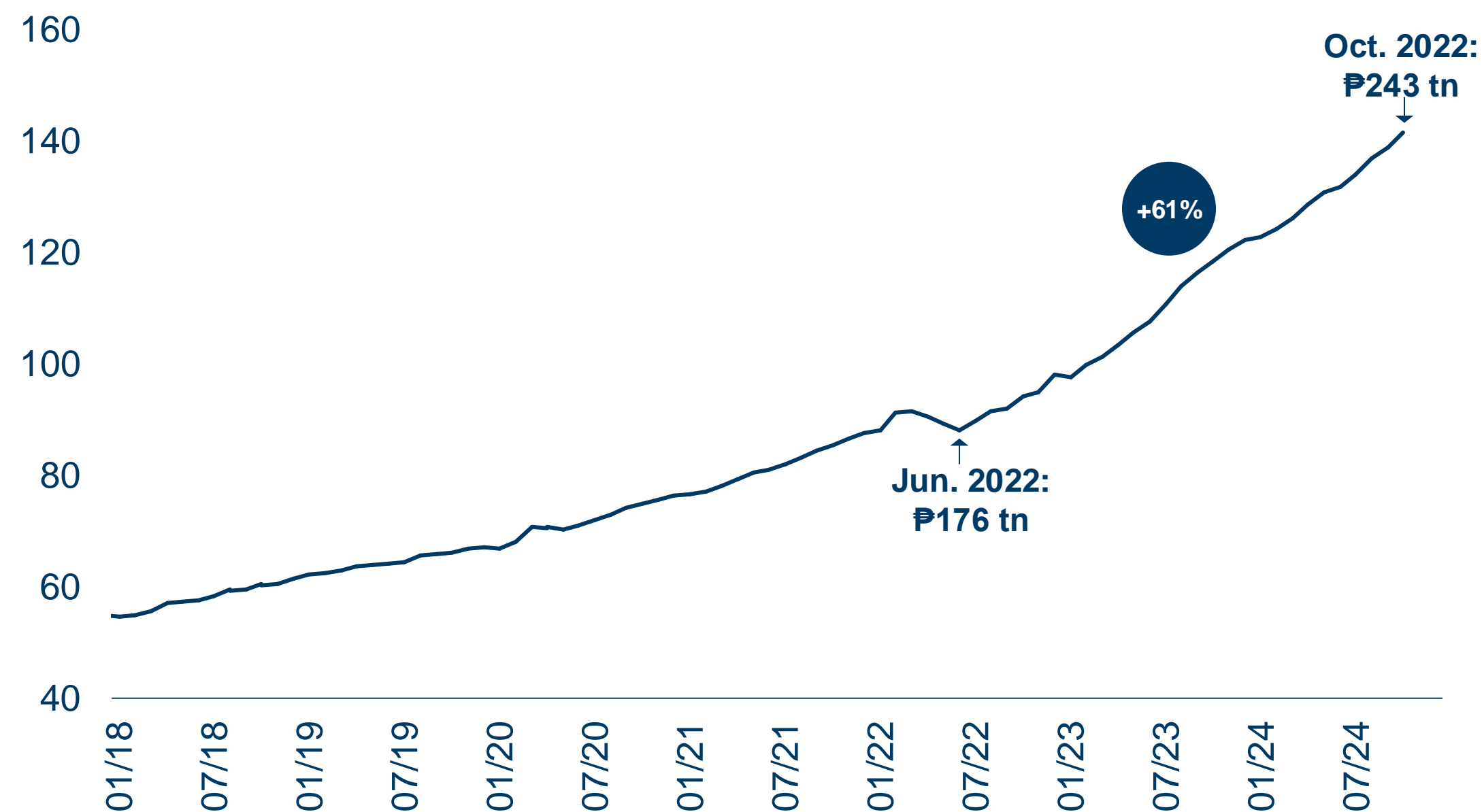


Source: Rosstat

## Significant credit growth creates inflationary pressures.

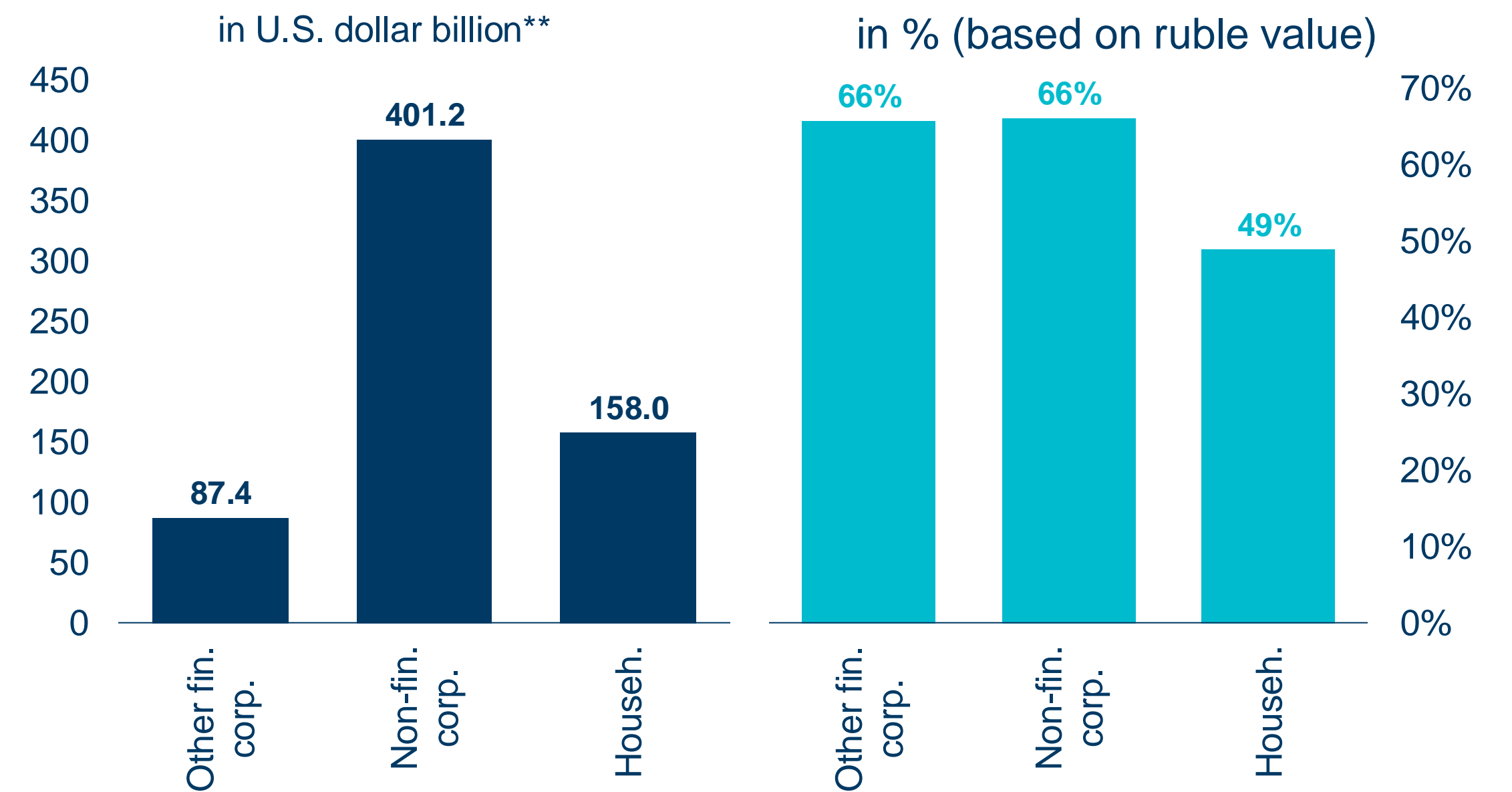
- Credit provided by the Russian banking system to the private sector has grown sharply since mid-2022 (+61%).
- Close to \$650 billion in loans have been provided to financial and non-financial corporations as well as households.
- More than \$400 billion are accounted for by non-financial corporations, many of them likely in the military industry.

Credit to the private sector, in ruble trillion\*



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

New credit to the private sector vs. June 2022\*



Source: Bank of Russia, KSE Institute \*by depository corporation excluding the CBR  
 \*\*calculated by applying exchange rate on monthly basis

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

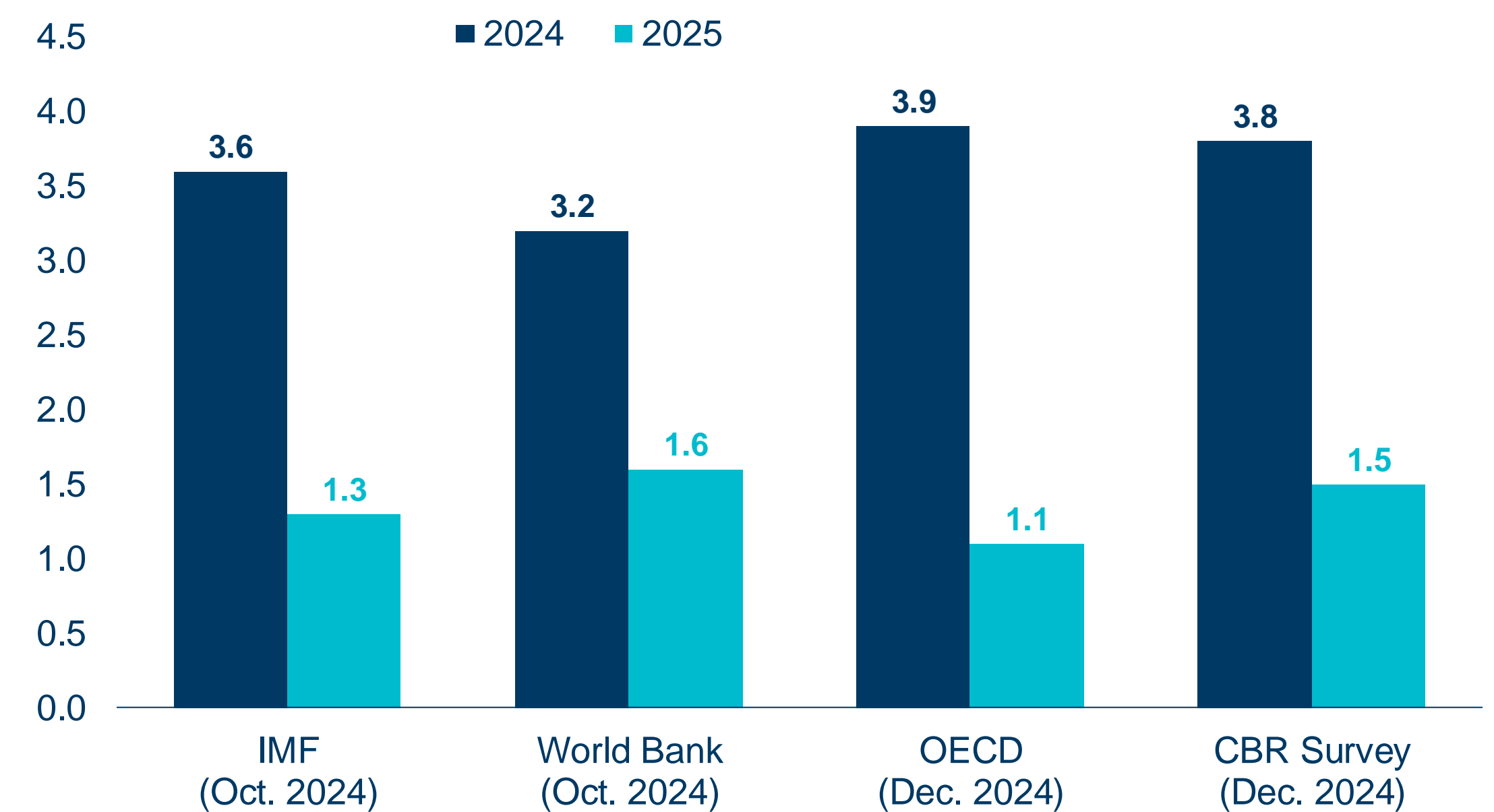
- Real GDP growth in Q3 2024 slowed down to 3.1% Y-o-Y according to Russia’s statistics agency Rosstat.
- Most institutions, including IMF, World Bank, and CBR, project that growth will decline significantly in 2025.
- Key drivers: labor market constraints, missing (foreign) investment, significantly 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

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