KSE Institute Russia Chartbook

Budget Deficit Rises Sharply as Oil and Gas Revenues Drop, the Economy Stalls, and Expenditures Continue to Soar

August 2025

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Executive Summary

1. **Low global oil prices weigh on exports, revenues.** Russia's oil export earnings rose moderately to $14.3 billion in Jul. on the back of somewhat higher global oil prices, which kept Russian export prices ~$60/bbl. However, the outlook for the global oil market indicates lower prices for Russian exports throughout the rest of the year and in H1 2026. Therefore, budgetary challenges will likely persist. While oil and gas revenues increased in Jul. vs. Jun. due to quarterly tax payments, over the last three months (May-Jul.), they were more than 30% lower than over May-Jul. of last year. Extraction taxes continue to be very weak and are unlikely to increase anytime soon.
2. **Budget deficit rises significantly.** Over Jan.-Jul., Russia's budget recorder a deficit of 4.9 trillion rubles (129% of the target for 2025) as O&G revenue dropped 19% y-o-y, non-O&G revenues grew only 14%, and expenditures rose by 21%. This is almost 4.5 times the deficit over Jan.-Jul. 2024 and almost twice the biggest Jan.-Jul. deficit in recent years (2023). Should oil prices behave as markets expect with Brent falling toward $60/bbl by the end of the year, Russia is very likely to miss its budget target of 3.8 trillion rubles by a large margin. This will put significant pressure on the remaining financing channels: the National Welfare Fund and domestic debt (OFZ) issuance.
3. **NWF under pressure but debt issuance robust.** In Jul., the NWF's liquid portion declined marginally to 4.0 trillion rubles (or $48 billion) as the fund sold around 16% of its gold. In the absence of fiscal consolidation, Russia will be forced to rely on the NWF heavily towards the end of the year for budget financing and the liquid portion could run out over the next 6-12 months. In Jan.-Jul. 2025, MinFin issued 3.0 trillion rubles in OFZ (114% more than in Jan.-Jul. 2024 and 62% of the issuance plan for this year). Yields remain relatively low, indicating that demand is strong. Ultimately, the CBR can also engineer further repo schemes to provide banks with additional liquidity.
4. **Inflation has started to fall due to tight monetary policy.** The CBR's high interest rates—and, likely, attempts to restore the monetary policy transmission mechanism—have led to a decline in inflation to 8.8% y-o-y in Jul. (from close to or above 10% in Jan.-May). As its tight policy put a heavy burden on the economy, the central bank has cut rates by 300 bps (to 18%). Some of the fundamental issues behind inflationary pressures remain in place, however, including elevated budget deficits and a tight labor market. Consequently, the objectives of the CBR (i.e., price stability) and MinFin (i.e., financing the war and boosting the economy) will continue to collide.
5. **Economic activity is slowing precipitously.** Real GDP growth declined further in Q2 2025—to 1.1% y-o-y vs. 1.4% in Q1—indicating a stagnating economy q-o-q. Due to serious constraints in terms of labor and capital, the overall growth outlook is quite challenging.

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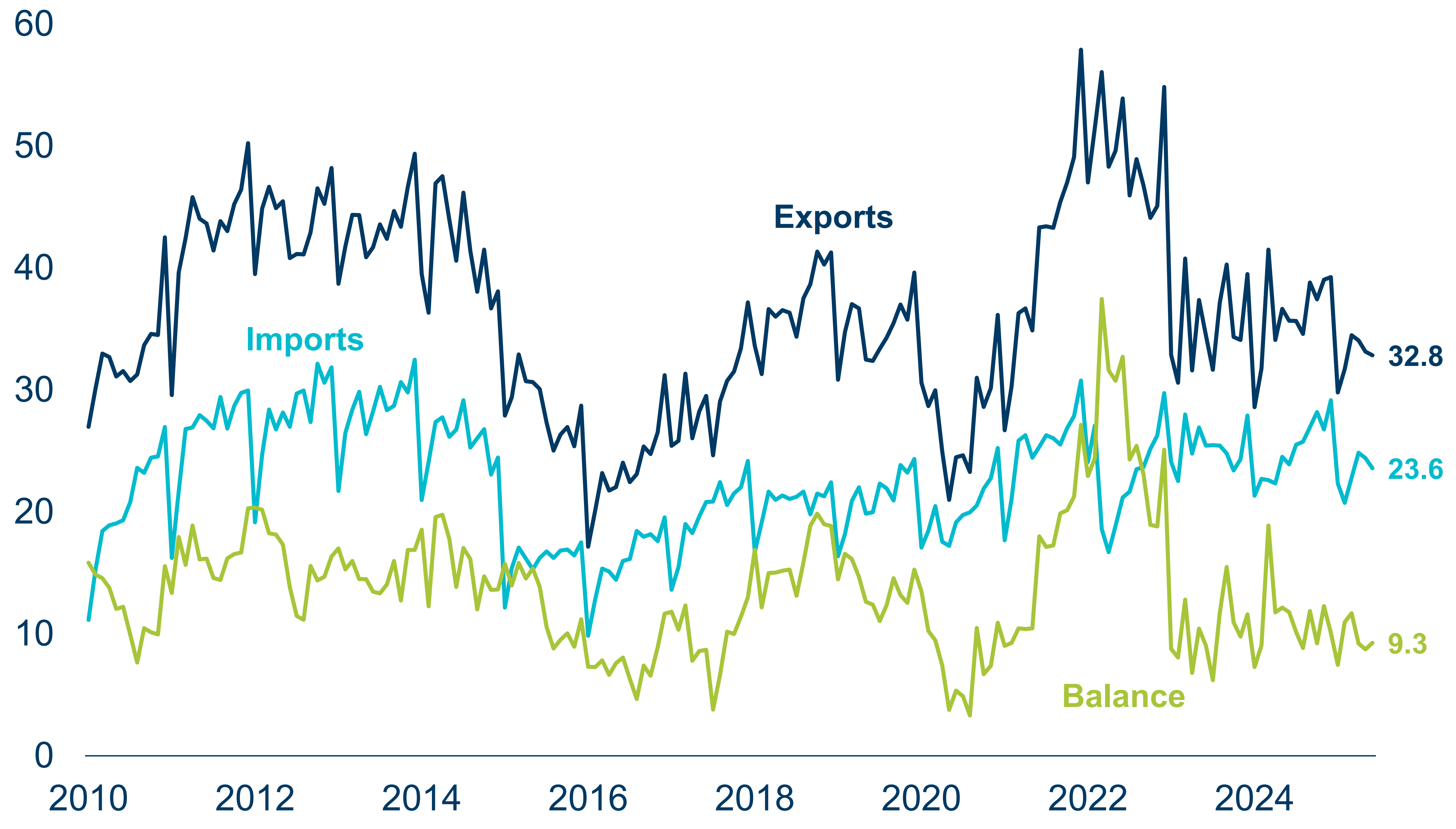
Exports and imports remain subdued, current account surplus drops.

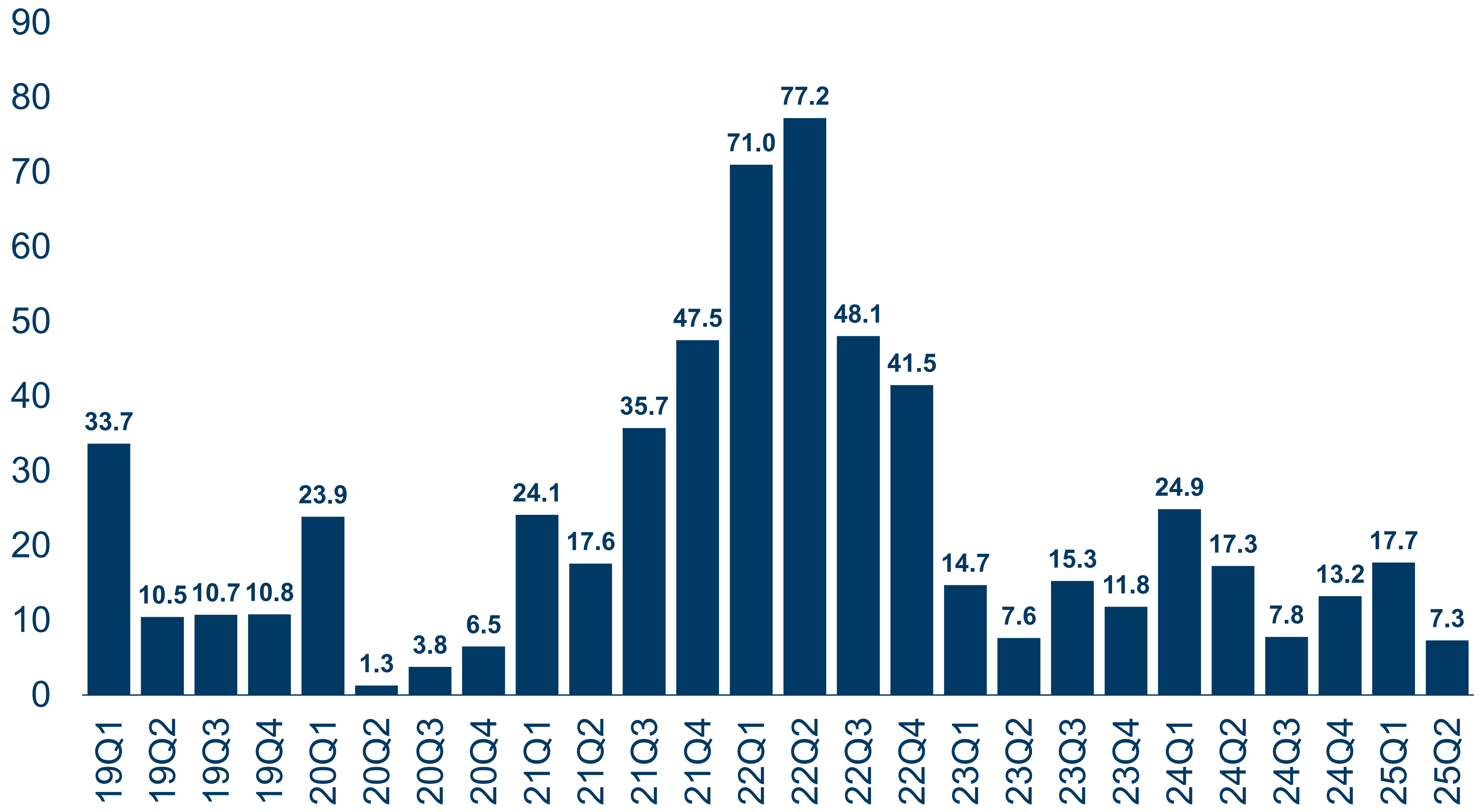
- Russia’s exports and imports have only partially recovered from their marked drop in early 2025.
- As a result of these simultaneous developments, the trade surplus has remained broadly stable.
- Other factors—services, income, transfers—were responsible for the lower current account in Q2.

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

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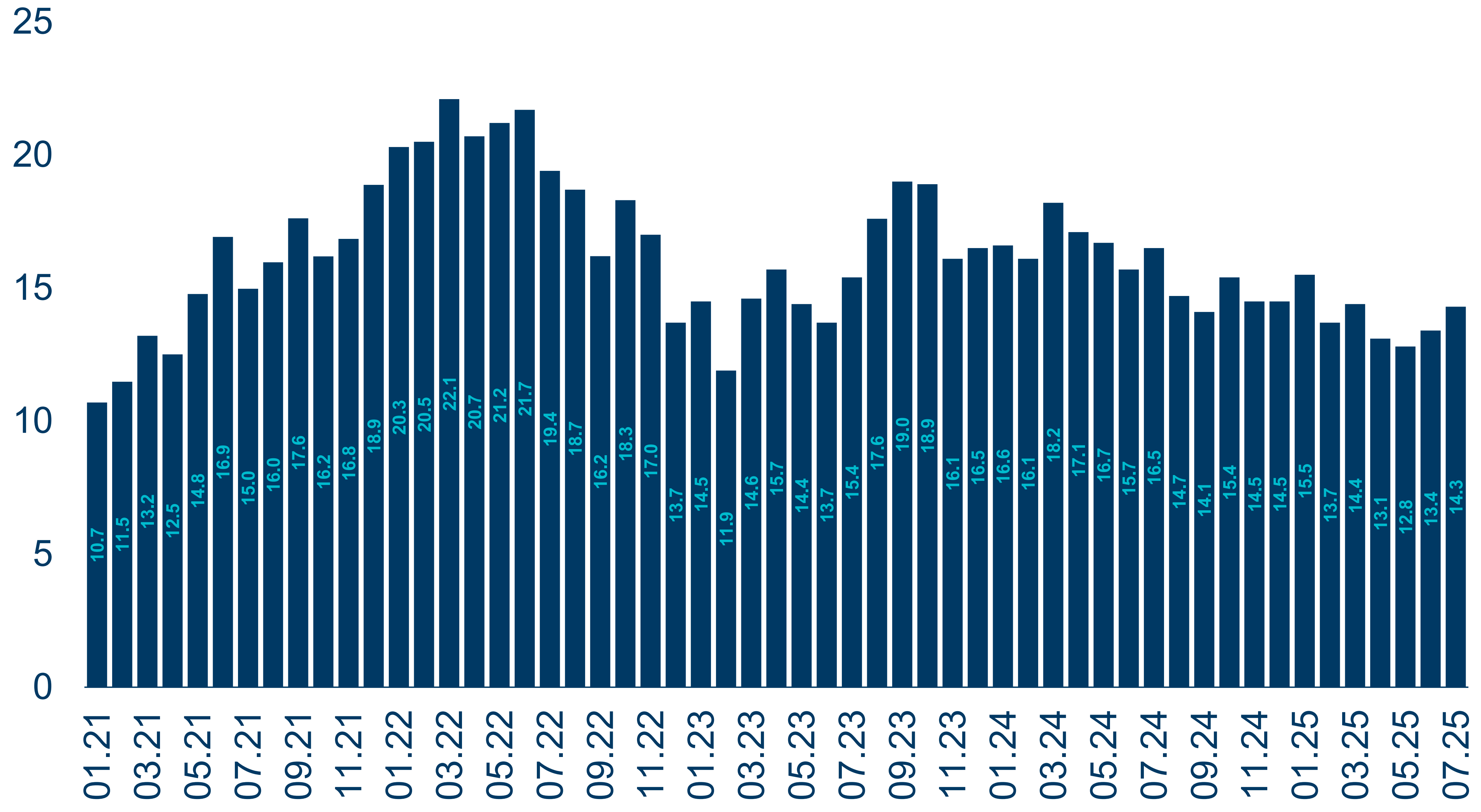
Temporary increase in oil export earnings.

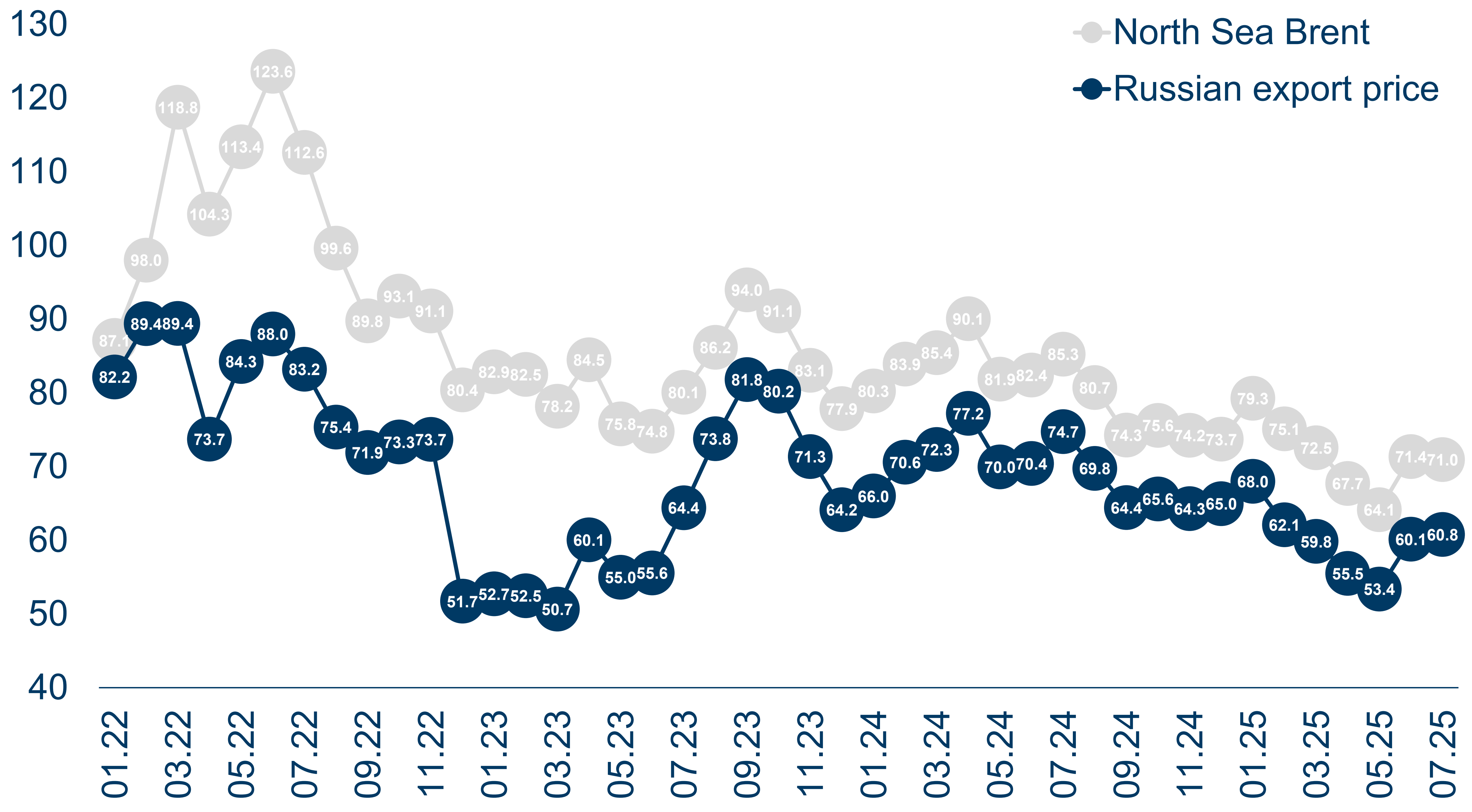
- Oil export earnings have risen in Jun.-Jul. (to $13.4 billion and $14.3 billion, respectively) due to higher oil prices.
- With the discount on Russian oil broadly stable, export prices stood at ~$60/barrel—basically at the price cap.
- Global prices have trended down once again in recent weeks, which will weigh on Russian earnings going forward.

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

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

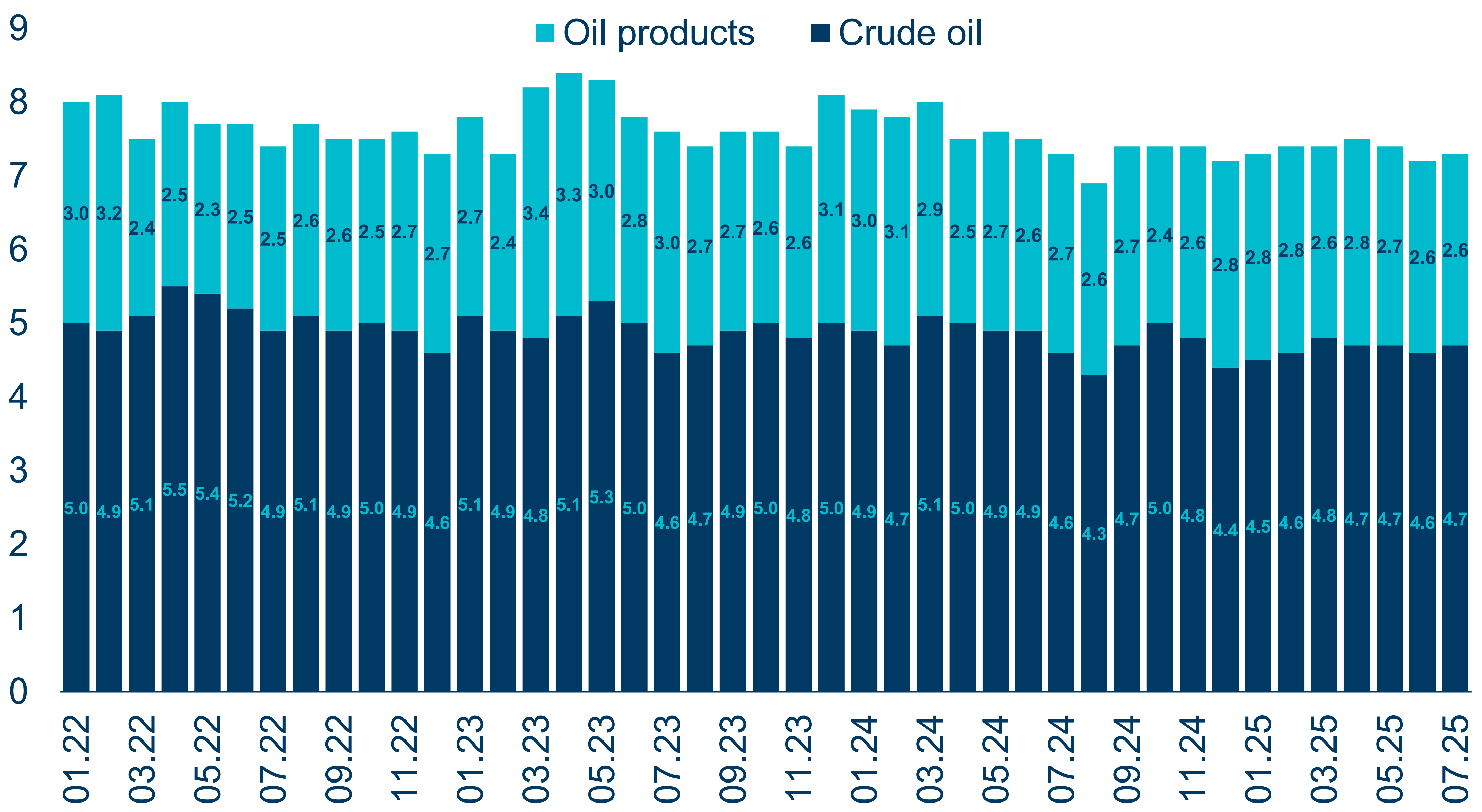


Source: International Energy Agency, KSE Institute

Supply of Russian oil remains stable.

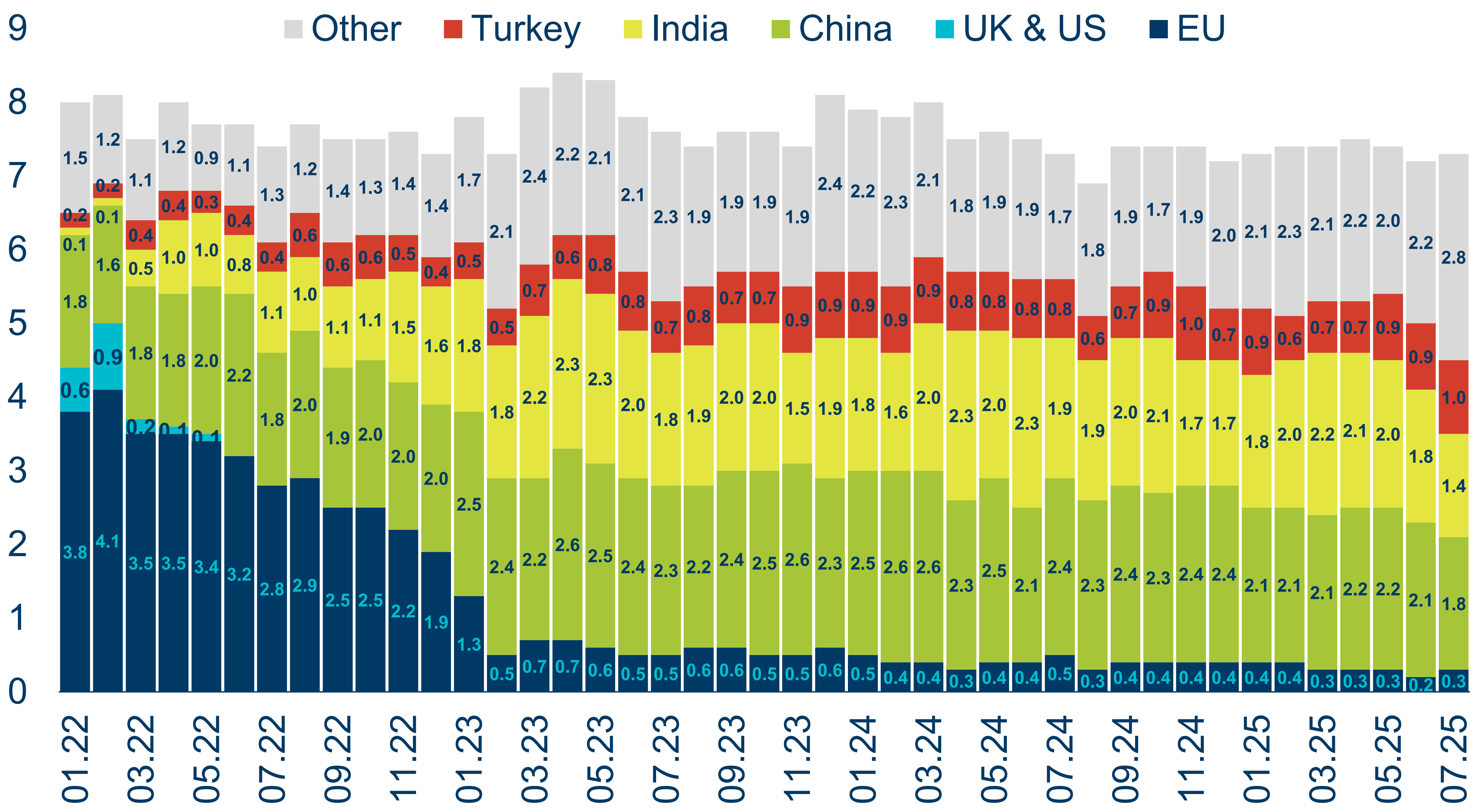
- Russian oil export volumes have been remarkably steady over the last 3.5 years.
- Overall, the G7+ oil price cap has succeeded at keeping Russian oil on the market.
- China, India, and Turkey are the most important buyers (~65-70% of oil exports).

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



Source: International Energy Agency, KSE Institute

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

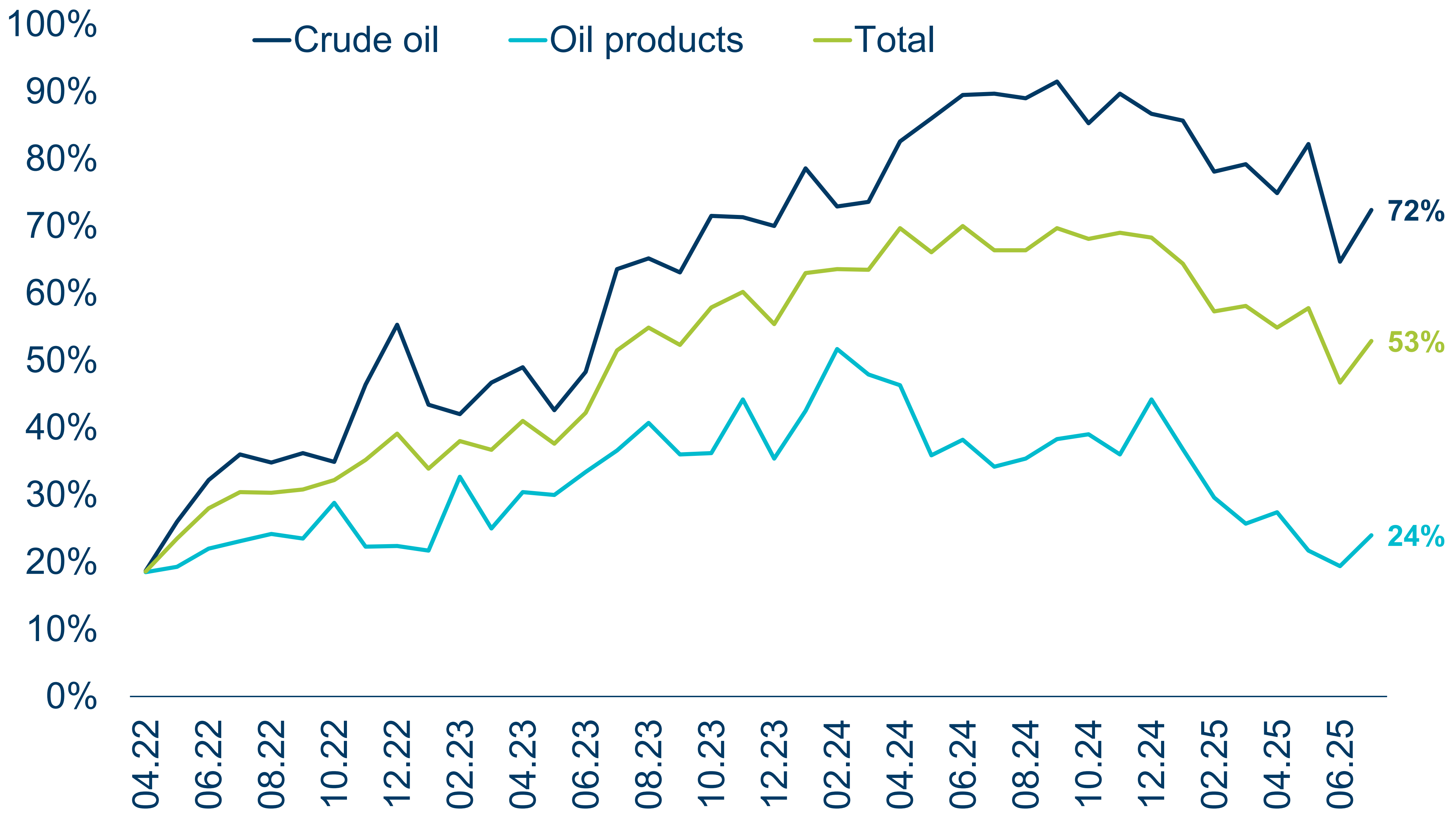


Source: International Energy Agency, KSE Institute

Stepped-up shadow tanker sanctions require tighter enforcement.

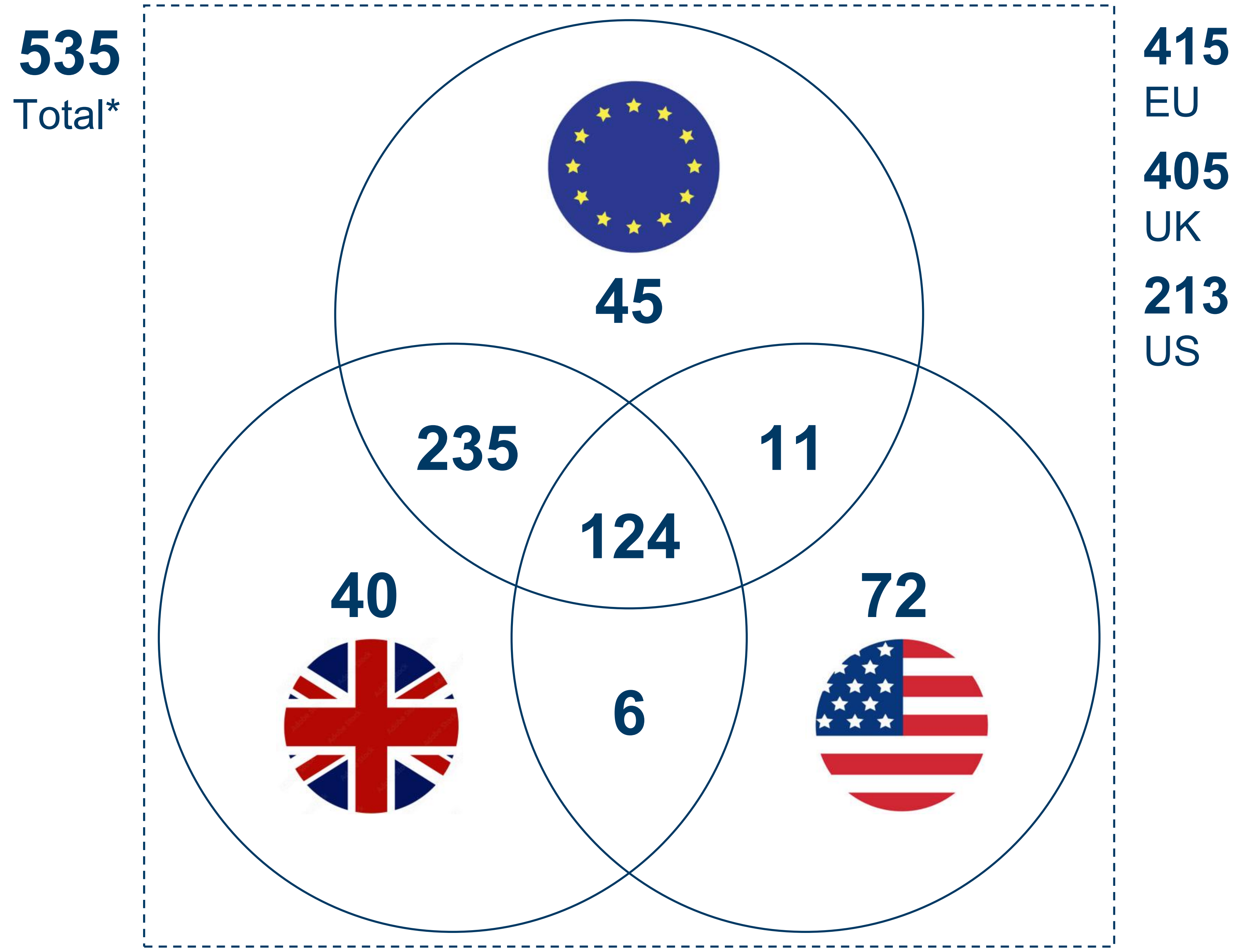
- The total number of sanctioned shadow tankers has reached 535, with 124 listed by the EU, UK, and US.
- With listings reaching ~66% of the shadow fleet, more effective enforcement will need to be in the focus.
- The shadow fleet's share in Russian oil exports picked up somewhat in July, likely due to higher prices.

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction



Source: European Commission, OFAC, OFSI, KSE Institute.
* Includes 2 tankers sanctioned by Canada only; visualization does not show details about vessel designations by Australia (60 vessels), Canada (275), and New Zealand (25).

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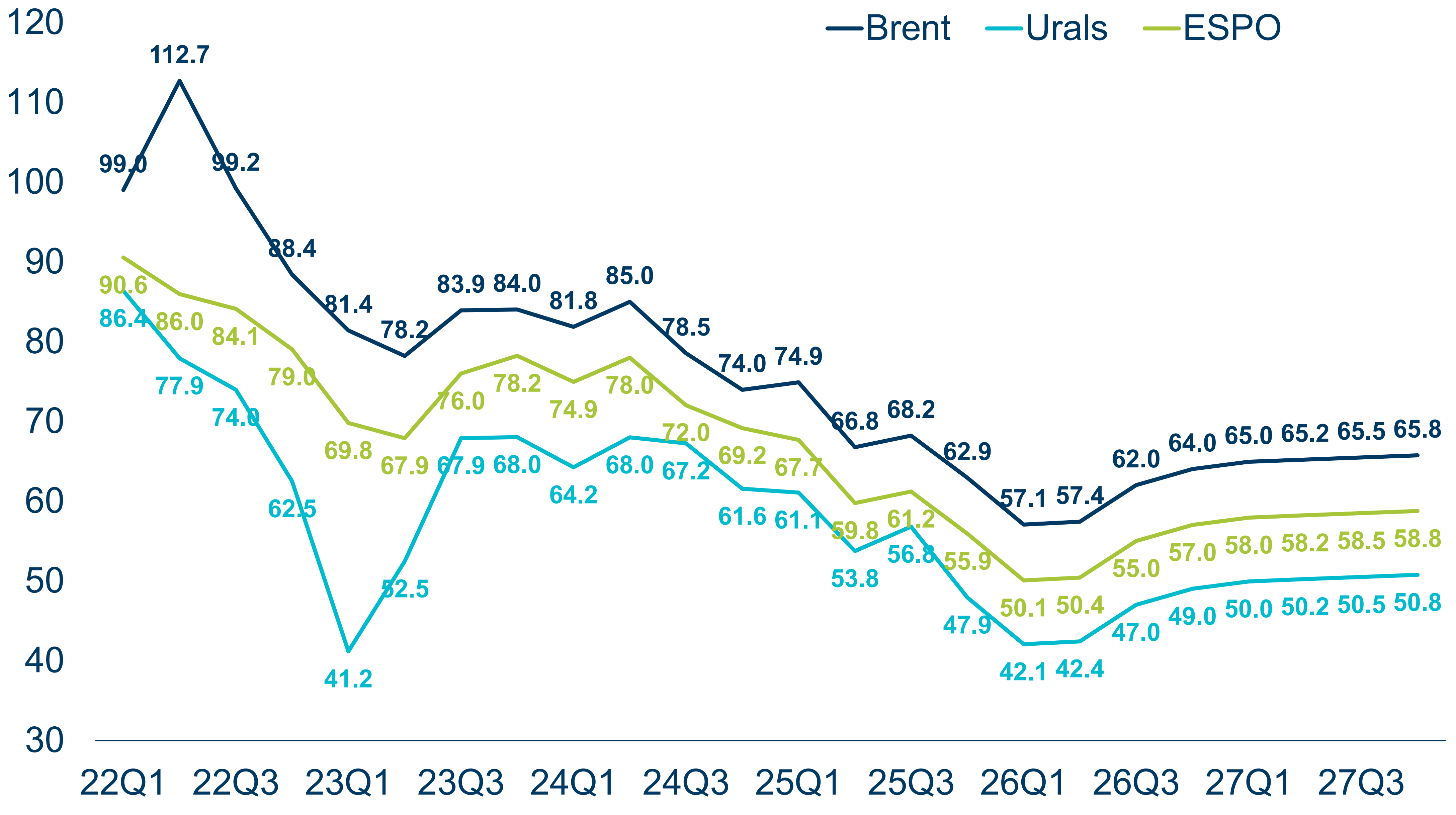
Challenging outlook for Russian oil and gas exports.

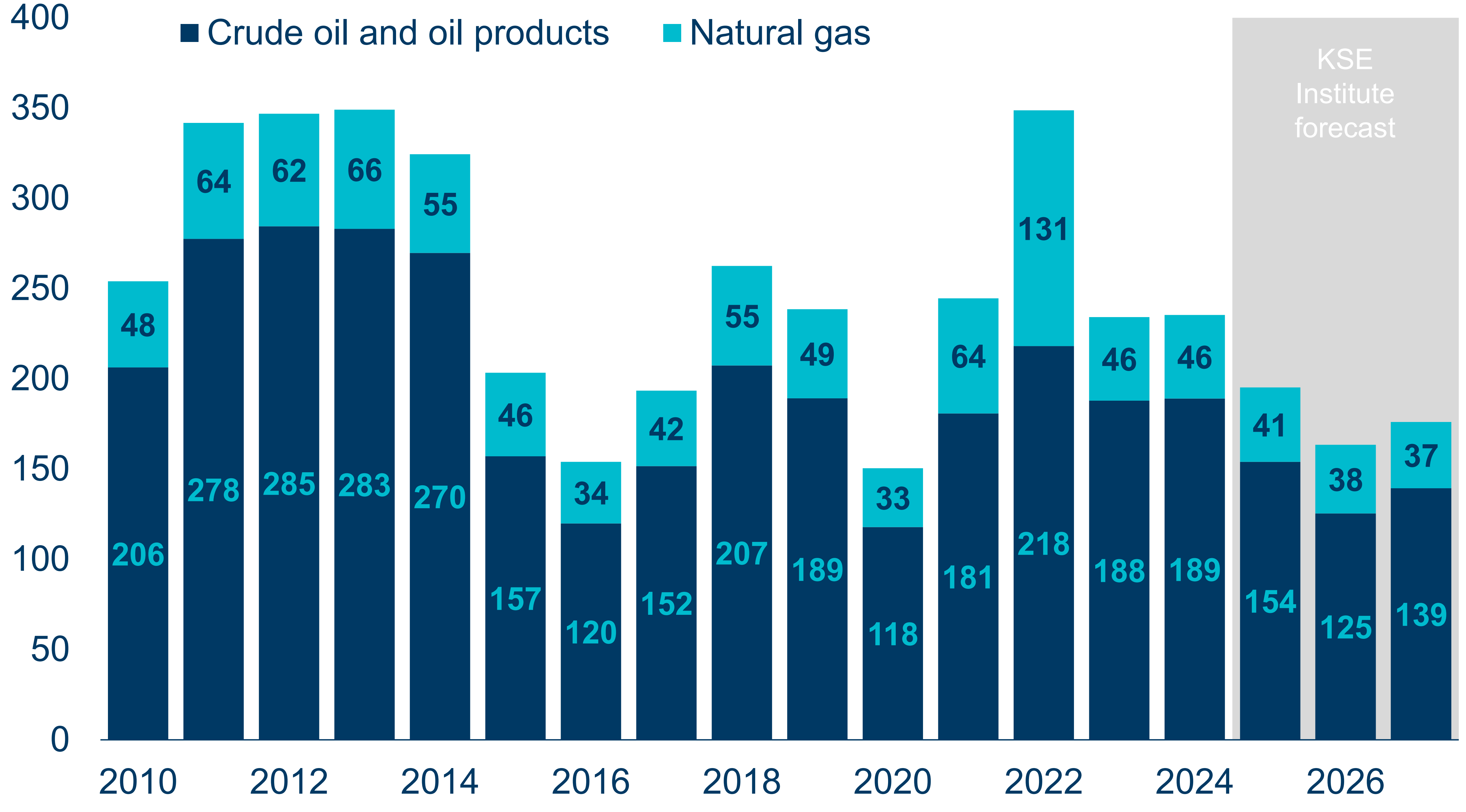
- Markets expect global oil prices to weaken to below $60/bbl in H1 2026 before recovering to ~$65/bbl.
- At a discount of $15/barrel (slightly higher than right now), this would drive Urals to around $42/barrel.
- Oil exports are projected to drop from $189 billion in 2024 to $154 billion in 2025 and $125 billion in 2026.

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



Source: Bank of Russia, KSE Institute *scenario based on current sanctions

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

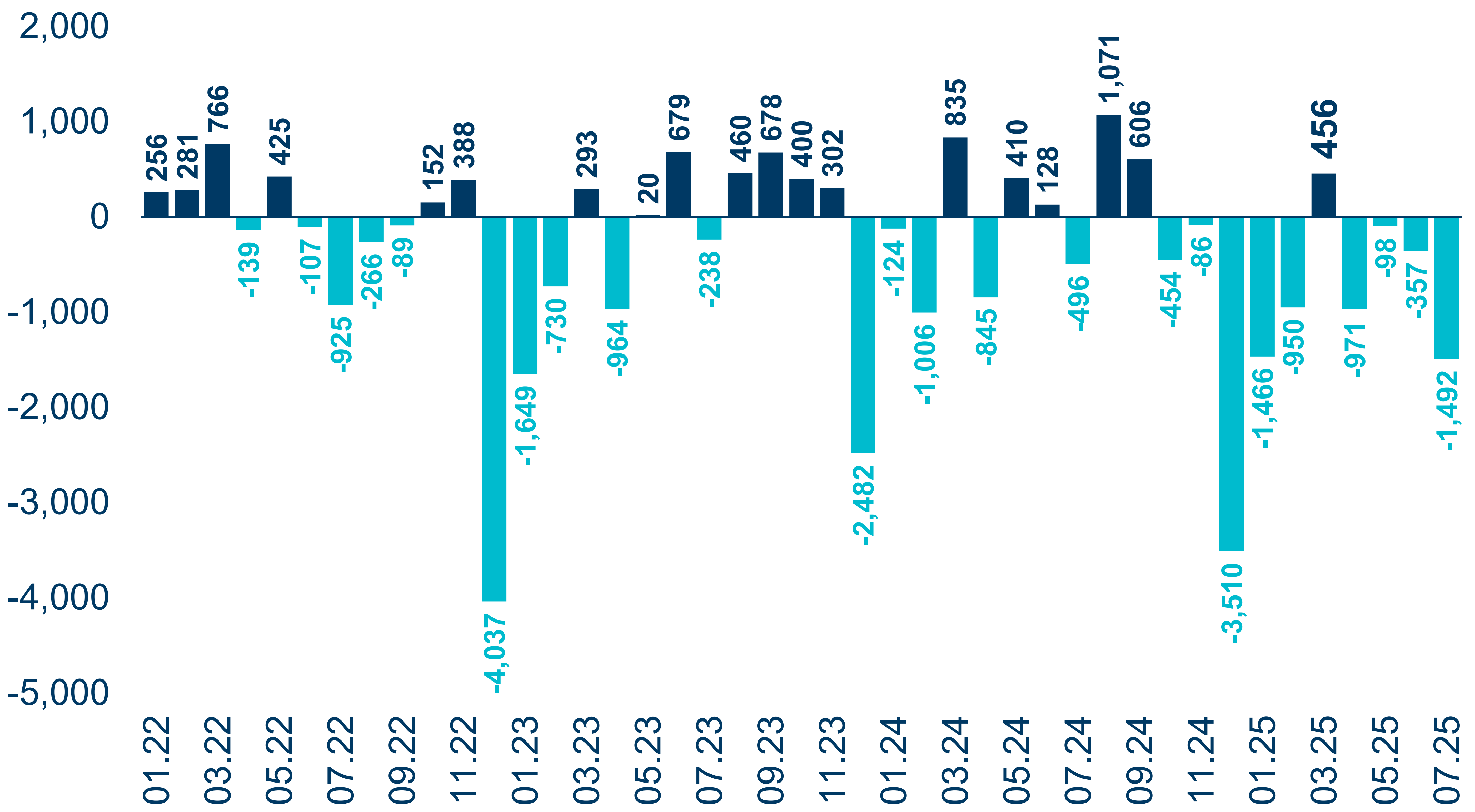


Source: Bank of Russia, KSE Institute

Budget situation deteriorated significantly in July.

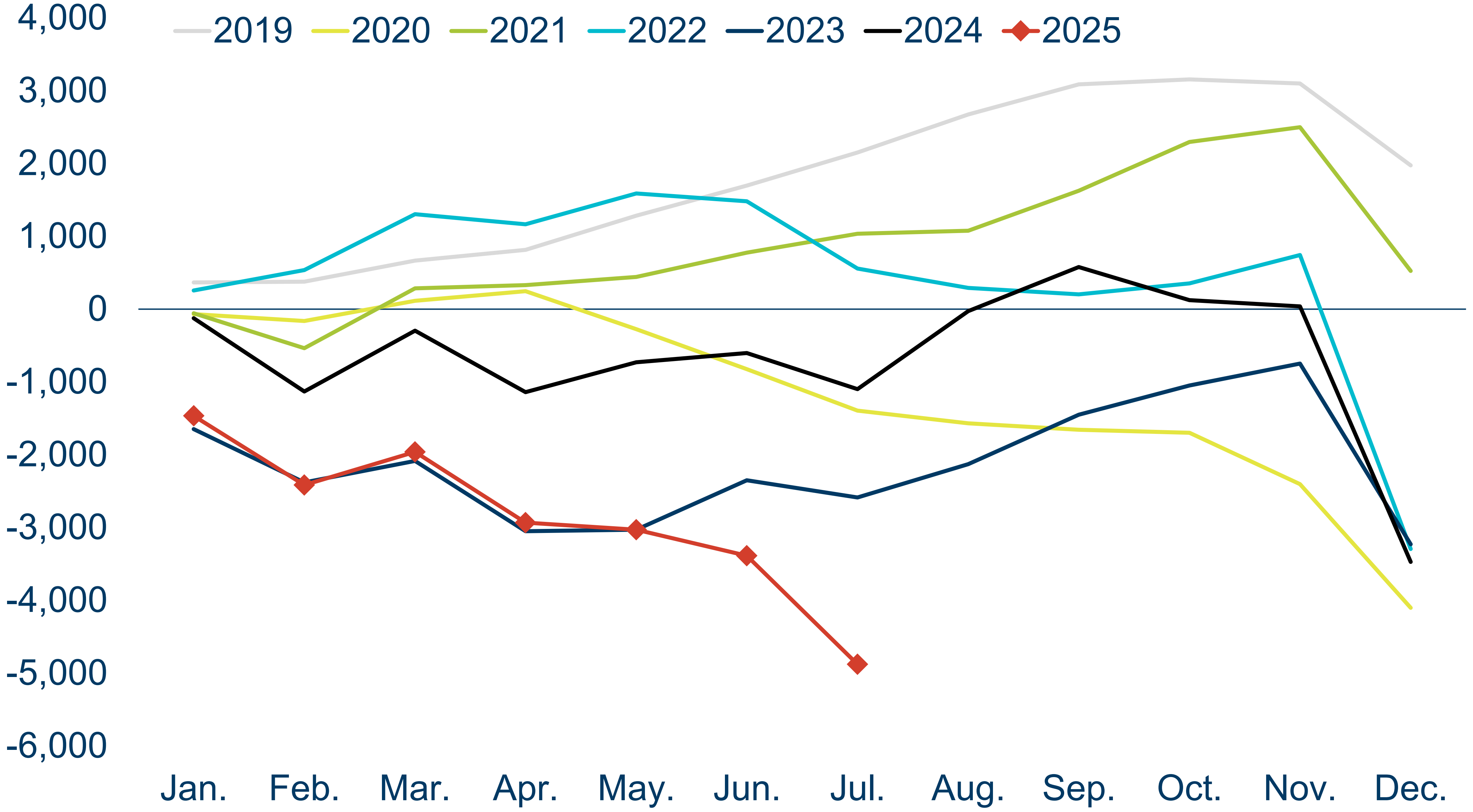
- The budget deficit reached 1.5 trillion rubles in July on the back of weak oil and gas revenues and high expenditures.
- As a result, the cumulative deficit over Jan.-Jul. 2025 increased to 4.9 trillion rubles (vs. 1.1 trillion in Jan.-Jul. 2024).
- Over Jan.-Jul., the budget deficit has reached 129% of the planned amount for the full-year (after the budget review).

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

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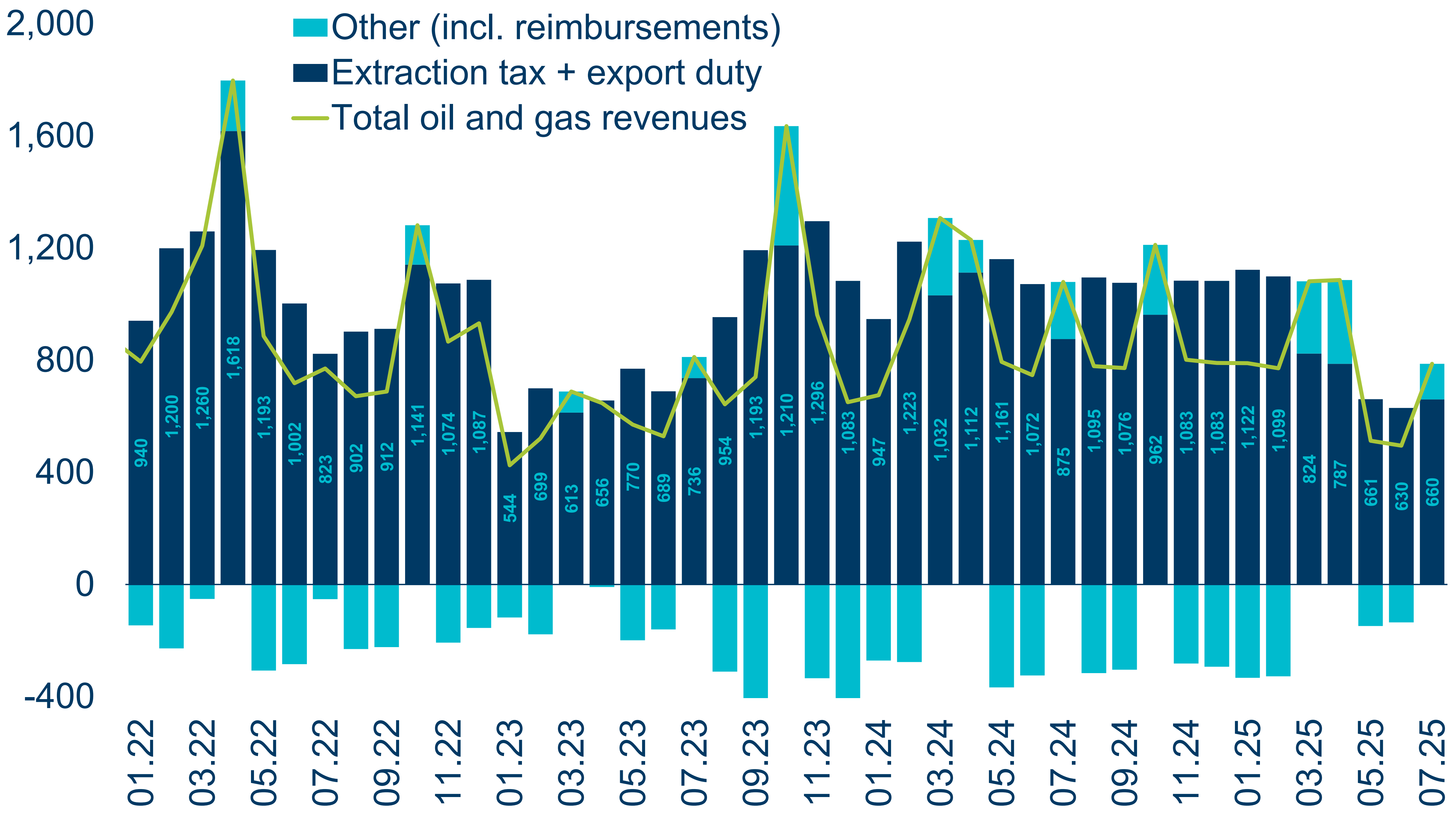
Weak oil and gas revenues, higher expenditures are behind it.

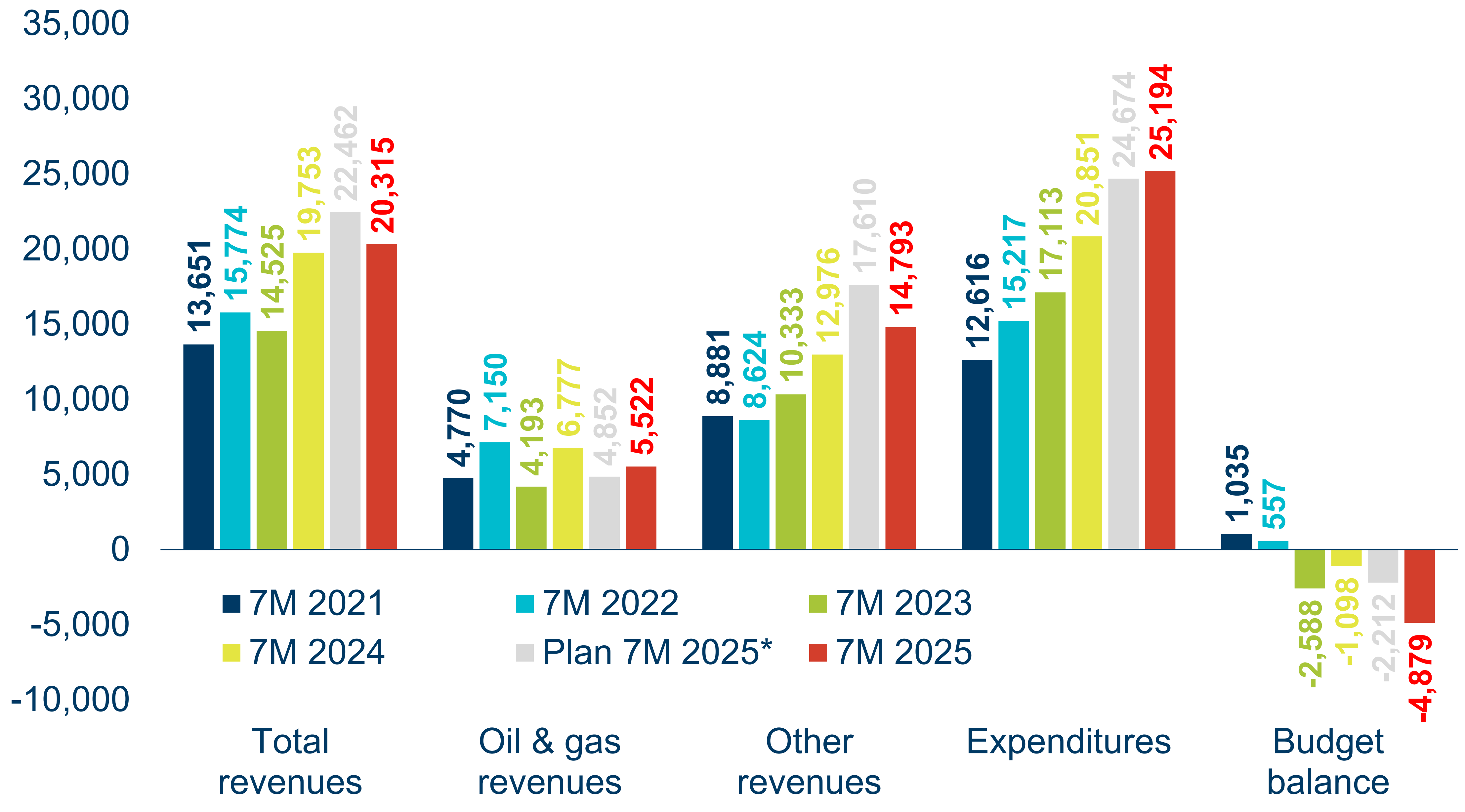
- Oil and gas revenues were 19% weaker year-over-year, non-O&G revenues 14% stronger, and expenditures 21% higher.
- In July, O&G revenues rose month-over-month due to quarterly tax payments, but they were 27% lower than in July 2024.
- Budget expenditures reached 4.2 trillion rubles in July, the highest monthly number on record (excluding Decembers).

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

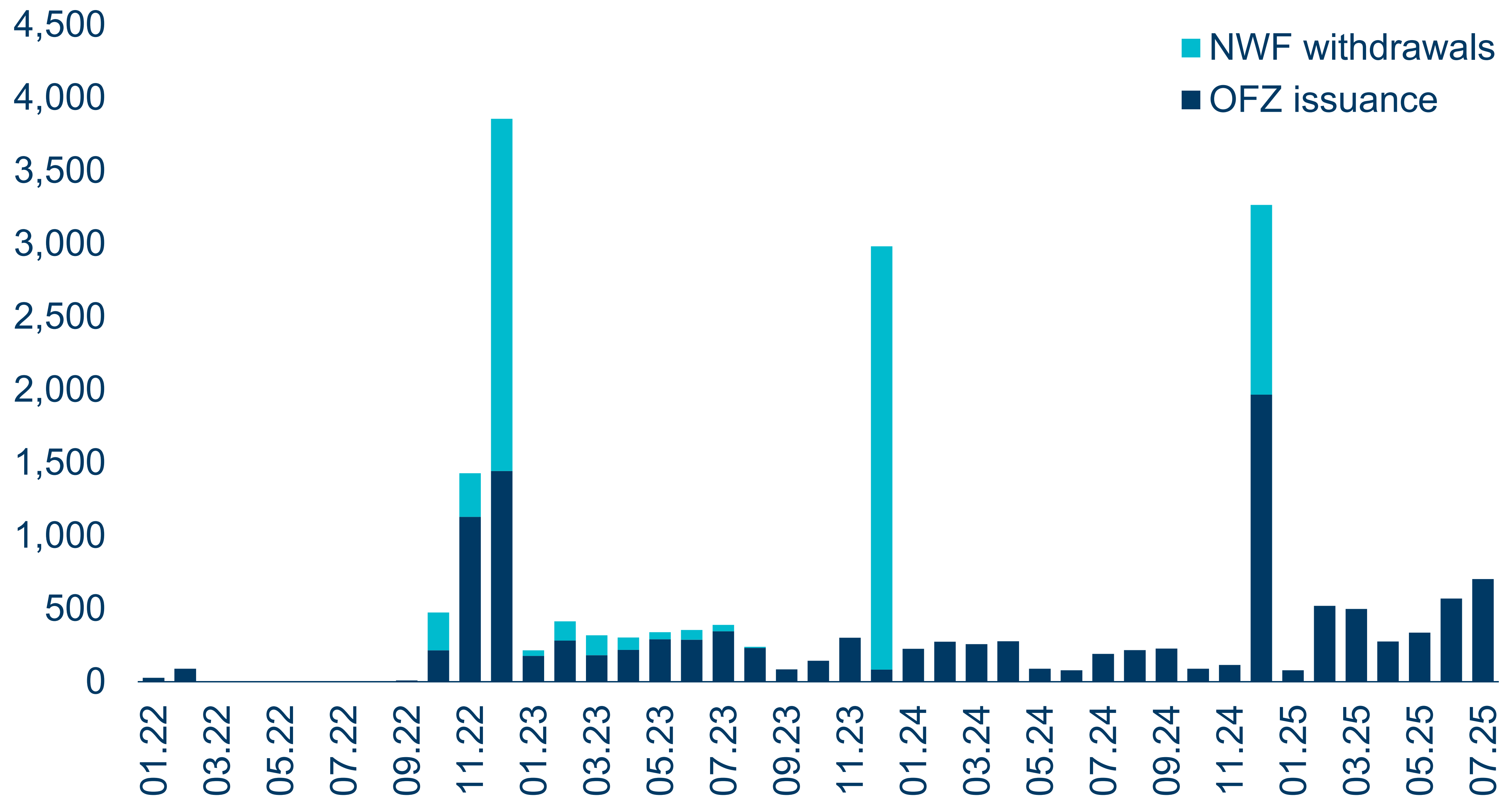


Source: Ministry of Finance, KSE Institute *based on even distribution throughout the year

Domestic debt issuance increased to finance larger deficit.

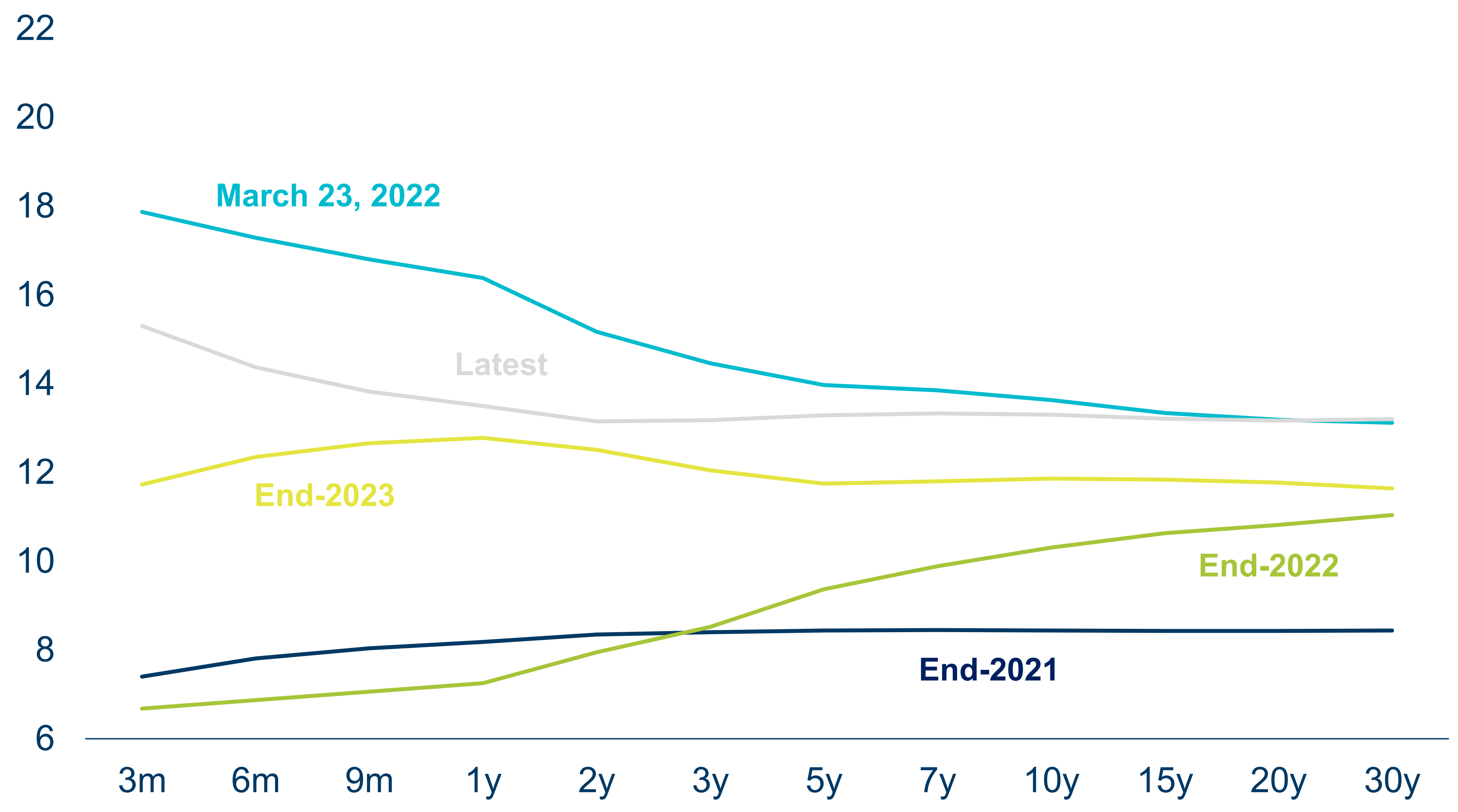
- Due to the larger deficit, OFZ issuance in Jan.-Jul. was 114% higher than in Jan.-Jul. 2024.
- Total issuance in 2025 reached 3.0 trillion rubles—62% of the planned issuance for the year.
- Falling yields indicate robust interest in OFZ issuance and expectations of further rate cuts.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %



Source: Bank of Russia, KSE Institute

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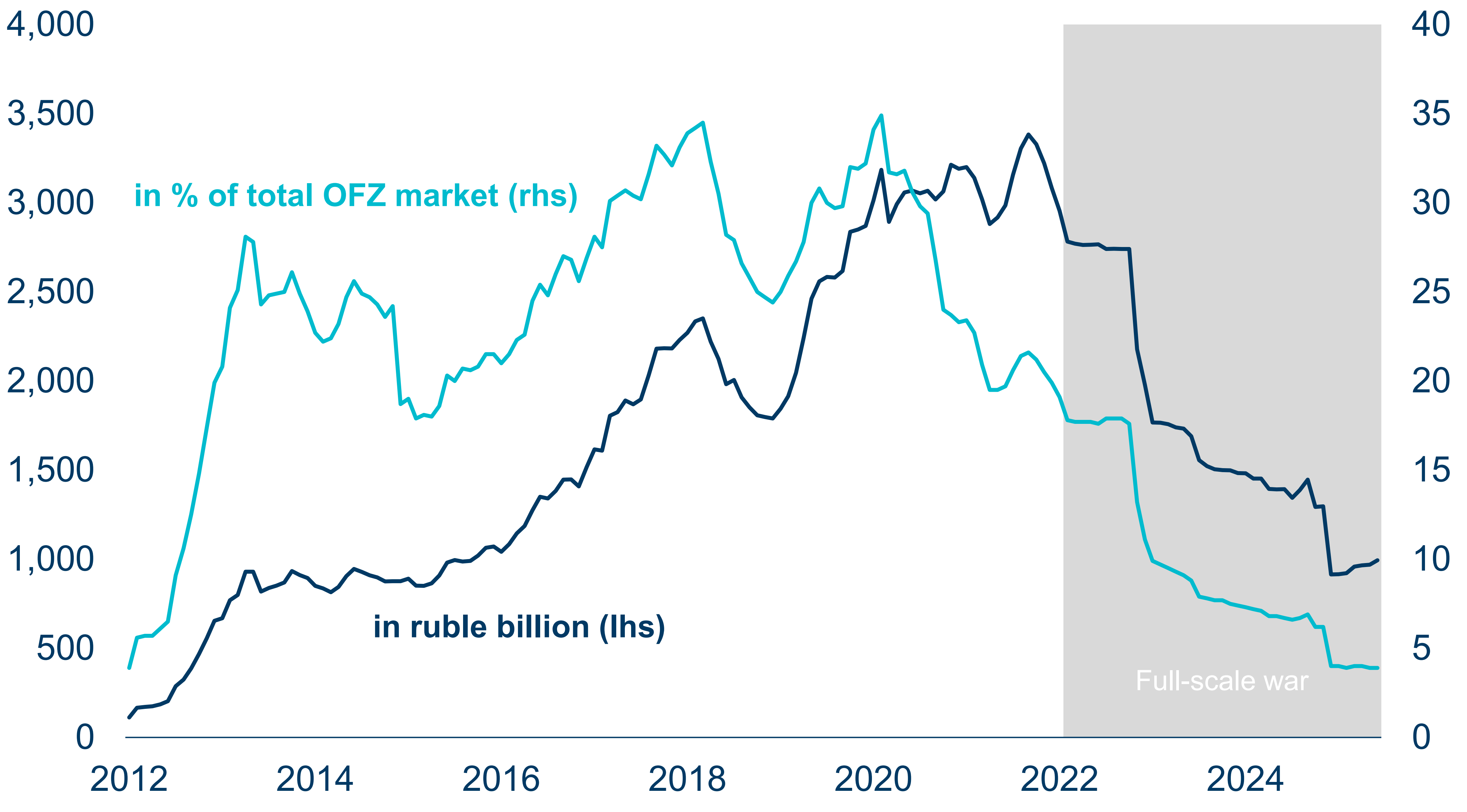
Domestic banks are the only remaining buyers of OFZs.

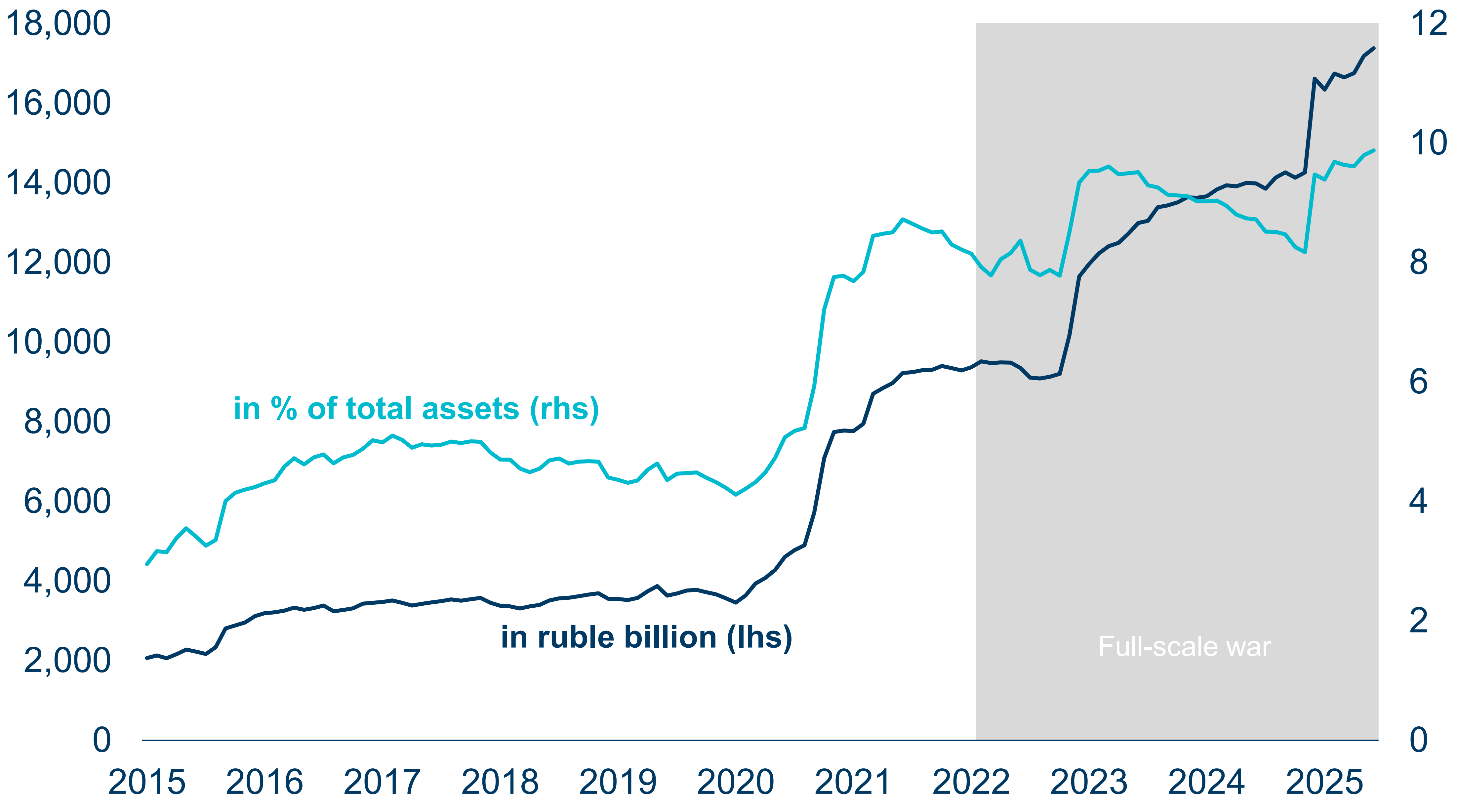
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2.0 trillion rubles (or 66%) since Jan. 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same 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

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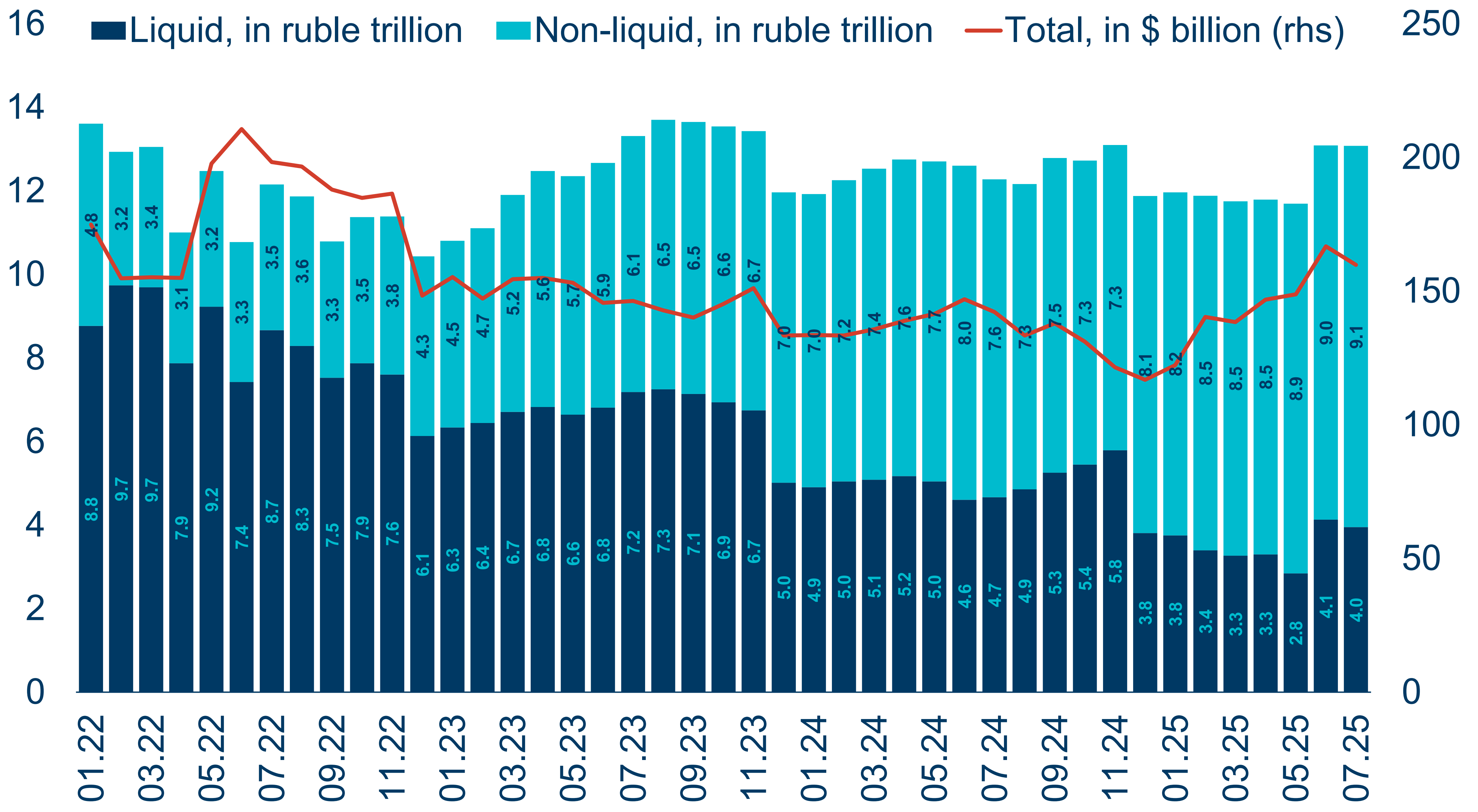
Liquid NWF assets will likely be used up in 6-12 months.

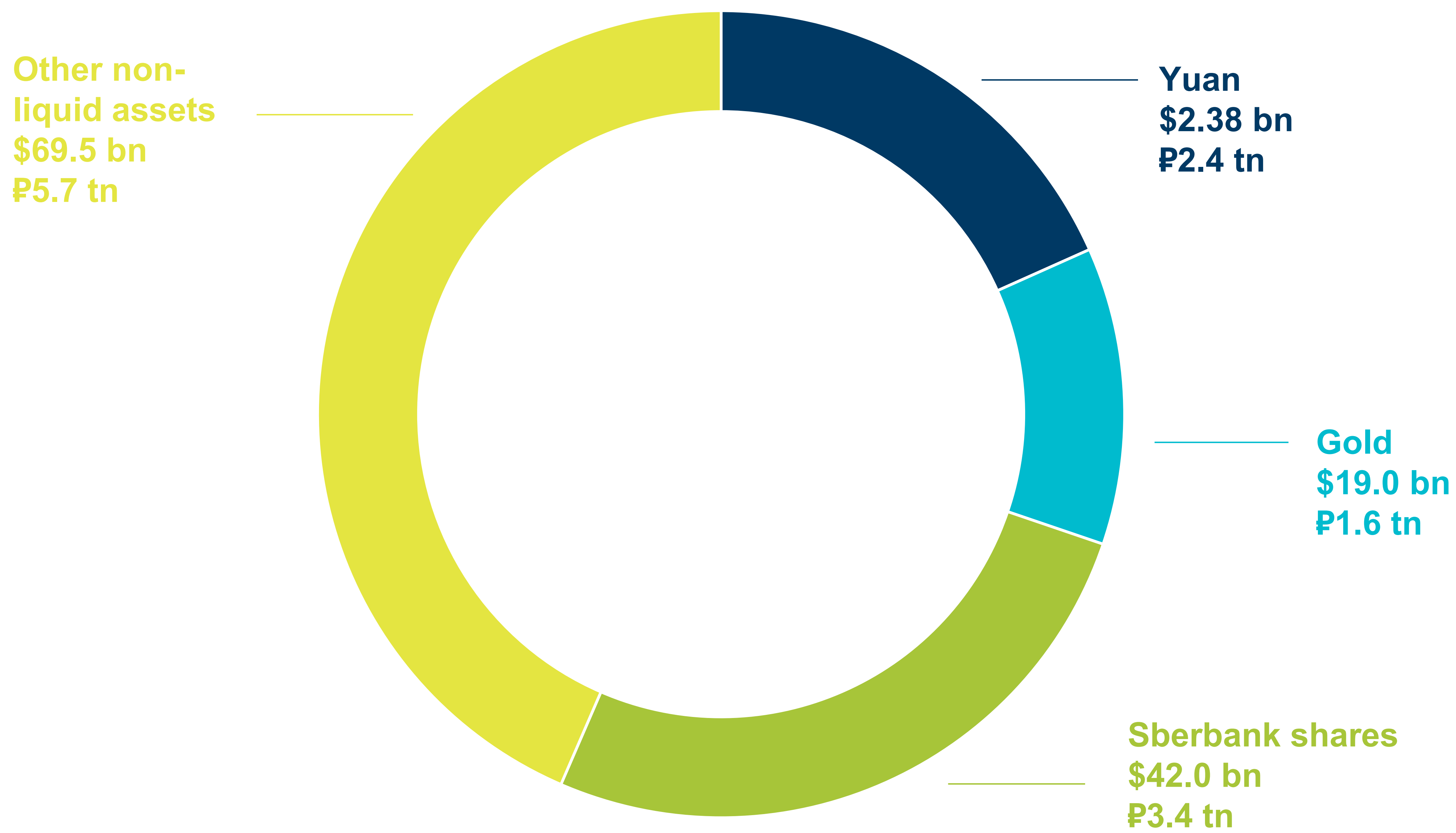
- Total assets of the National Welfare Fund stood at 13.1 trillion rubles ($160 billion, 5.9% of GDP) in July 2025.
- Liquid assets have declined by 59% since early-2022 and only account for 30% of the total (vs. 75% in Feb. 2022).
- Based on current budget dynamics, this critical macro buffer will likely be used up fully within the next 6-12 months.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of April 1, 2025*

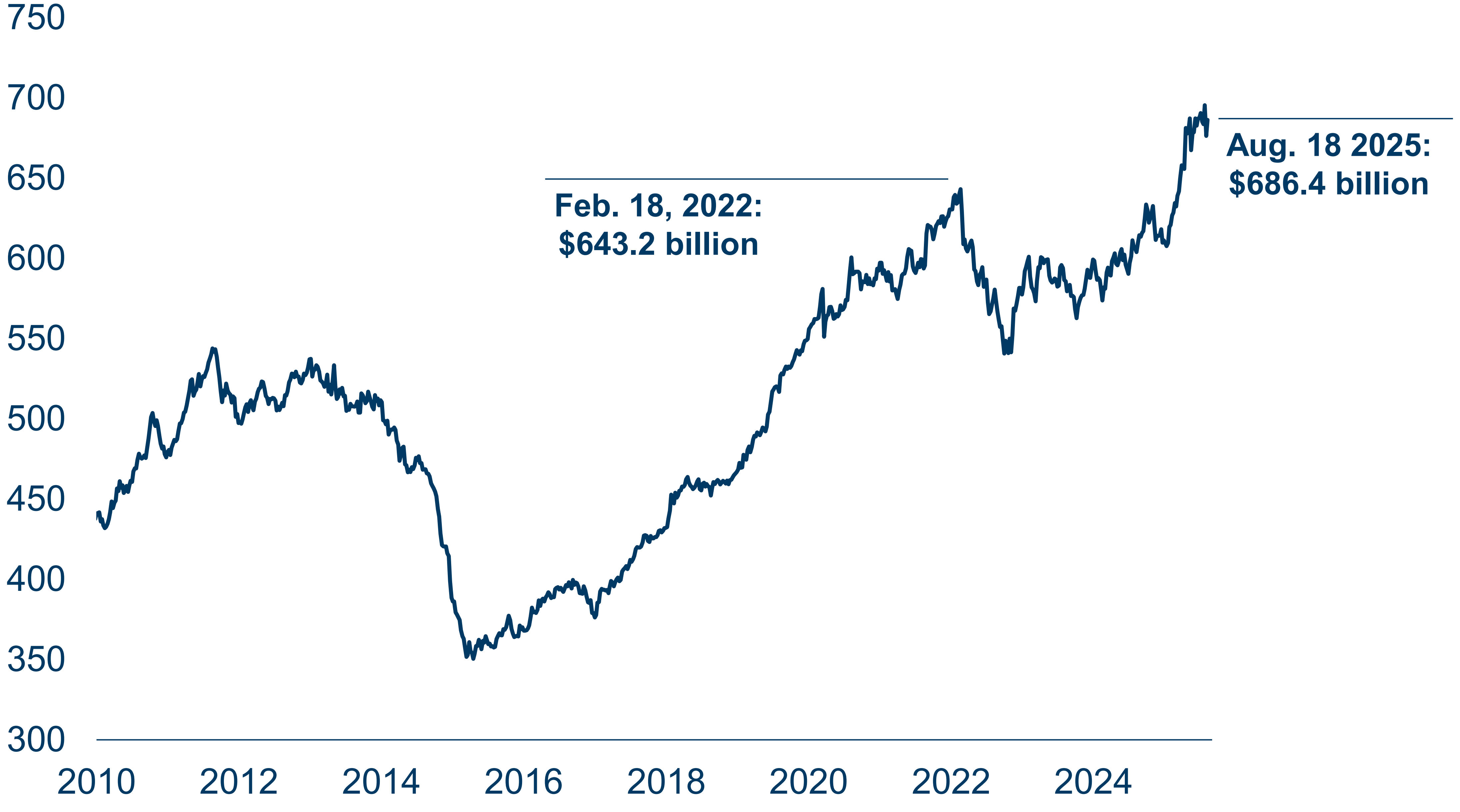


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

Large share of reserves remains immobilized.

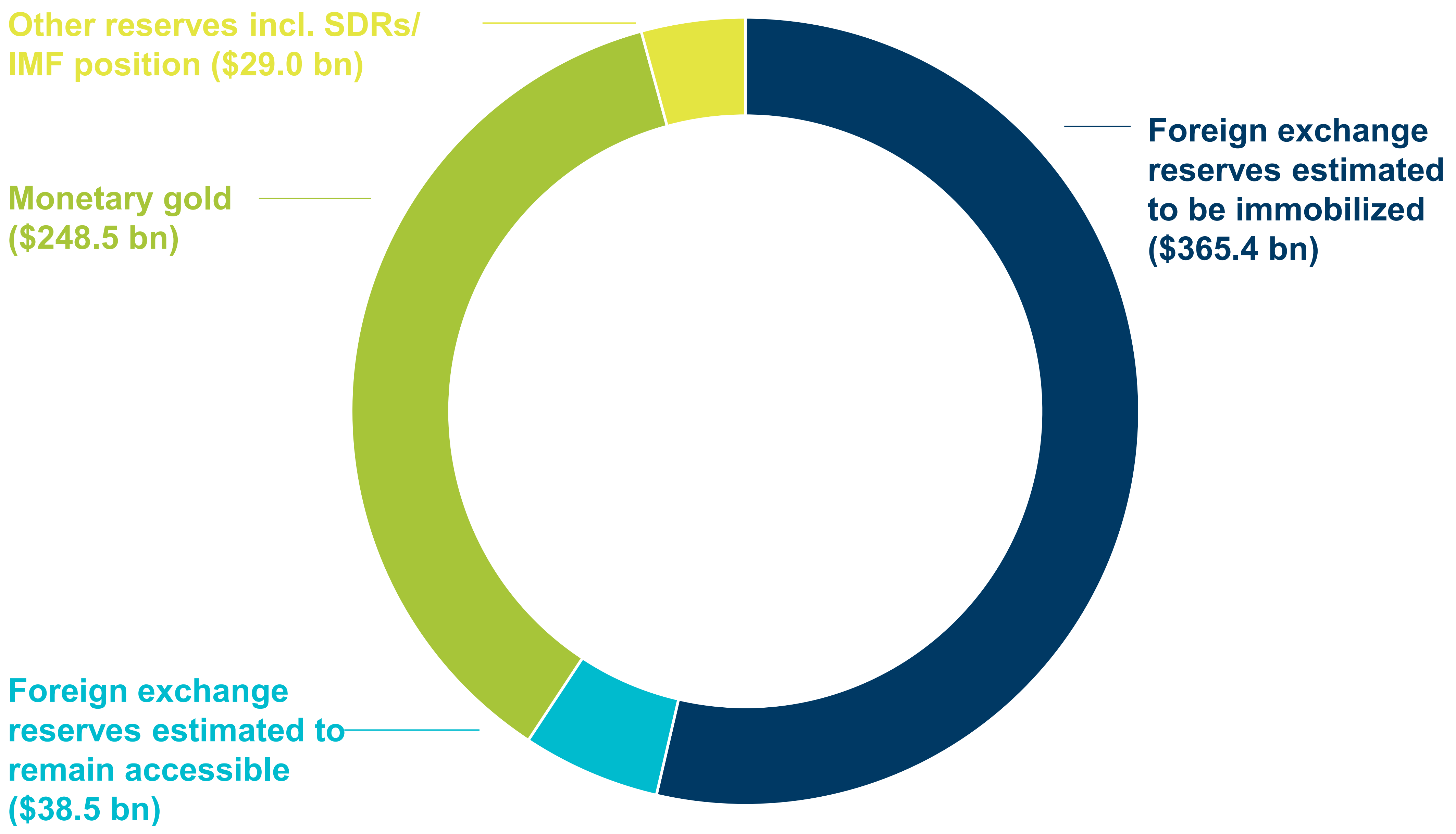
- Russia's total international reserves stand at $686 billion vs. $643 billion before the start of the full-scale war.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves have a current value of ~$365 billion.
- This leaves Russia with $39 billion of foreign exchange, $249 billion of gold, and $29 billion of other assets.

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

Composition of reserves as of end-July, in U.S. dollar billion*

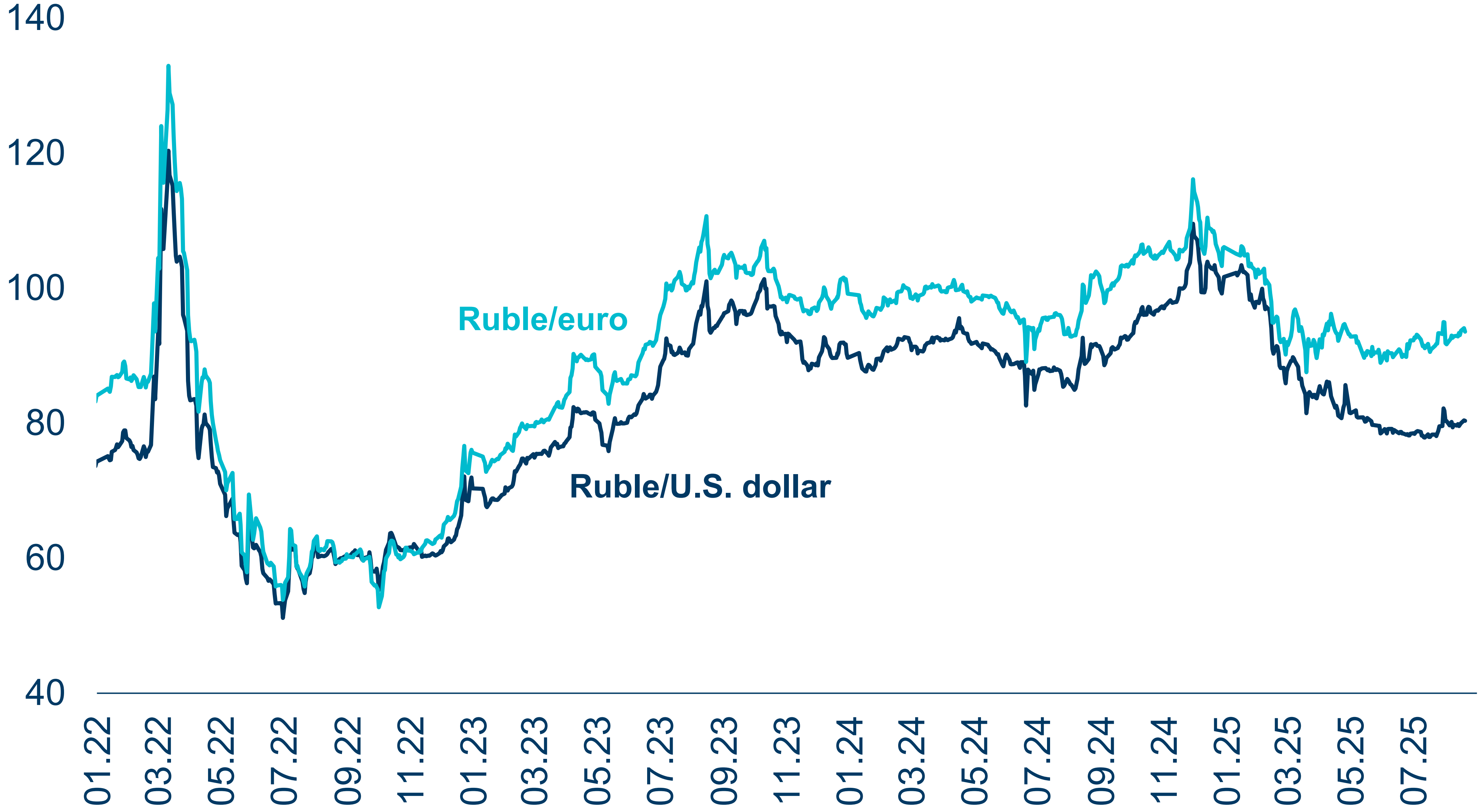


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

Ruble strengthening appears to be over.

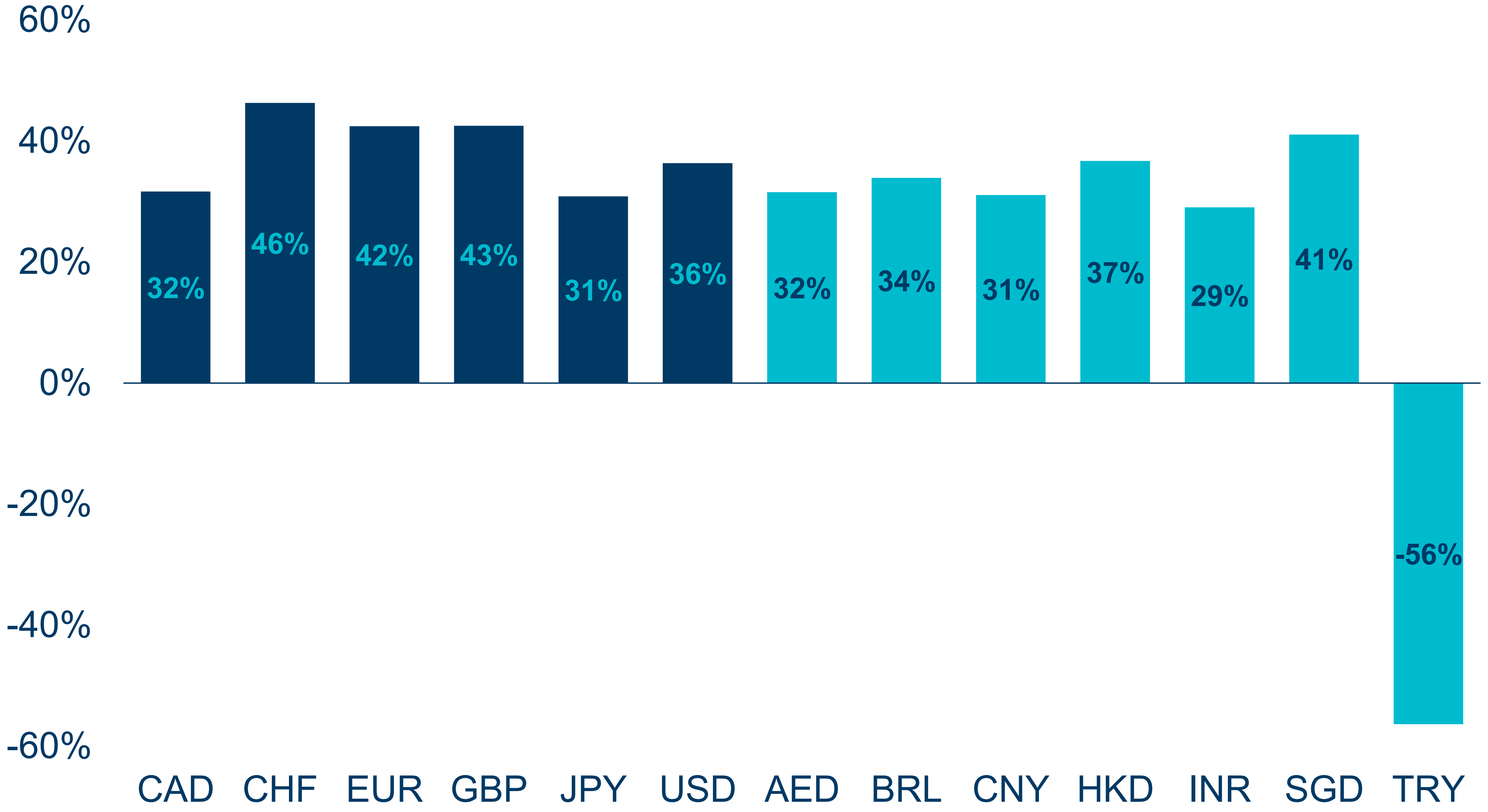
- The ruble has strengthened since the start of the year on the back of lower imports due to tight monetary policy.
- However, this episode has now come to an end, and there are initial signs of a reversal (i.e., renewed weakening).
- Altogether, Russia’s currency remains significantly weaker against almost all important currencies vs. mid-2022.

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

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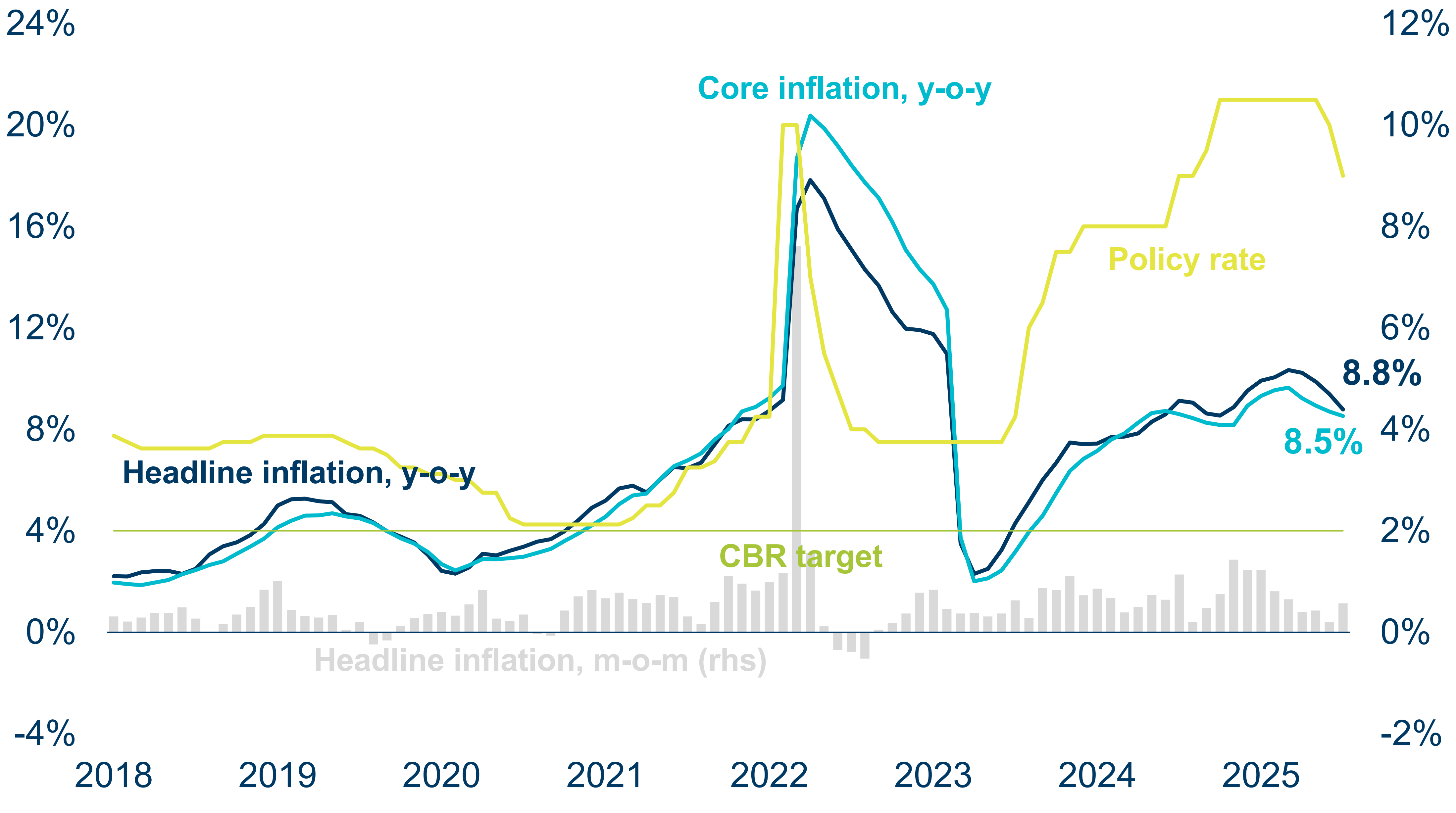
Inflation finally declining, CBR cuts interest rates.

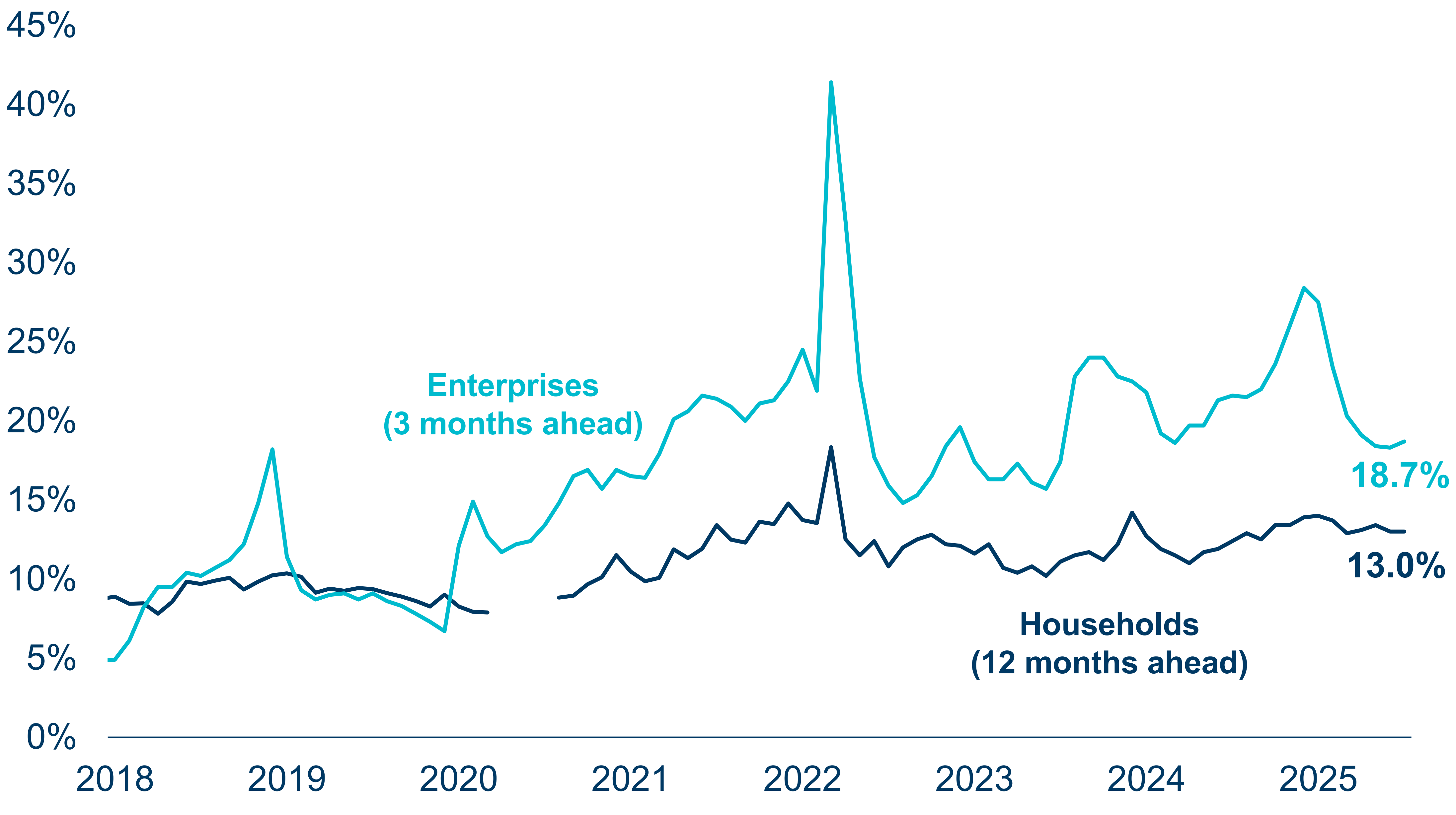
- Inflation continues to moderate somewhat, falling to 8.8% year-over-year in June (8.5% for core inflation).
- The CBR's tight monetary policy is finally showing results, albeit at the high cost of slowing the economy.
- Russia's central bank decreased its key policy rate further at its July MPC meeting (by 200 bps to 18%).

Inflation and CBR policy rate, in %



Source: Bank of Russia, KSE Institute

Inflation expectations, in %



Source: Bank of Russia, KSE Institute

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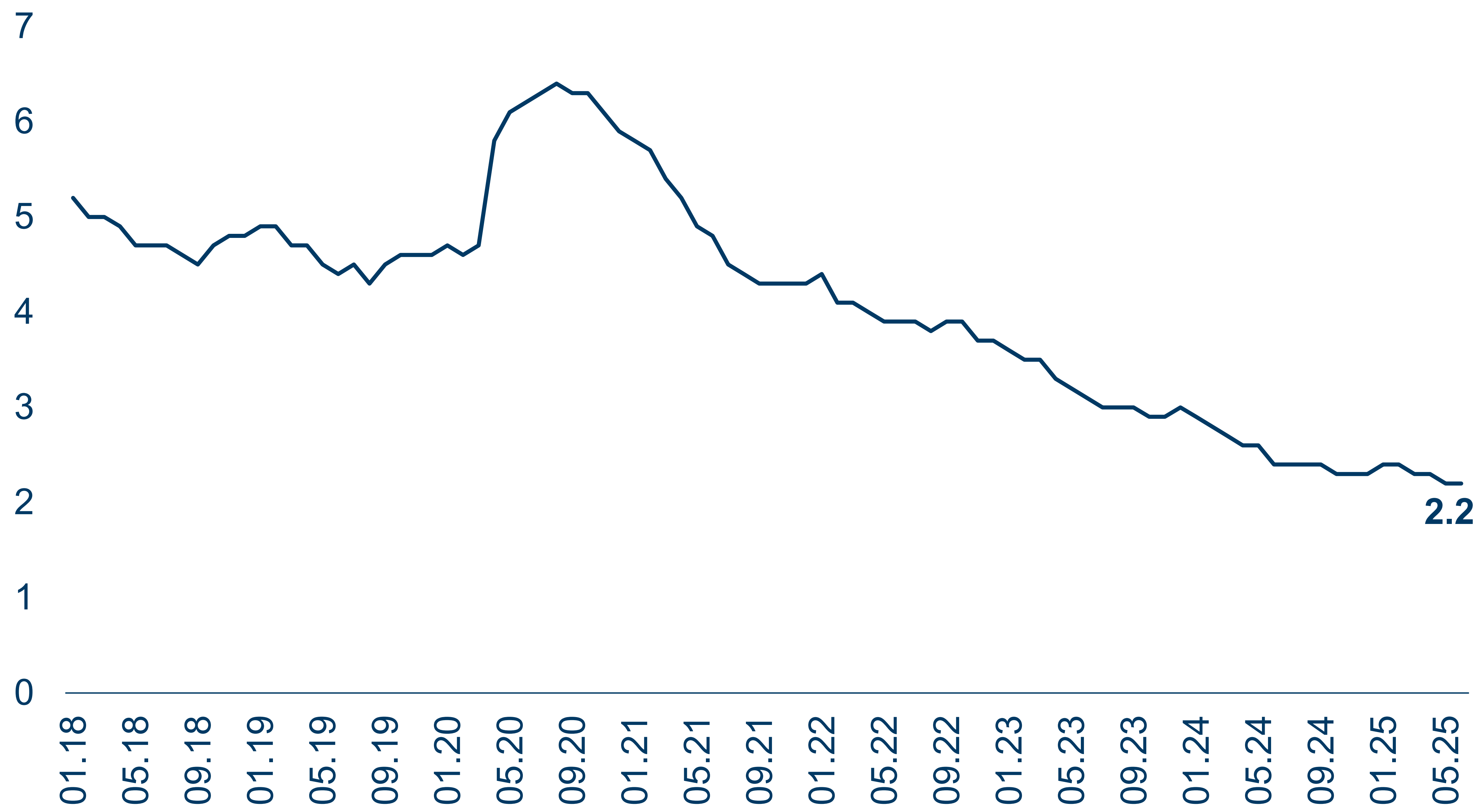
Russia's economy has little room to grow.

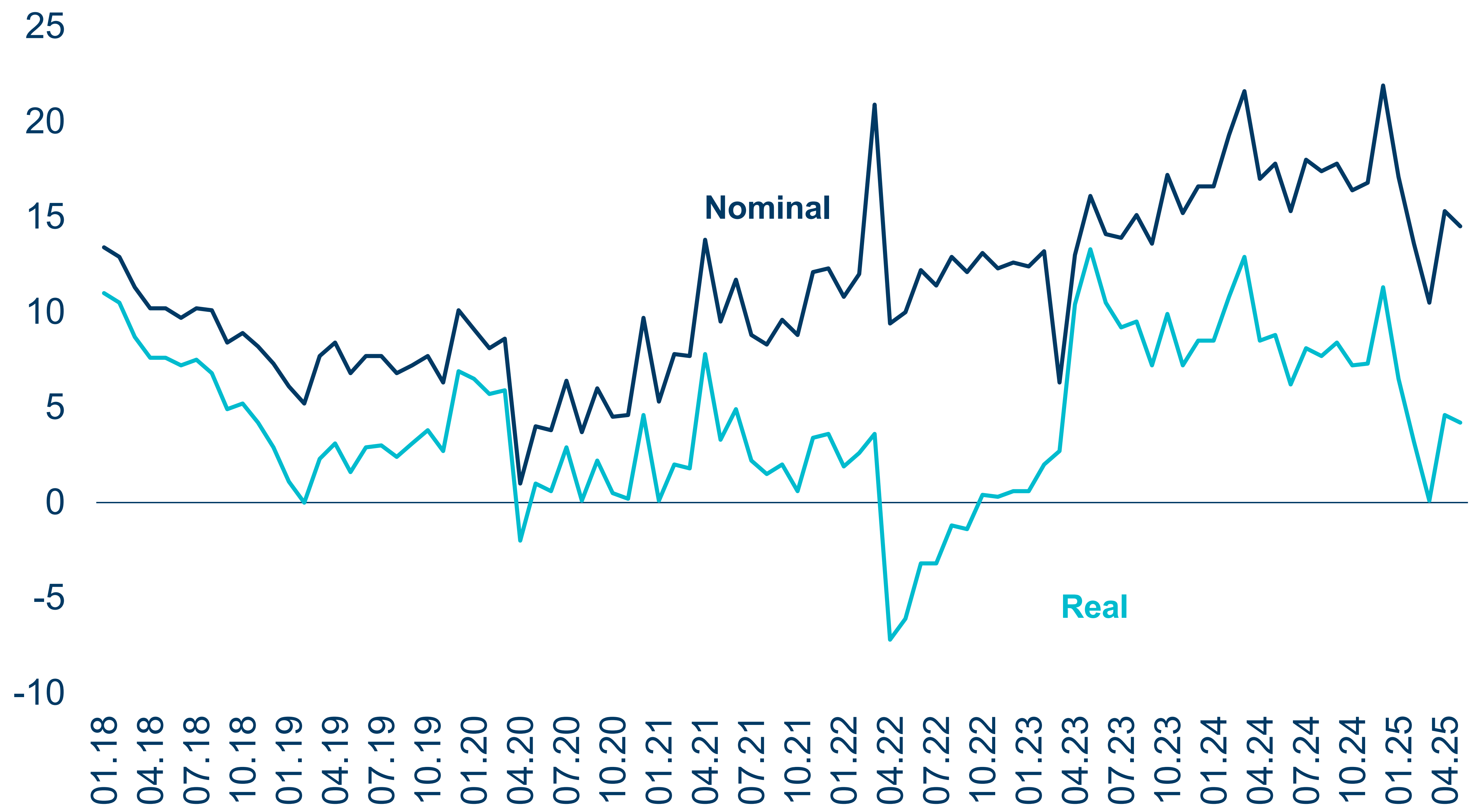
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from.
- Wage growth slowed in early 2025 amid tight monetary policy but bounced back somewhat in May-Jun.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

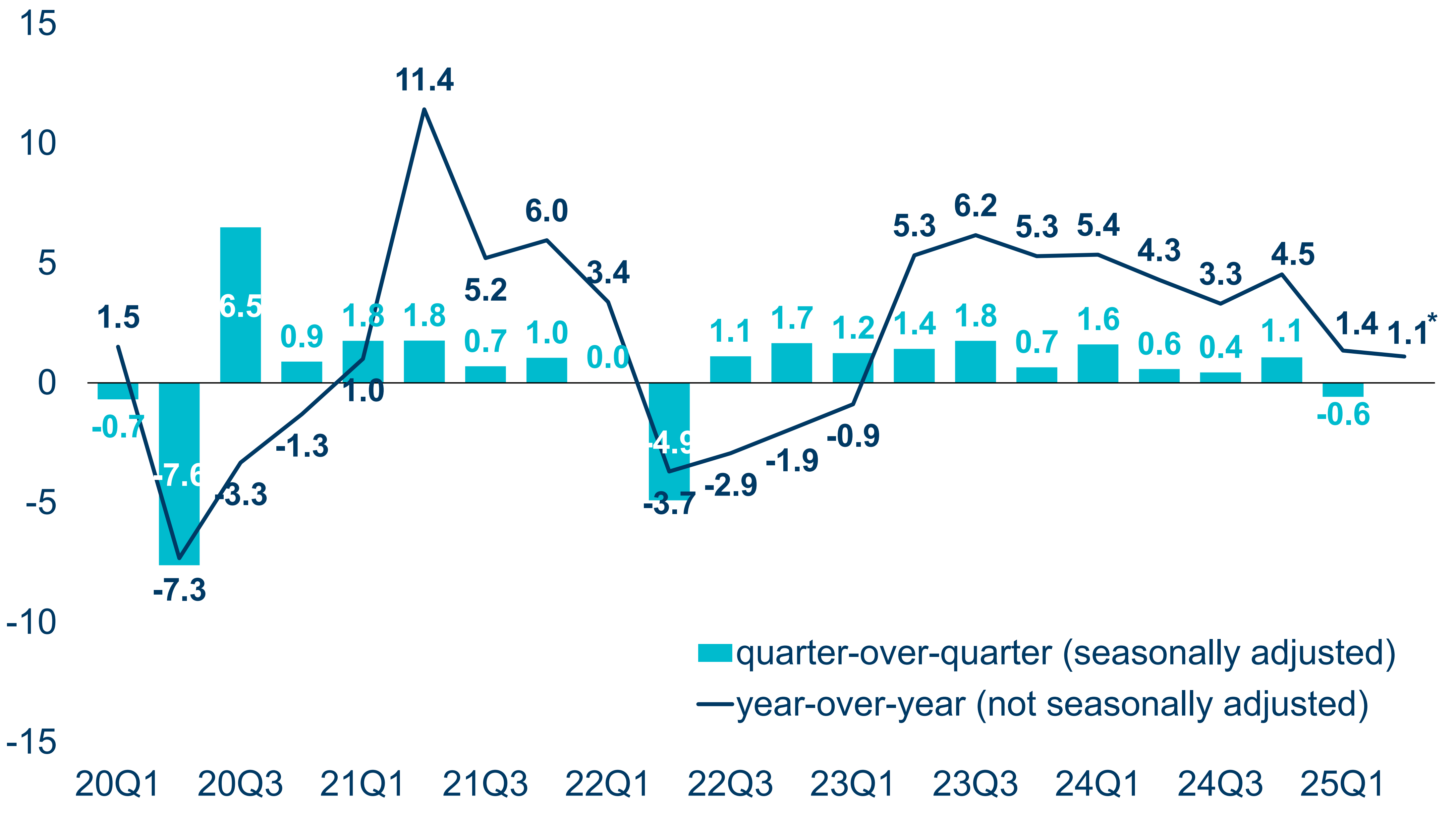


Source: Rosstat

Economy appears to have stalled in Q2 after Q1 contraction.

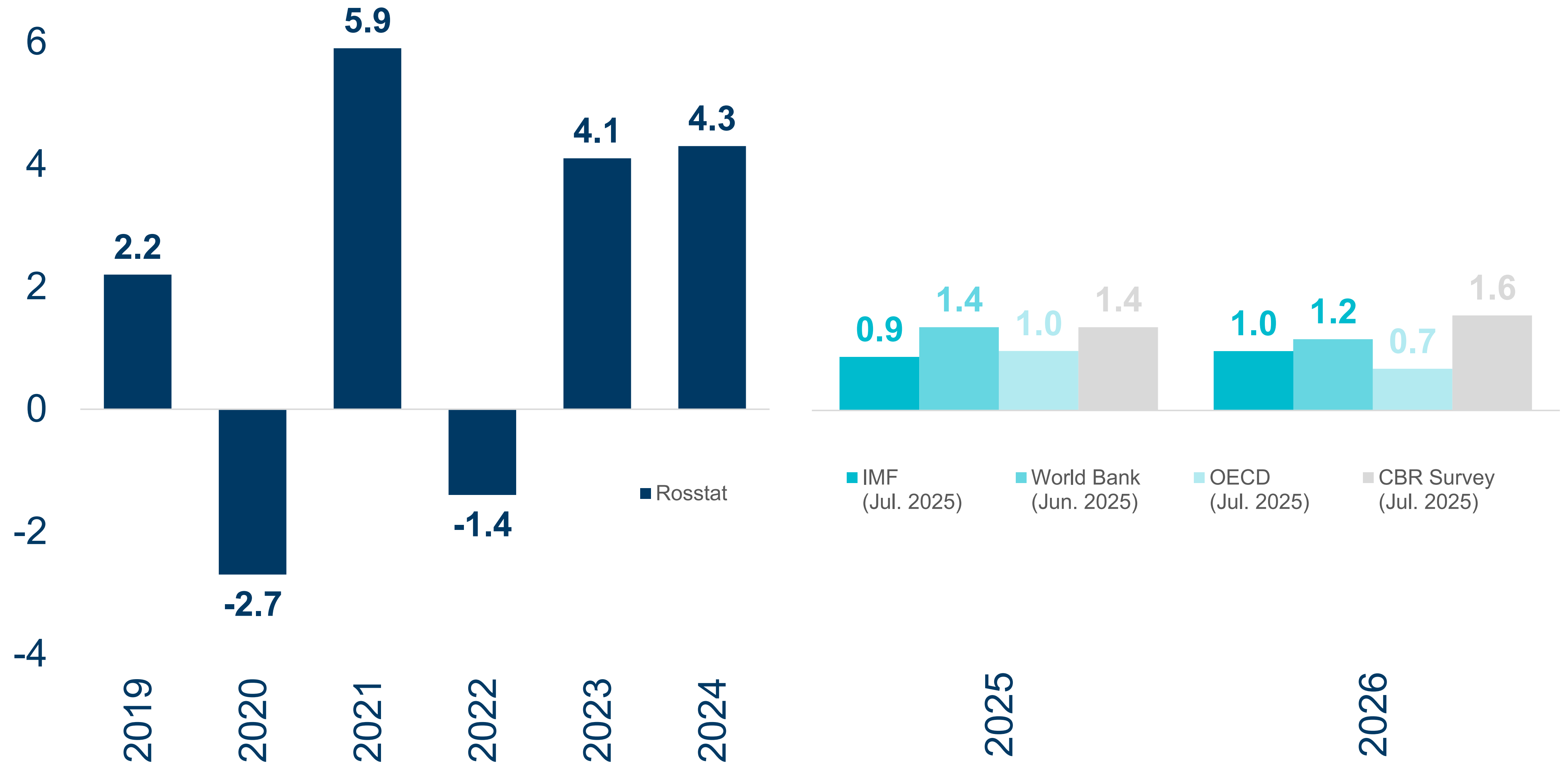
- Growth slowed further in Q2 according to Rosstat's first estimate—from 1.4% to 1.1% year-over-year.
- It appears that the economy stalled in Q2 following the 0.6% quarter-over-quarter contraction in Q1.
- Most institutions project that growth will decline significantly in 2025 (vs. 2024) and remain low in 2026.

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute
*Rosstat first estimate

Russian real GDP and forecast, in % year-over-year



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

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- October 2023
- September 2023
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