

KSE INSTITUTE RUSSIA CHARTBOOK

BUDGET REPRIEVE BEFORE THE END-OF-YEAR CRUNCH; MACRO SITUATION DEPENDENT ON NEW US SANCTIONS

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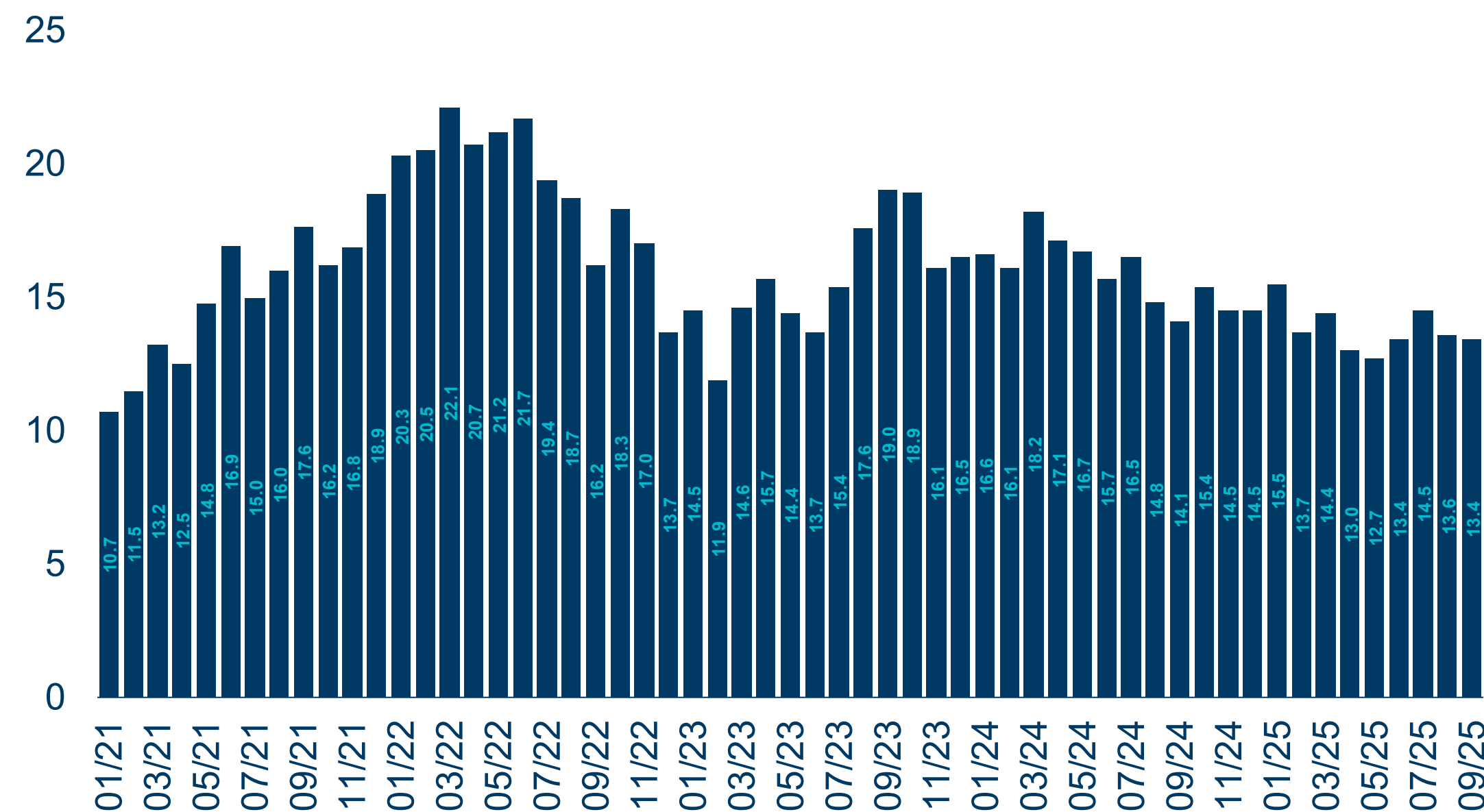
Executive Summary

- 1. Oil exports broadly flat in September; trouble on the horizon.** Russia earned \$13.4 billion from oil last month (vs. \$13.6 billion in August) on the back of continuously weak global oil prices and a stable discount, while it exported less in oil products and more in crude oil due to Ukrainian attacks on refineries. New US sanctions on Rosneft and Lukoil could mean significant challenges dependent on the strictness of enforcement and the response from current buyers of Russian oil, primarily China and India. So far, oil prices have ticked up only moderately and a wider discount on Russian oil will likely offset this effect. Should export volumes drop markedly and risk premia on Russian oil increase further, macroeconomic stability as well as the budget could be in serious trouble.
- 2. Budget remains a challenges despite temporary improvement.** Over Jan.-Sep., Russia's federal budget recorded a deficit of 3.8 trillion rubles—a moderate improvement over the Jan.-Aug. number (4.5 trillion). Oil and gas revenues dropped 21% y-o-y, non-O&G revenues grew only 13% as the economy slows, and expenditures rose by 20%. Given the year-to-date performance and patterns observed in recent years (with large deficits in December), it is likely that Russia will also break through the new target of 5.7 trillion rubles, especially as the revised budget numbers did not change planned expenditures, which are a main driver of the higher deficit.
- 3. NWF under pressure but debt issuance robust.** In Sep., the NWF's liquid portion remained broadly stable at 4.2 trillion rubles (or \$50 billion) and accounted for 32% of total NWF assets (compared to 75% in February 2022). In the absence of fiscal consolidation, the regime could be forced to rely heavily on the NWF towards the end of the year, leading to the liquid portion being fully used up. Alternatively, authorities could continue to step up domestic borrowing, which has already been the case this year: OFZ issuance of 3.7 trillion rubles over Jan.-Sep. represents a 100% increase y-o-y and 77% of the original plan. Russia will likely be able to finance its growing deficit as banks can be incentivized to absorb additional issuance, including through further repo schemes by the CBR.
- 4. Inflation continues to fall but risks remain.** While the CBR has managed to reduce inflation—to 8.0% y-o-y in Sep. from close to or above 10% in Jan.-May with tight monetary policy, this has weighed heavily on businesses and households' ability to borrow and, thus, economic activity. Despite the recent rate cut to 16.5%, real interest rates remain high, and many of the underlying drivers of inflationary pressure persist—including elevated budget deficits and a tight labor market. In addition, continued Ukrainian attacks on Russia's refining sector push up gasoline prices, which in turn feed into broader price growth across other goods.

Oil export earnings remained at the same level.

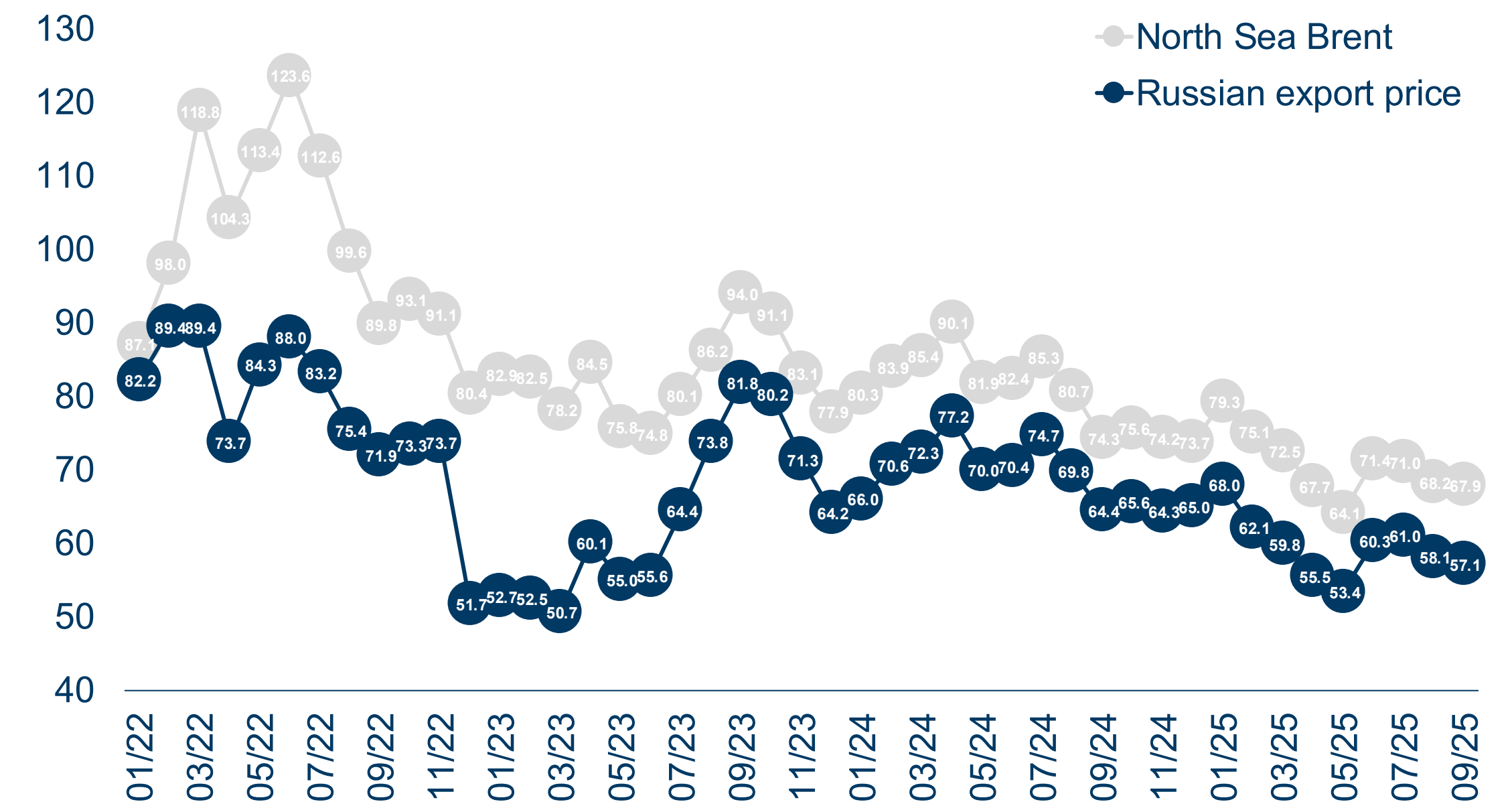
- Oil export earnings remained relatively stable —\$13.4 billion in September 2025 vs. \$13.6 billion in August.
- With the discount on Russian oil broadly stable, export prices stood at ~\$57/barrel—above the revised price cap.
- Global prices fell in recent months, but US sanctions on Rosneft and Lukoil are behind a moderate increase now.

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*

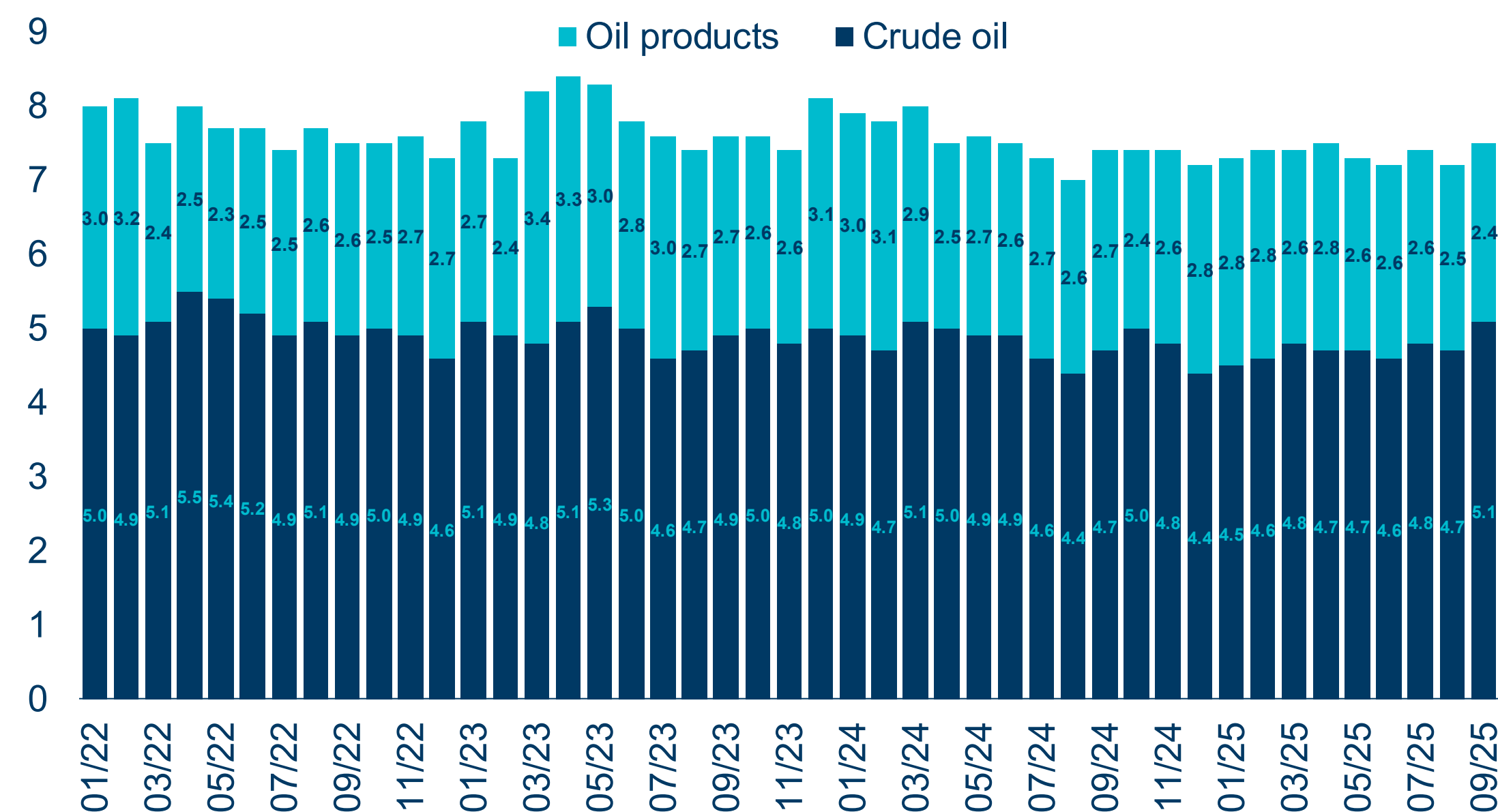


Source: International Energy Agency, KSE Institute

Crude oil exports increased amid Ukraine's strikes on Russian refineries.

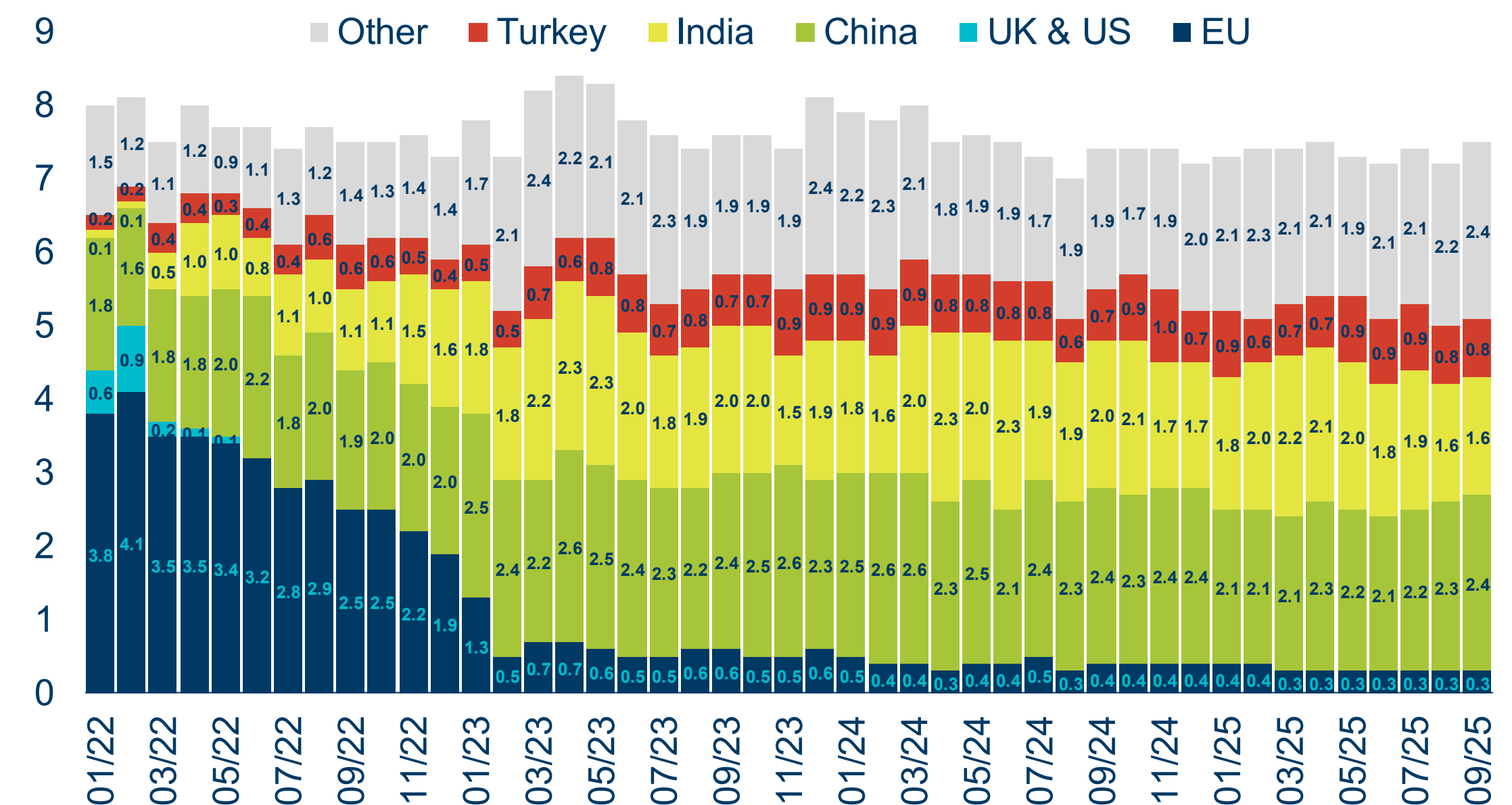
- Russian oil export volumes have been remarkably steady over the last 3.5 years.
- China, India, and Turkey are the most important buyers (~65-70% of oil exports).
- Ukrainian attacks on Russian refineries have led to a shift from products to crude oil.

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

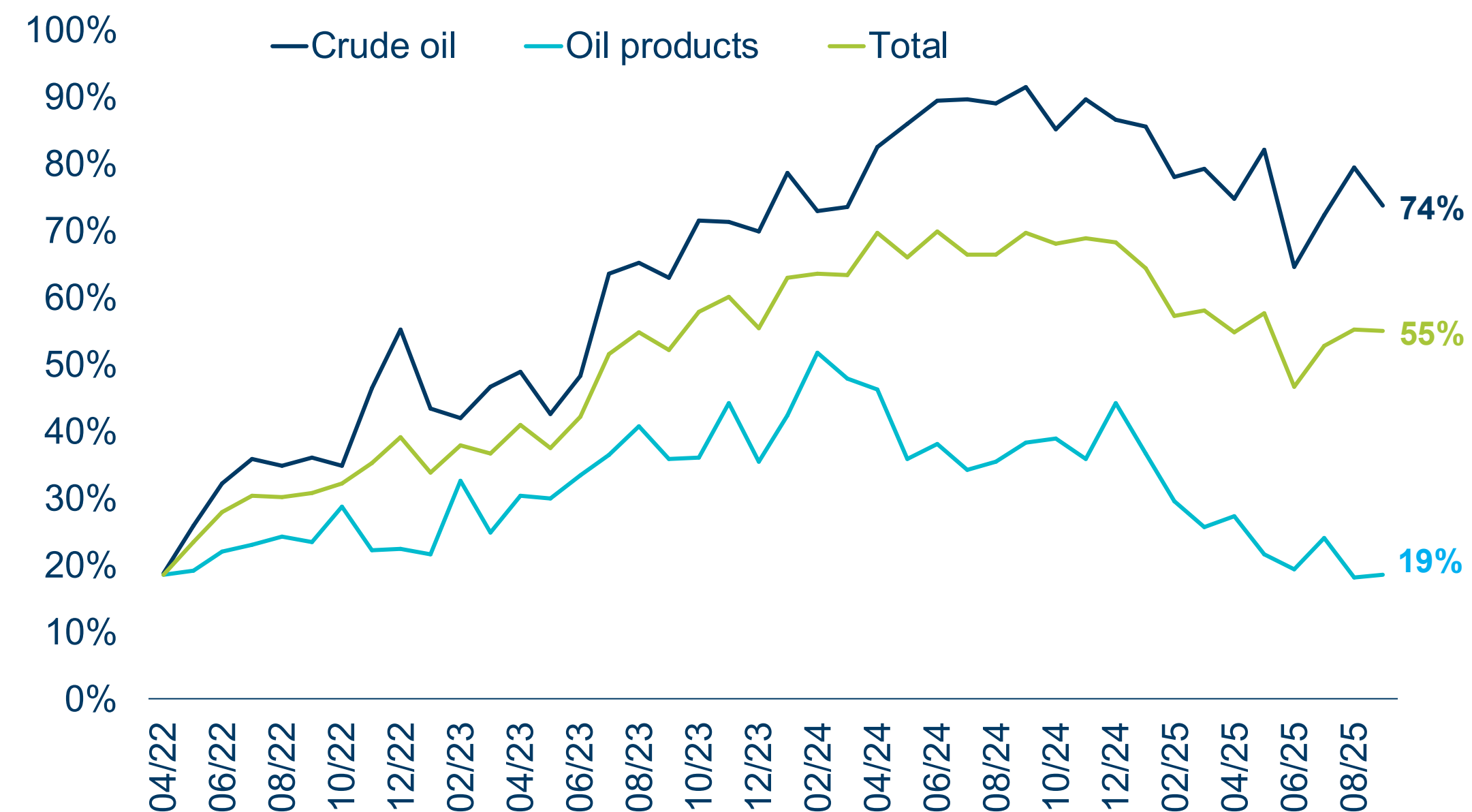


Source: International Energy Agency, KSE Institute

Stepped-up shadow tanker sanctions require tighter enforcement.

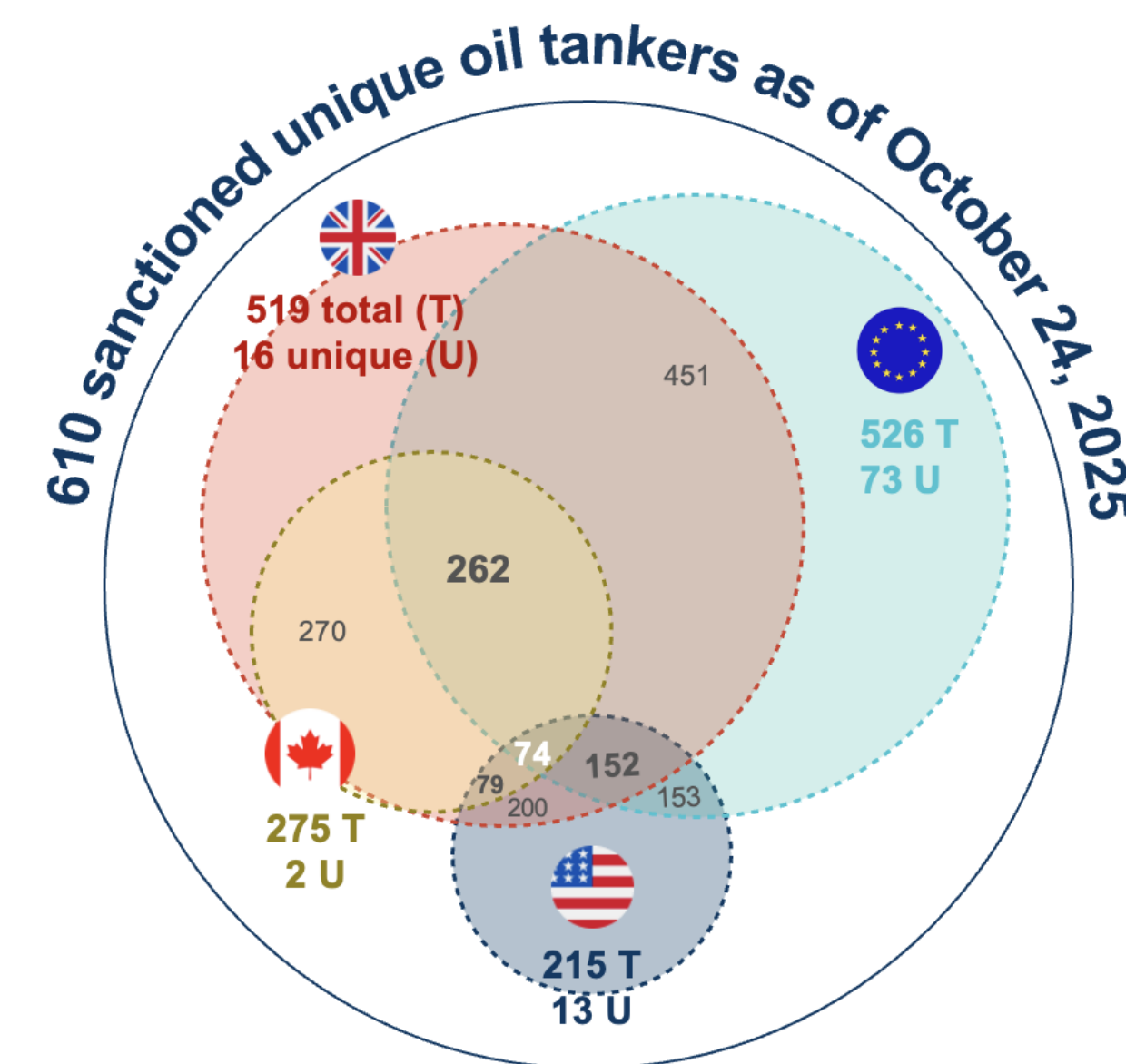
- The total number of sanctioned shadow tankers has reached 610, with 152 listed by the EU, UK, and US.
- With listings reaching ~70% of the shadow fleet, more effective enforcement will need to be in the focus.
- The shadow fleet's share in Russian oil exports remained broadly stable in September (vs. August).

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction*

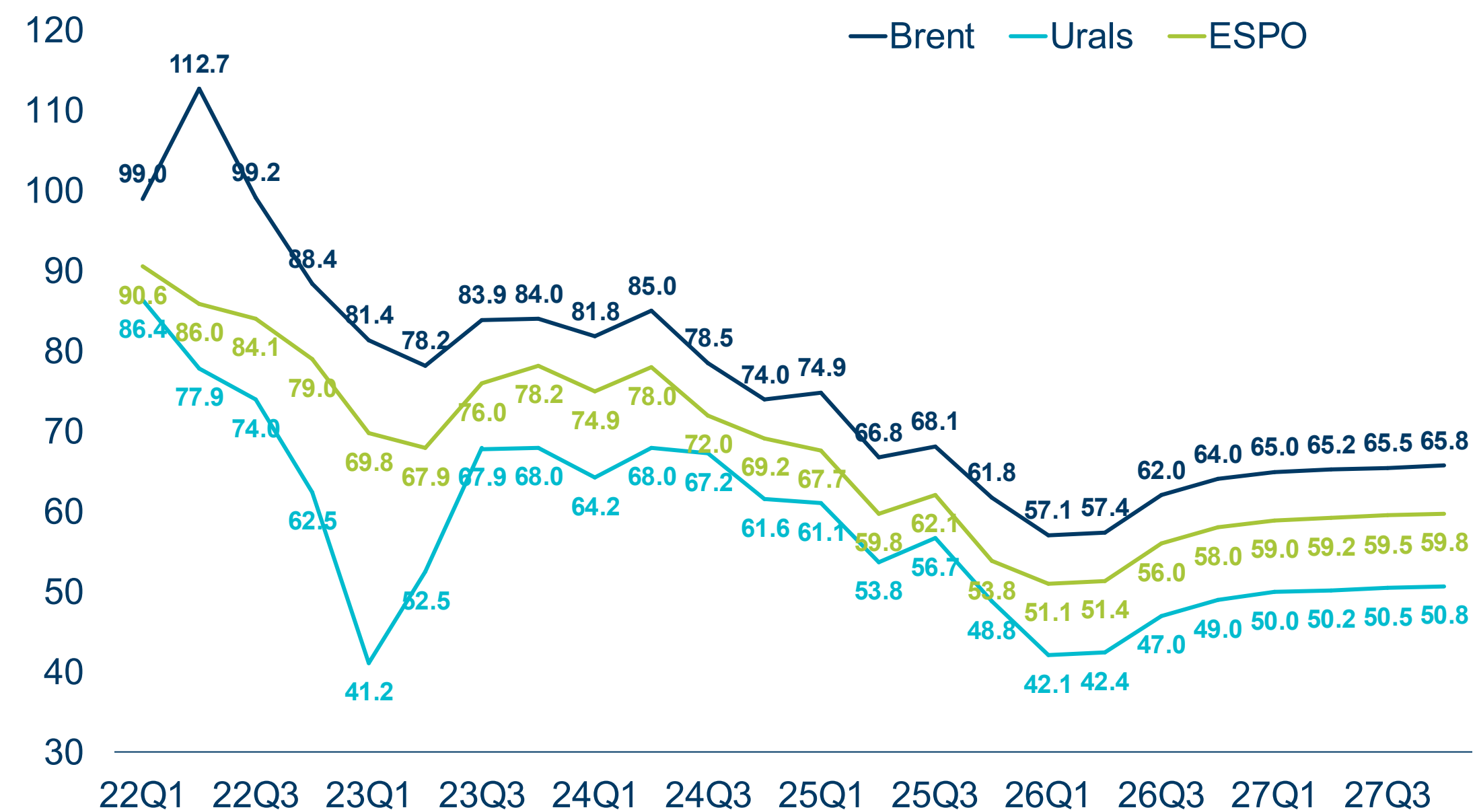


Source: European Commission, OFAC, OFSI, KSE Institute. *The numbers inside the circles show overlaps between jurisdictions, and do not add up to the total. Australia (60 vessels) and New Zealand (43 vessels) are not included, lists are aligned with the UK and Canada.

Challenging outlook for Russian oil and gas exports.

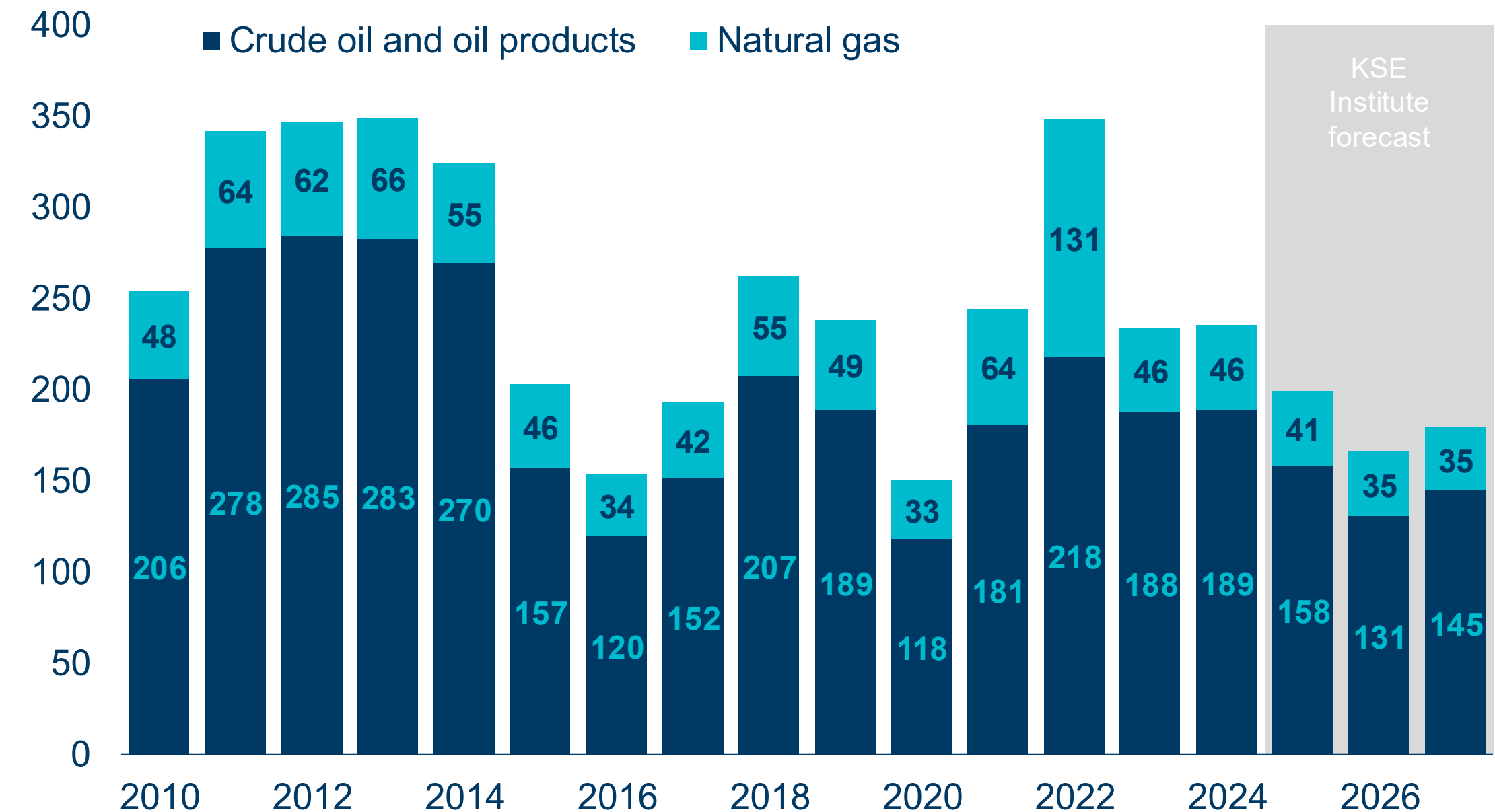
- Before the Rosneft/Lukoil sanctions, markets expected global oil prices to weaken to below \$60/bbl in H1 2026.
- At a discount of \$15/barrel (slightly higher than right now), this would drive Russian Urals to around \$42/bbl.
- Oil exports are projected to drop from \$189 billion in 2024 to \$158 billion in 2025 and \$131 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

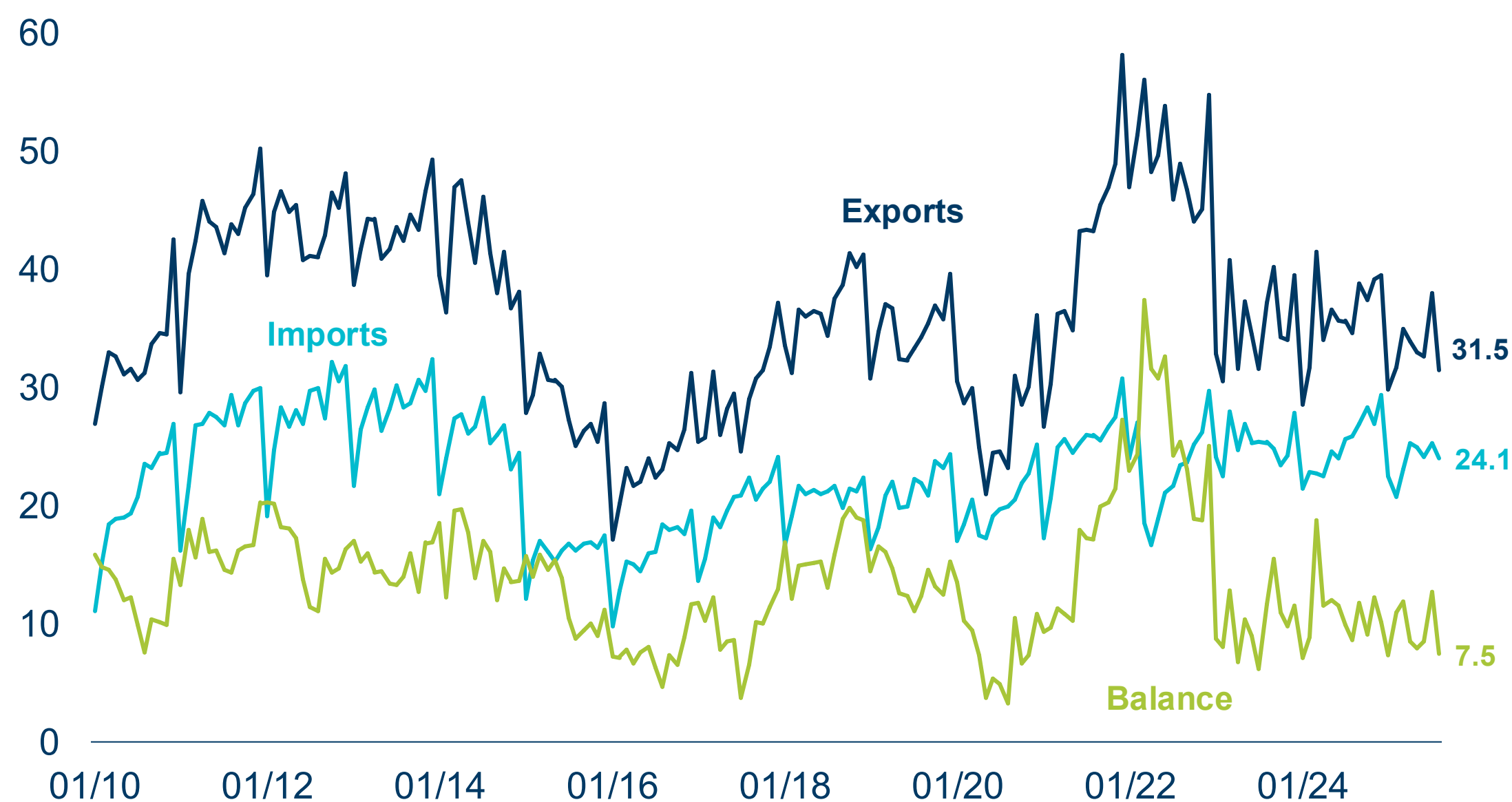


Source: Bank of Russia, KSE Institute

Exports drop in August; overall external environment still challenging.

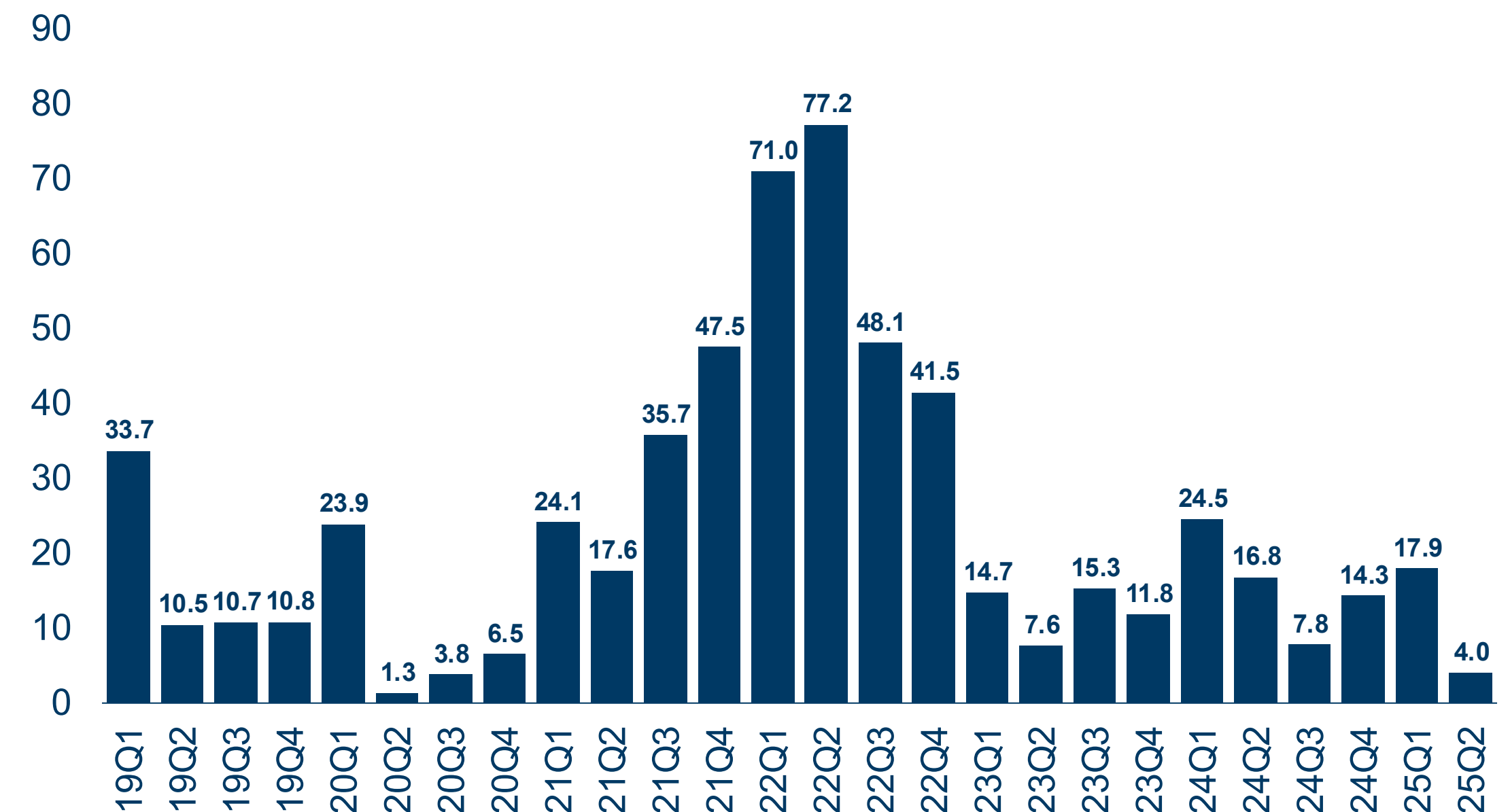
- Russia's exports dropped in August, while imports remained broadly stable, leading to a smaller trade surplus.
- The Russian central bank revised the Q2 2025 current account surplus down from \$7.3 billion to \$4.0 billion.
- Larger services and income/transfers deficits drove down the current account surplus compared to Q1 2025.

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

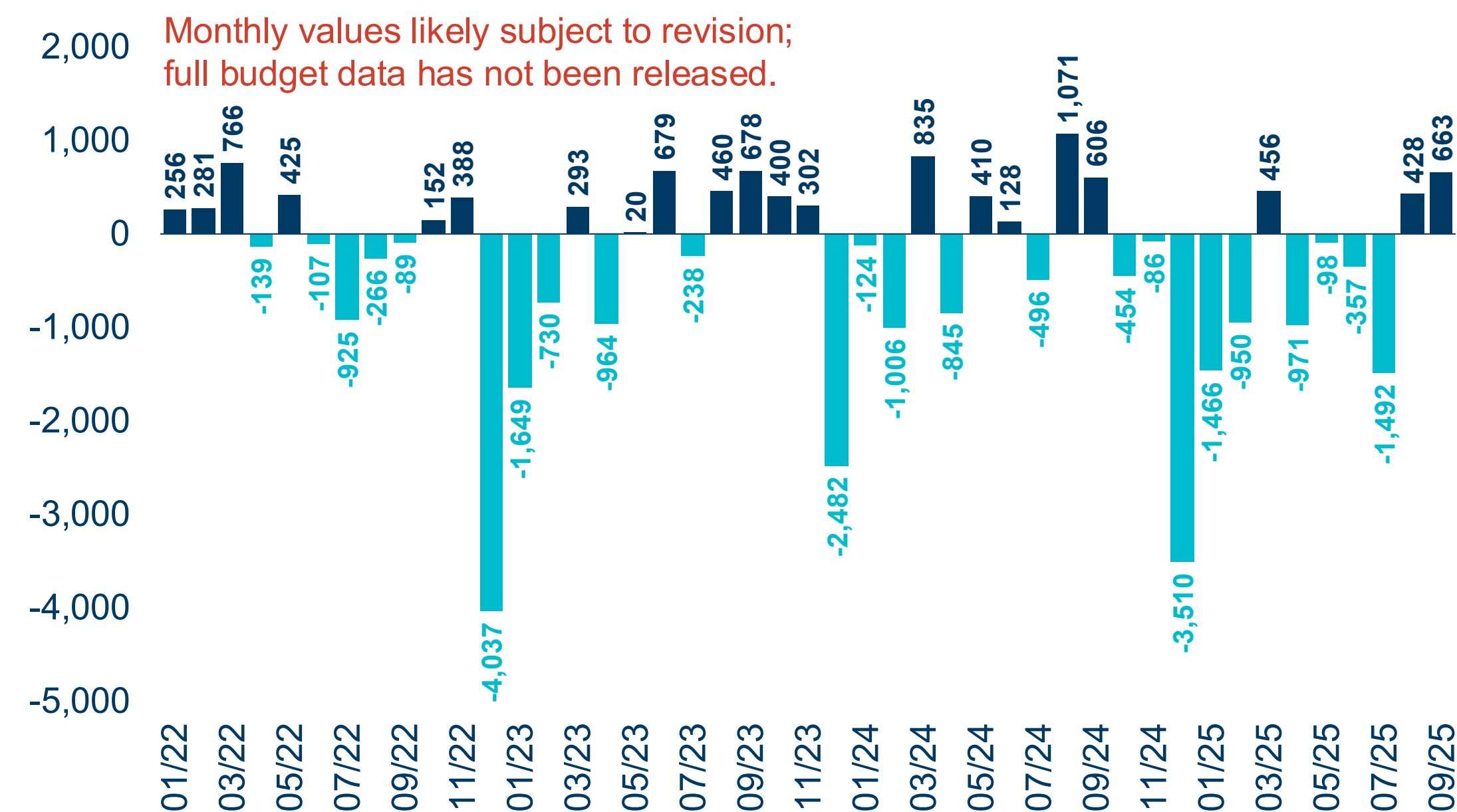


Source: Bank of Russia, KSE Institute

Budget deficit revised further; new target also unlikely to be reached.

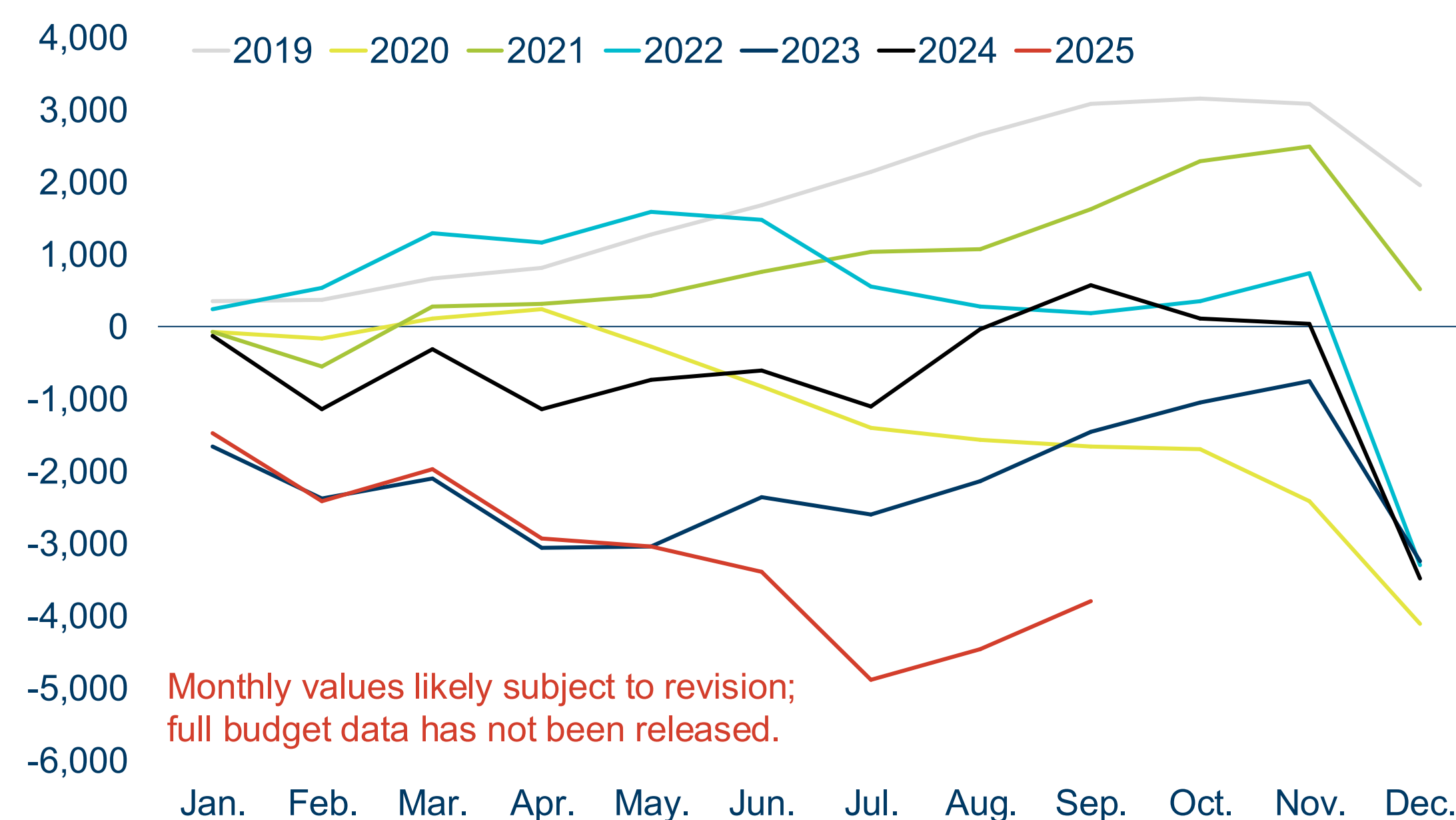
- The budget deficit over Jan.-Sep. reached 3.8 trillion rubles—an improvement vs. Jan.-Jul. (4.8 trillion).
- Over the first nine months of the year, the deficit reached 67% of the revised target of 5.7 trillion.
- Budget dynamics are in line with last year's pattern of a Q3 surplus—and a large deficit is expected in Dec.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

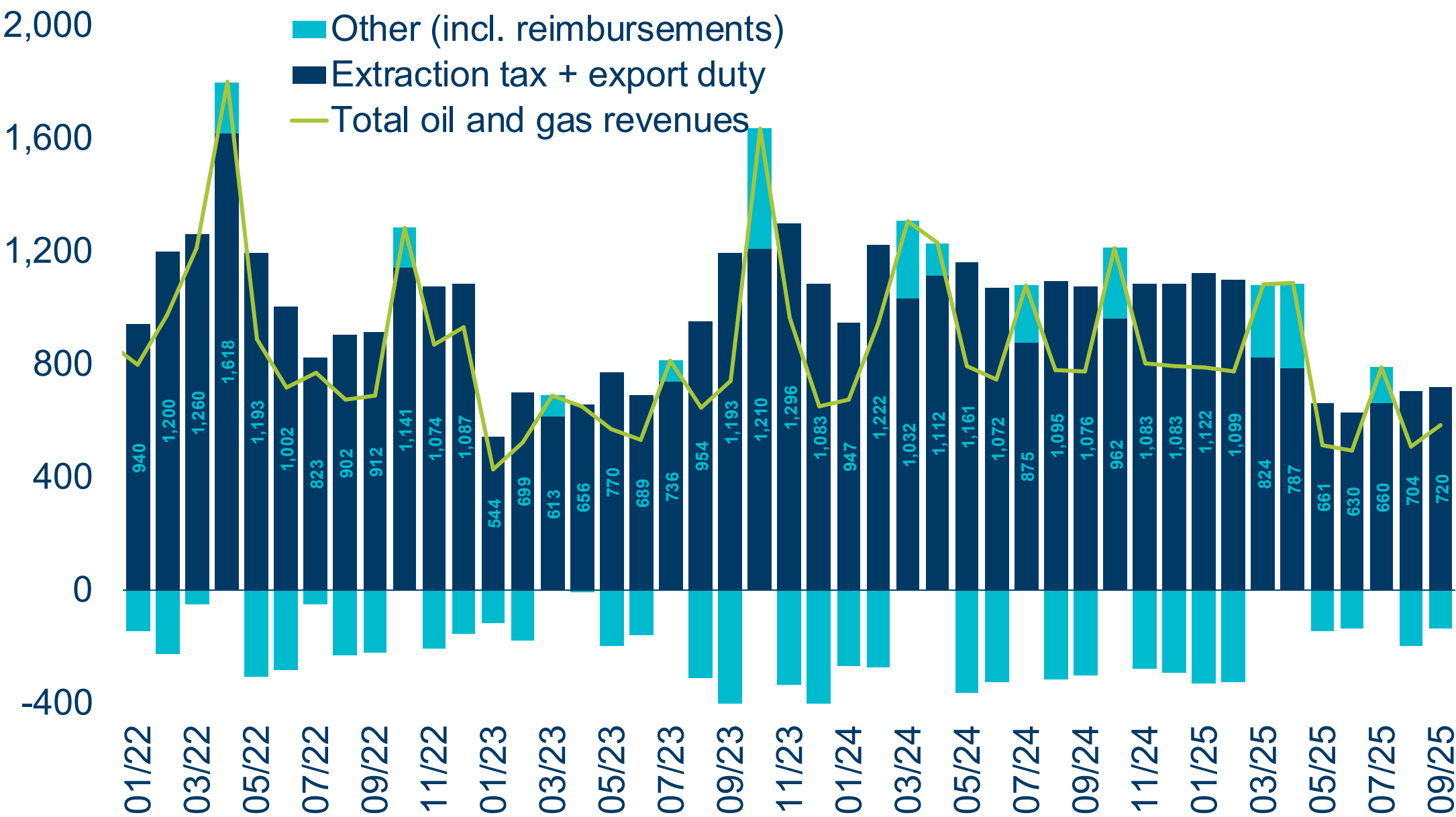


Source: Ministry of Finance, KSE Institute

Weak oil and gas revenues, higher expenditures are behind budget challenges.

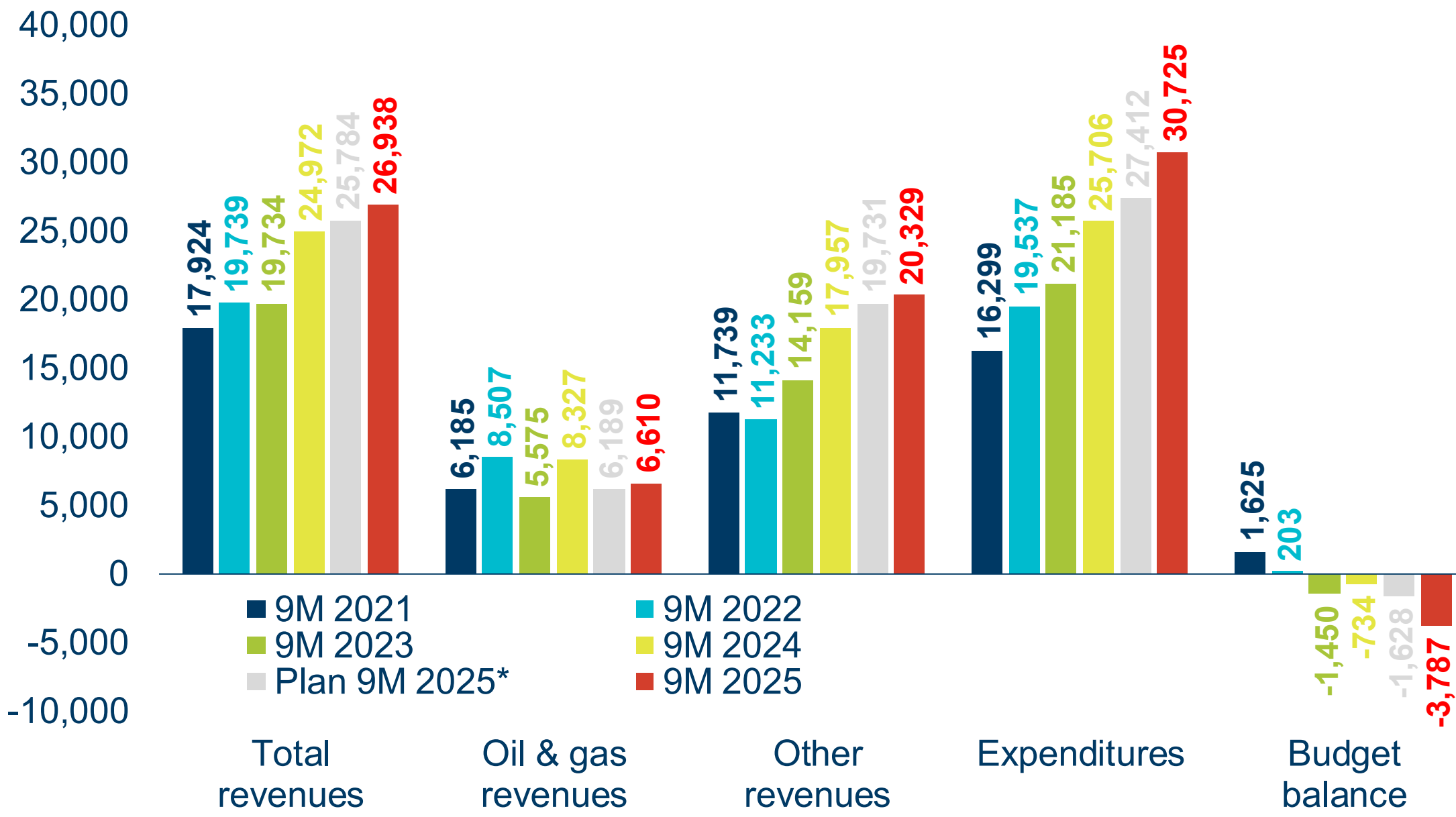
- Oil and gas revenues were 21% weaker year-over-year, non-O&G revenues 13% stronger, and expenditures 20% higher.
- O&G revenues rose slightly in September compared to August but remain relatively low.
- Based on preliminary budget data, the Sep. surplus was largely driven by a further decline in expenditures.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

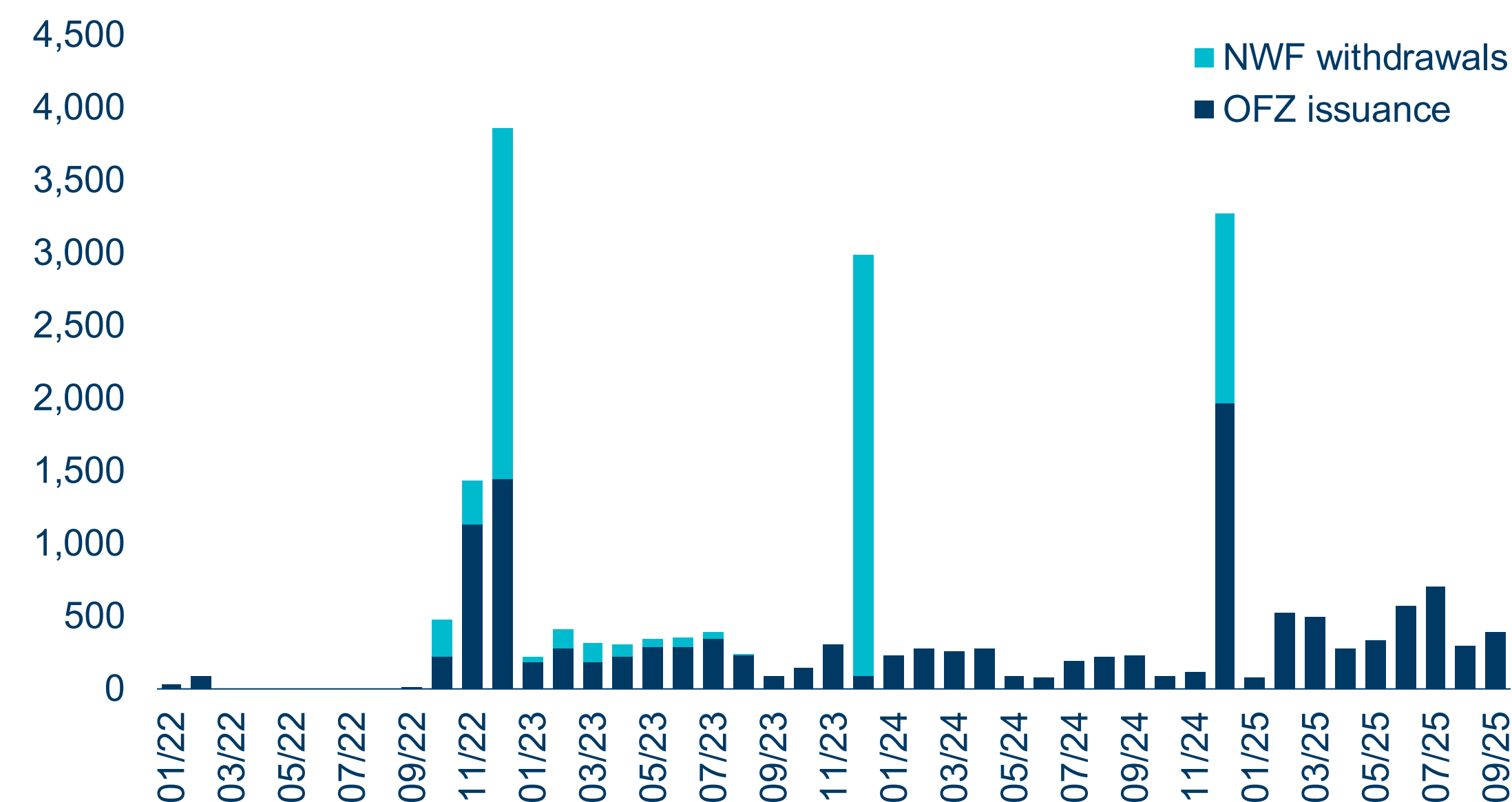


Source: Ministry of Finance, KSE Institute *based on avg. 2019-24 within-year distribution.

Domestic debt issuance increased to finance larger deficit.

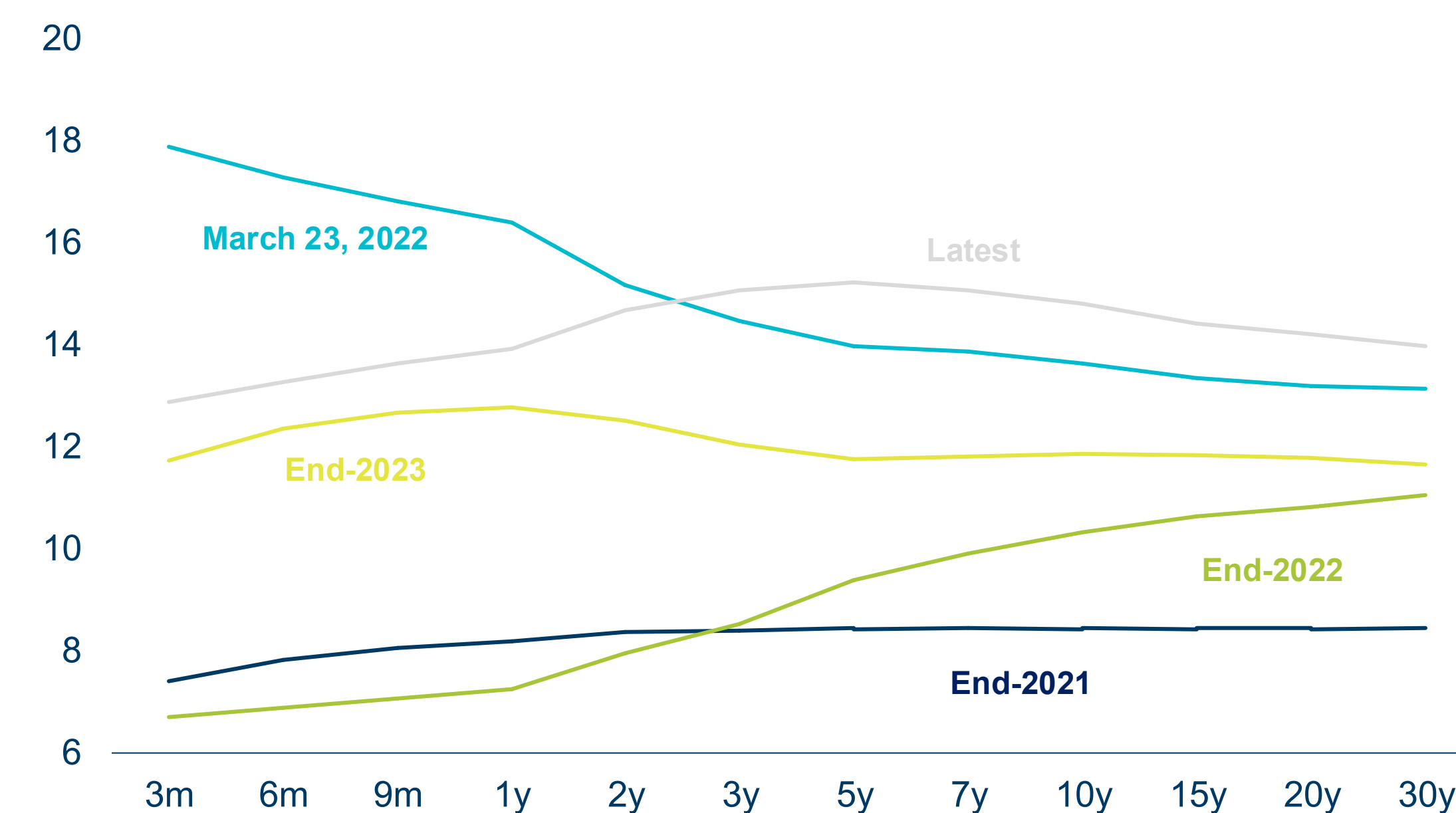
- Due to the larger deficit, OFZ issuance in Jan.-Sep. was 100% higher than in Jan.-Sep. 2024.
- Total issuance in 2025 reached 3.7 trillion rubles—77% of the planned issuance for the year.
- The flat yield curve indicates expectations of further rate cuts and medium-term economic concerns.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %

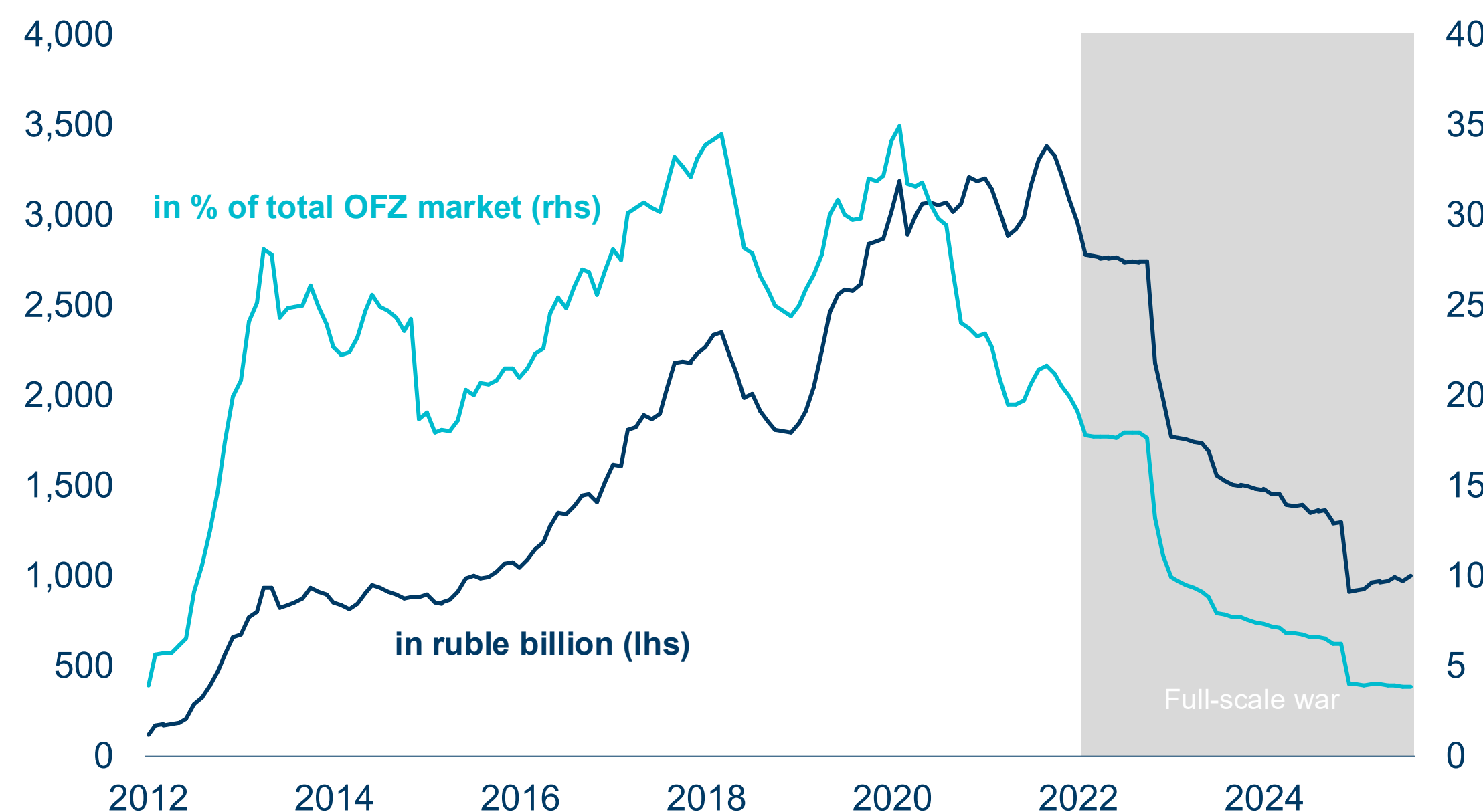


Source: Bank of Russia, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

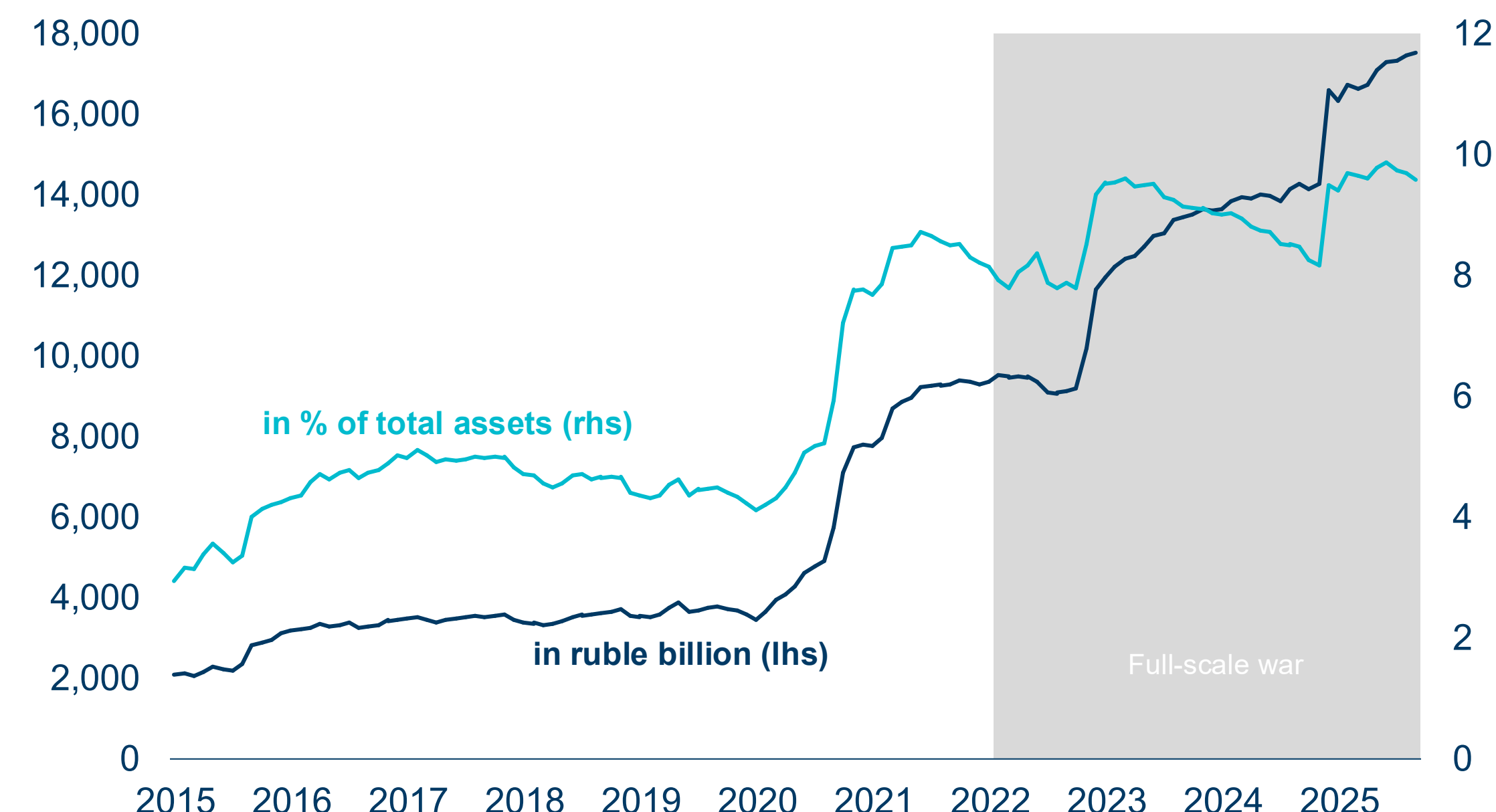
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2.0 trillion rubles (or 67%) since Jan. 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

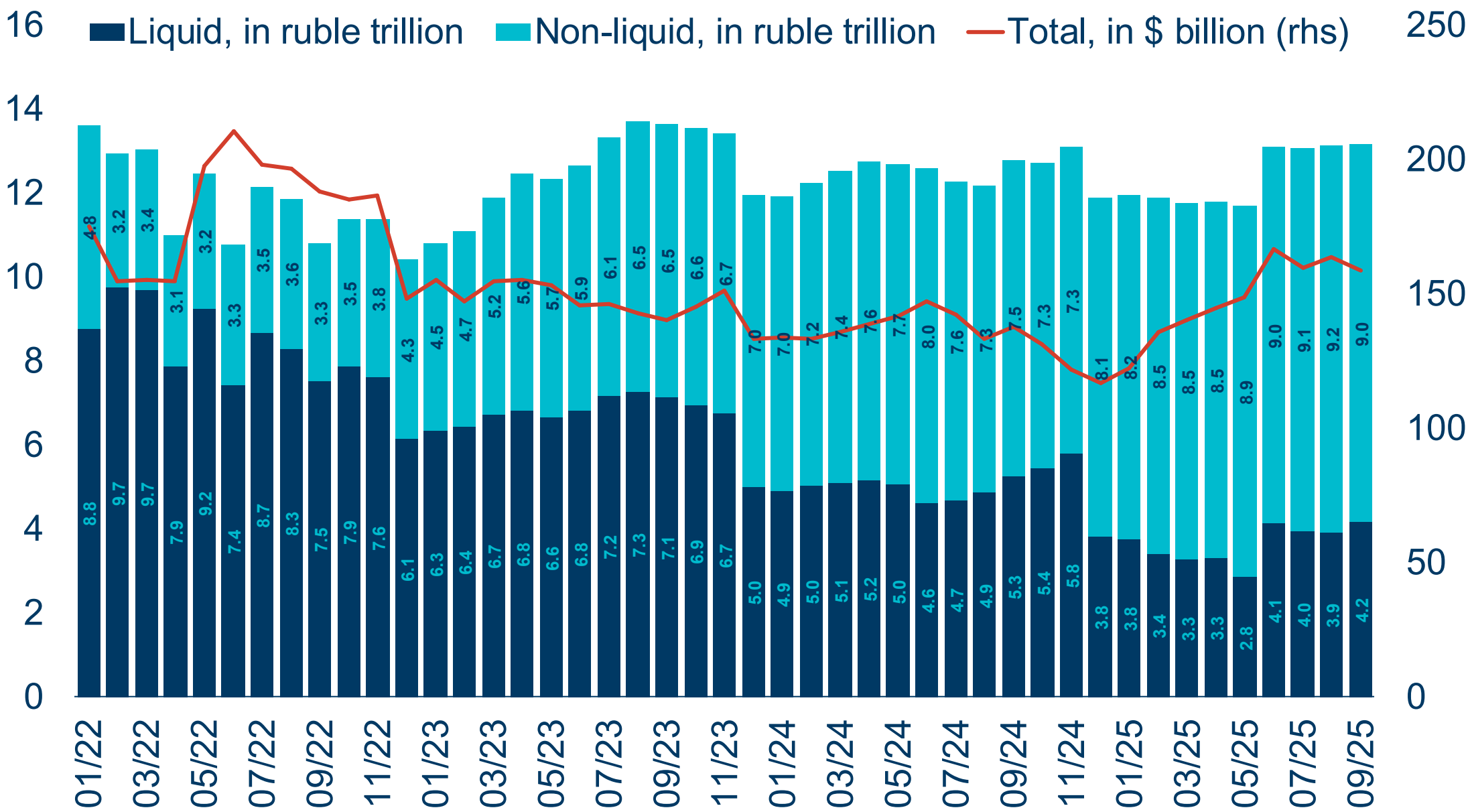


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

Liquid NWF assets could be used up by the end of the year.

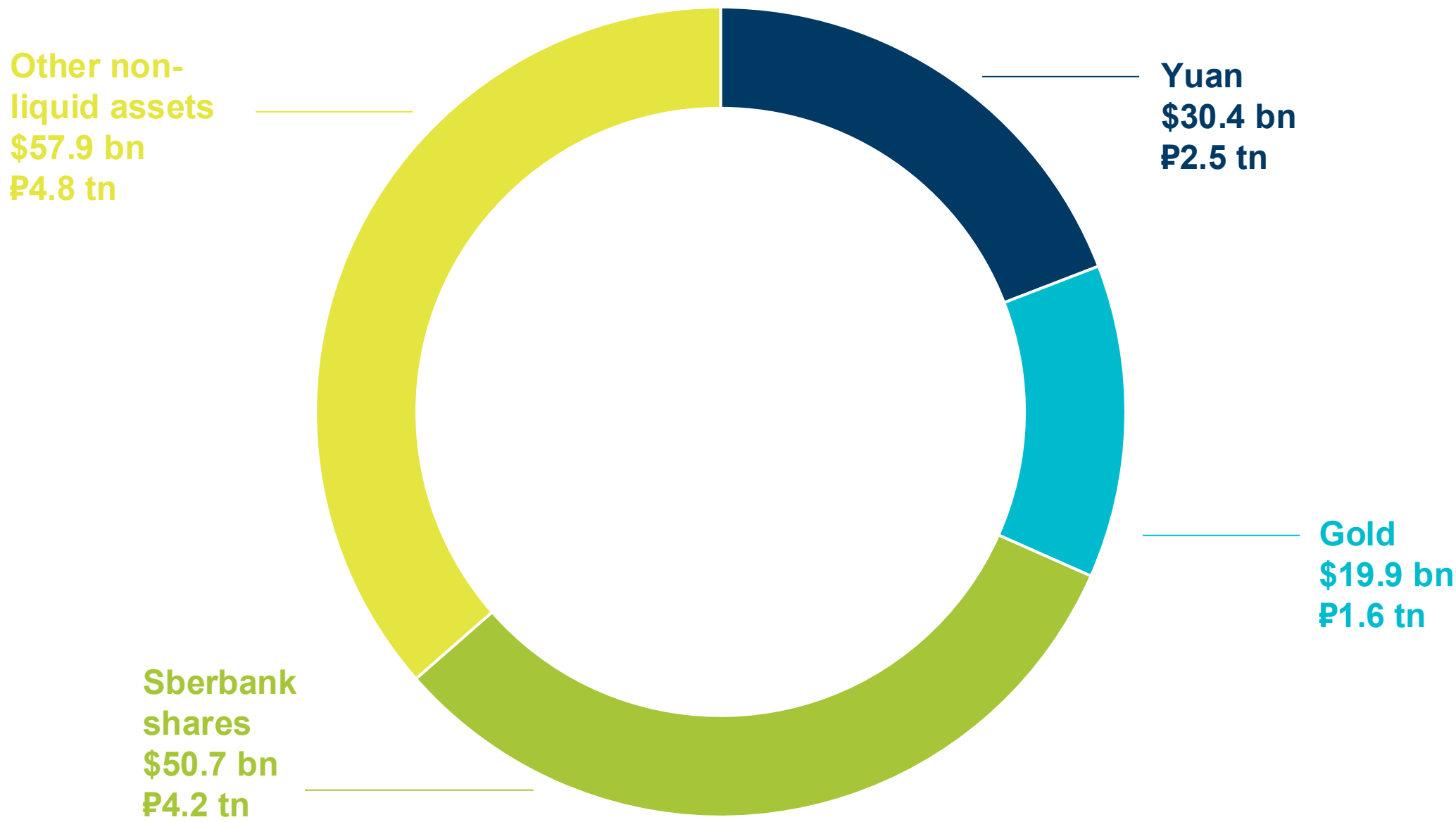
- Total assets of the National Welfare Fund stood at 13.2 trillion rubles (\$158.8 billion, 5.9% of GDP) in August 2025.
- Liquid assets have declined by 60% since early-2022 and only account for 32% of the total (vs. 75% in Feb. 2022).
- Based on current trends and higher spending, this critical macro buffer could be fully depleted by the end of the year.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of September 1, 2025*

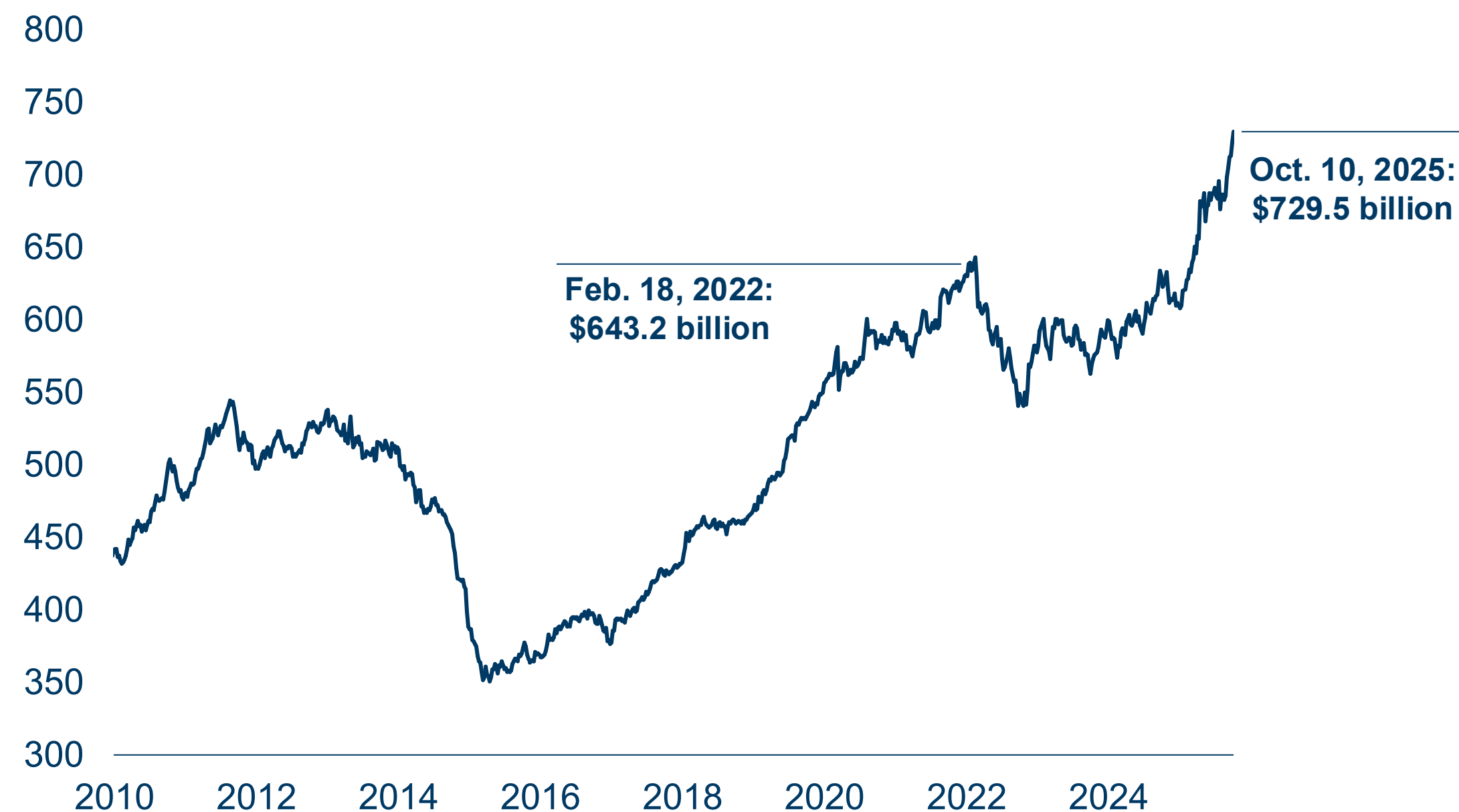


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

Large share of reserves remains immobilized.

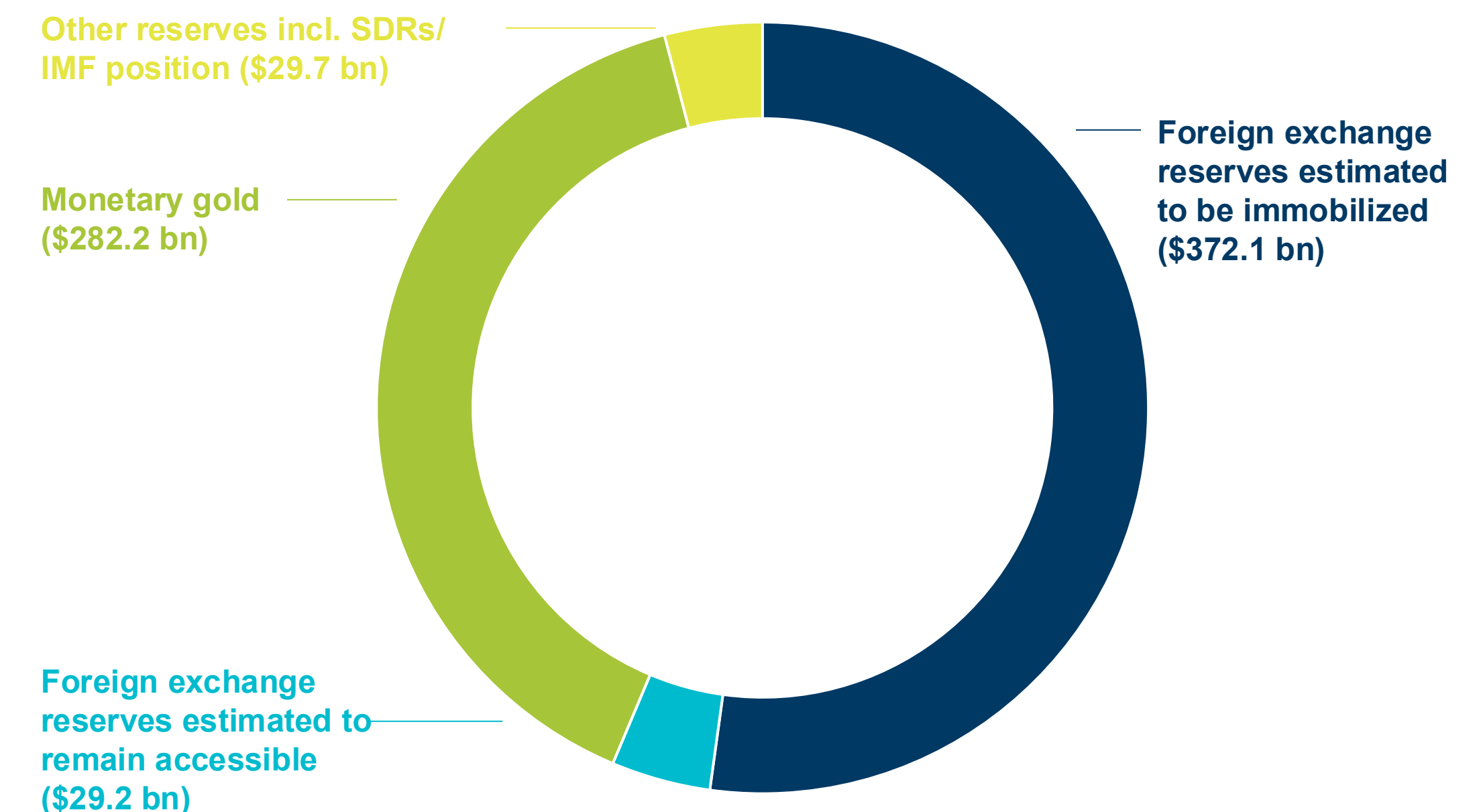
- Russia's total international reserves stand at \$729.5 billion vs. \$643 billion before the start of the full-scale war.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves had a value of ~\$372 billion at end-Sep.
- This left Russia with \$29.2 billion of foreign exchange, \$282.2 billion of gold, and \$29.7 billion of other assets.

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

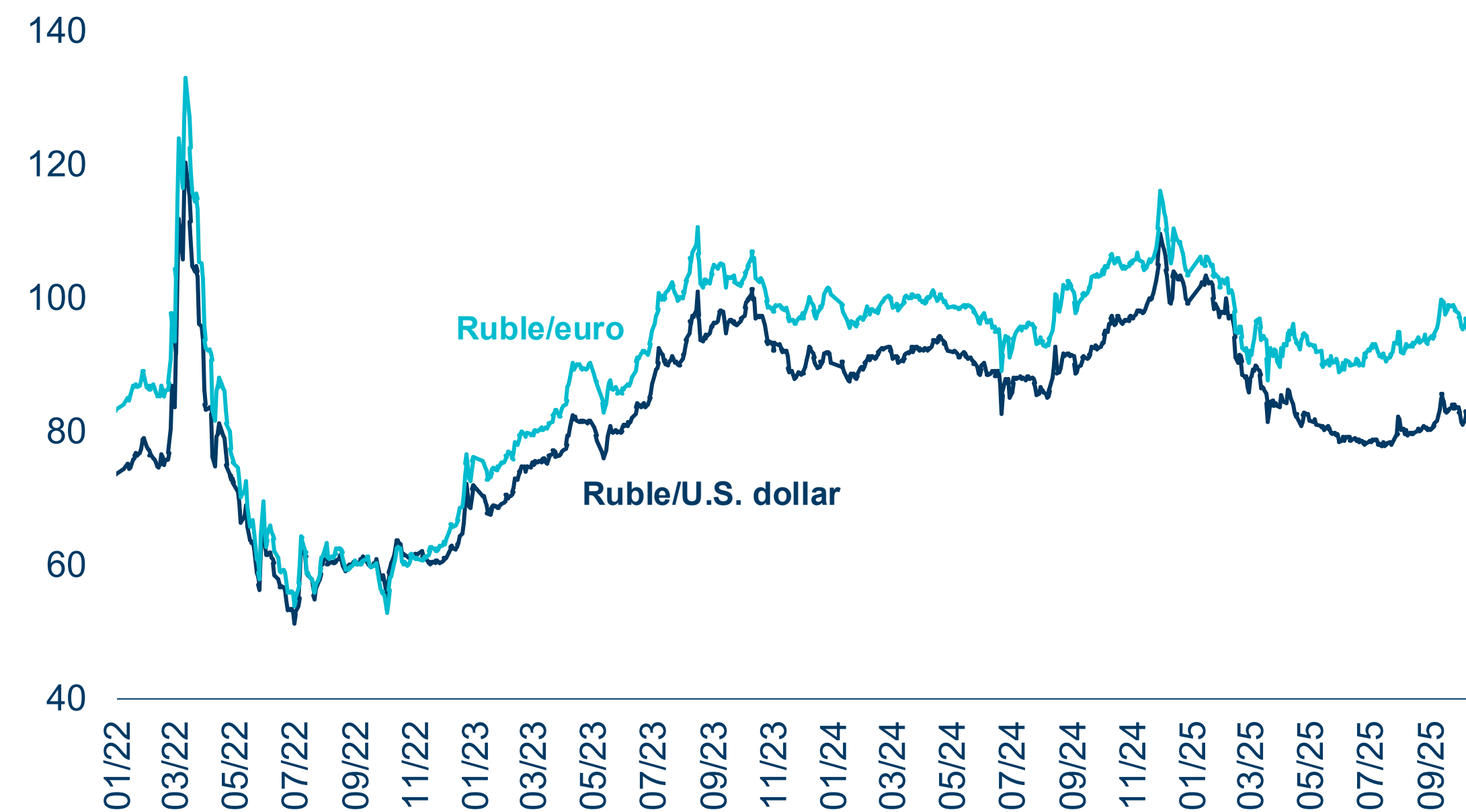


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

Ruble remains volatile; inflation continues to decline.

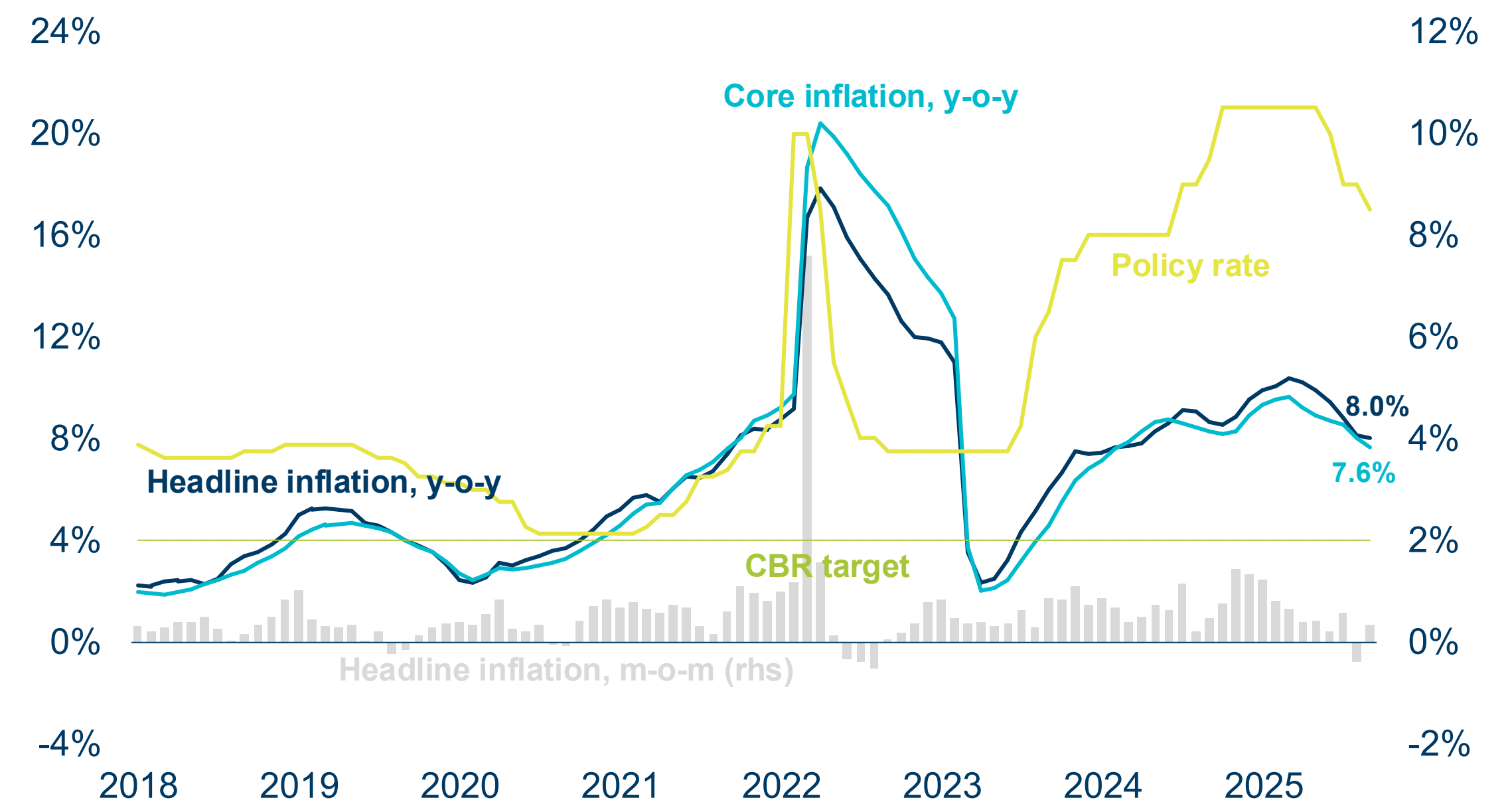
- The ruble strengthened as companies brought back money amid US sanctions and prepare for the next oil tax payment.
- Inflation continues to moderate, falling from 8.1% year-over-year in August to 8.0% September (7.6% for core inflation).
- The CBR's tight monetary policy is finally showing results, albeit at the high cost of slowing down the economy.

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



Source: Bank of Russia, KSE Institute

Inflation and CBR policy rate, in %

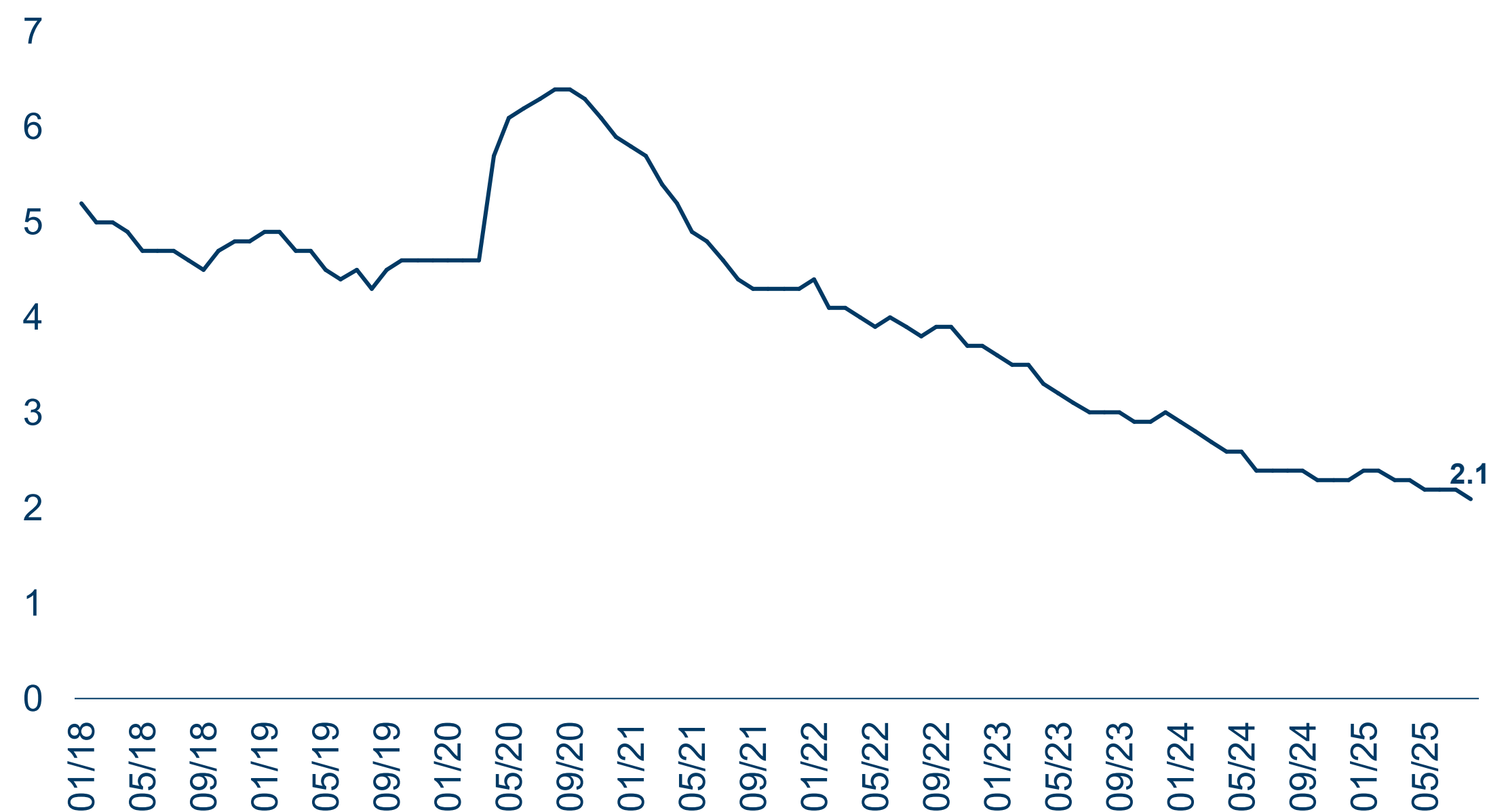


Source: Bank of Russia, KSE Institute

Russia's economy has little room to grow.

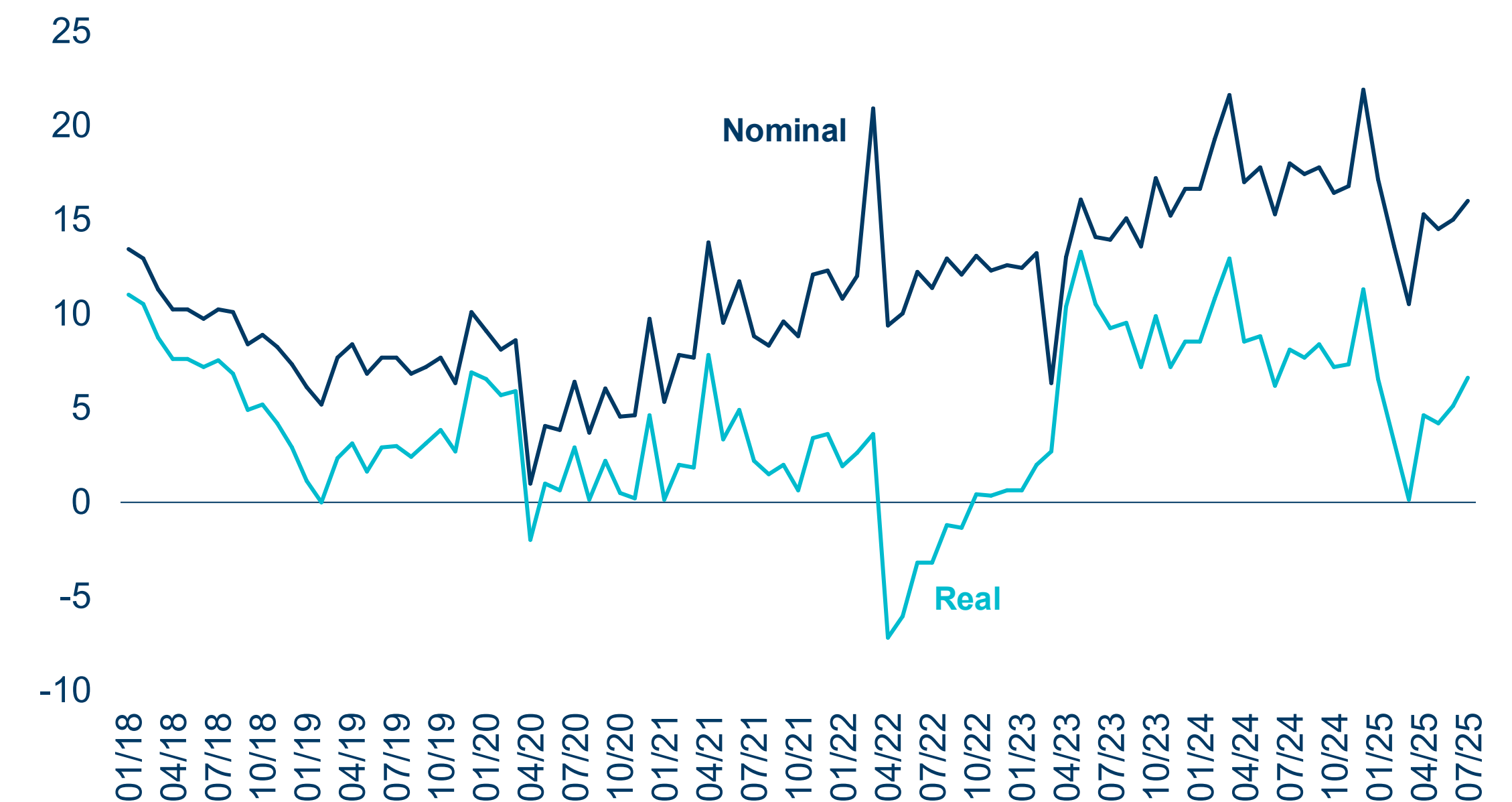
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from now.
- Wage growth slowed in early 2025 amid tight monetary policy but bounced back somewhat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

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

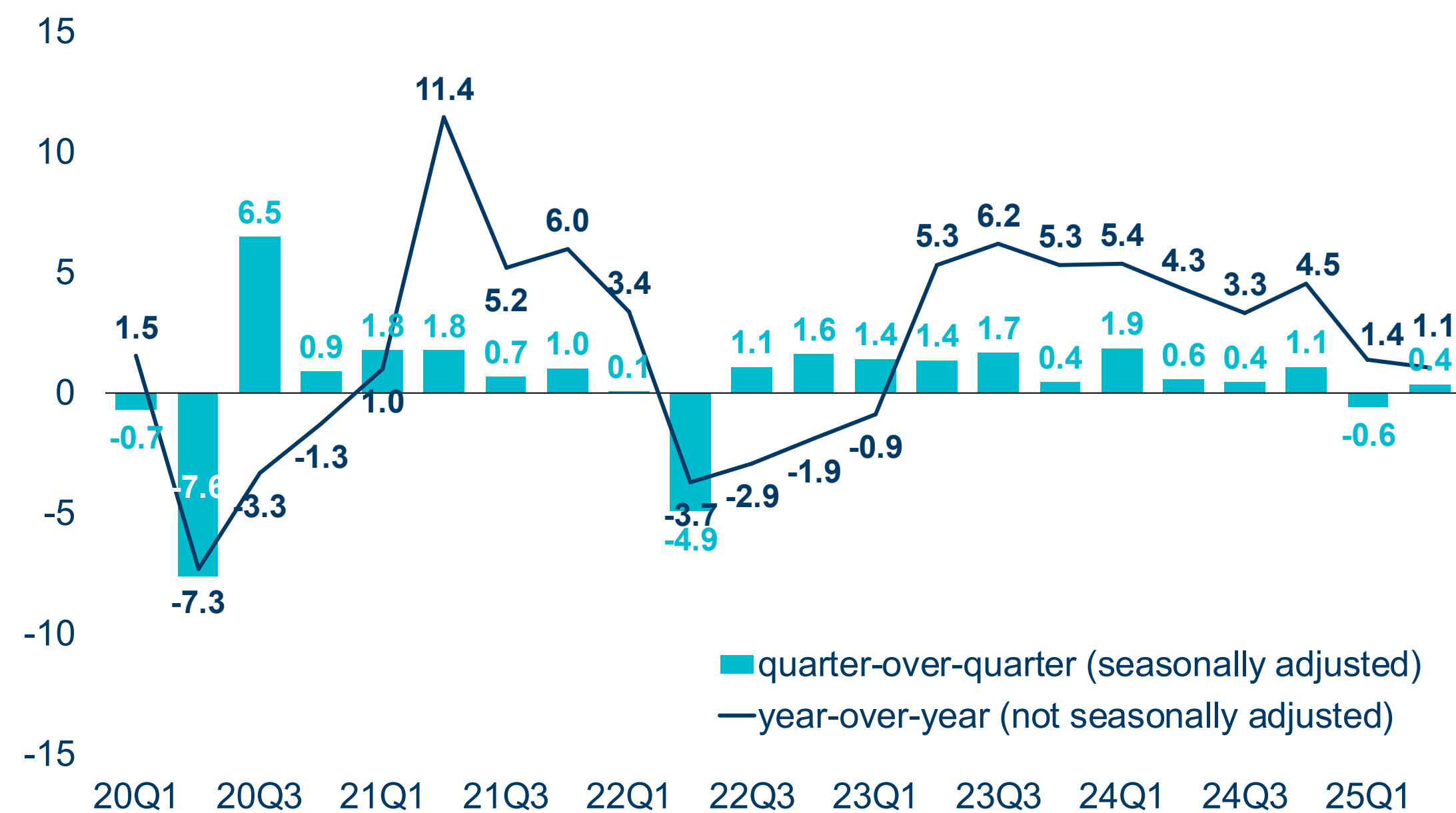


Source: Rosstat

Economic growth is slowing down, with prospects seriously constrained.

- 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 grew somewhat in Q2 (0.4% q-o-q) following the 0.6% contraction in Q1.
- All key international and national institutions have sharply cut Russia's GDP growth forecasts for 2025–2026.

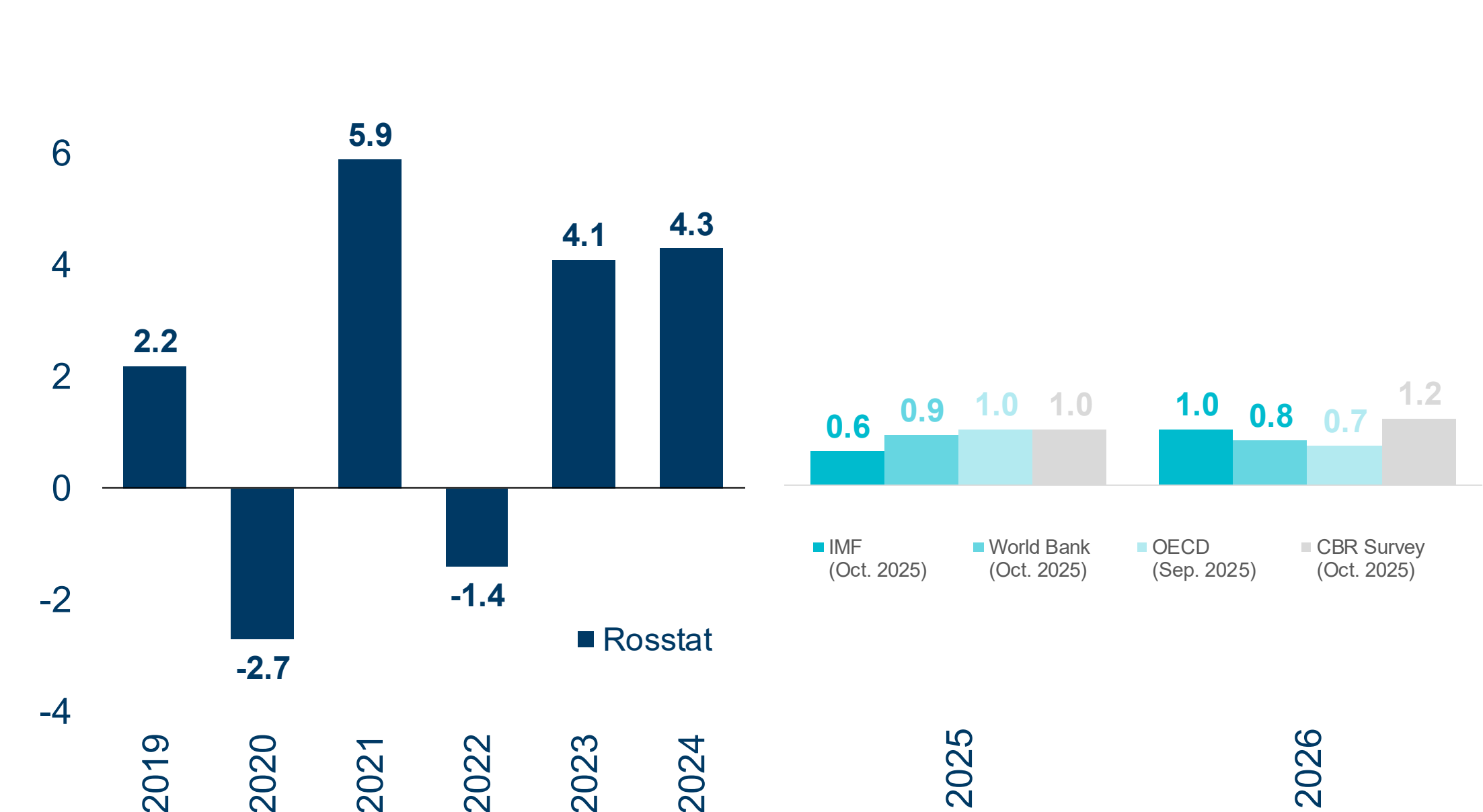
Quarterly real GDP dynamics, in %



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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