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KSE Institute Russia Chartbook

Challenges Grew on the Eve of the Iran War; Russia Will Benefit from Higher Energy Prices

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Executive Summary

1. **Soaring global energy prices and sanctions relief provide unexpected windfall.** The recent escalation in the Middle East has affected oil and gas production in the Gulf and largely closed the Strait of Hormuz, which accounts for 20% of global oil and LNG flows, and, in turn, led to soaring energy prices. While Russia already benefits from higher prices as well as the easing of oil sanctions by the US, a longer war would lead to dramatic increases in export earnings and budget revenues from oil and gas—thereby easing existing pressures and fundamentally undermining the economic pressure campaign intended to force Russia to negotiate in earnest about an end to its war in Ukraine. With every week of the crisis continuing—and increasing damage to oil and gas production due to retaliatory Iranian strikes—lengthy global market disruptions become likelier. For a detailed analysis of the potential impact on Russia, see here.
2. **On the eve of the Iran war, Russia was in the most vulnerable position in four years.** In February, oil export earnings dropped to their lowest level since Covid at $9.5 billion. Importantly, for the first time since the full-scale invasion, export volumes and production declined—by 0.9 mb/d and 0.7 mb/d, respectively—due to US pressure on key buyers of Russian oil. This more than offset somewhat higher export prices as global prices rose on the back of growing geopolitical tensions. As far as the budget is concerned, oil and gas revenues in Jan.-Feb. came in 47% lower than a year before, contributing to a record-high deficit of 3.45 trillion rubles in just two months. As a result, authorities were considering significant spending cuts and budget financing would have been increasingly challenging. Russia would also have been forced to review its fiscal rule due to oil prices persistently below the threshold for reserve sales. Despite increasingly shifting the cost of the war to local budget, a review of the 2026 federal budget would have also been inevitable.
3. **Soaring domestic debt and reserve sell-offs showed structural vulnerabilities.** Domestic federal debt has nearly doubled since the full-scale war began, approaching 31 trillion rubles by early-2026, but further OFZ issuance is not without problems and repo operations by the CBR remain necessary to incentivize Russian banks to absorb it. With the central bank cutting the key rate to 15.0%, MinFin has been forced to shift toward constant-coupon OFZ as domestic financial institutions lose their appetite for floating yields. At the same time, international reserves are under pressure from a marked drop in gold prices—which had propped them up in the recent past. Facing liquidity constraints, Russia has begun selling off its monetary gold, thereby steadily exhausting its macroeconomic buffers.

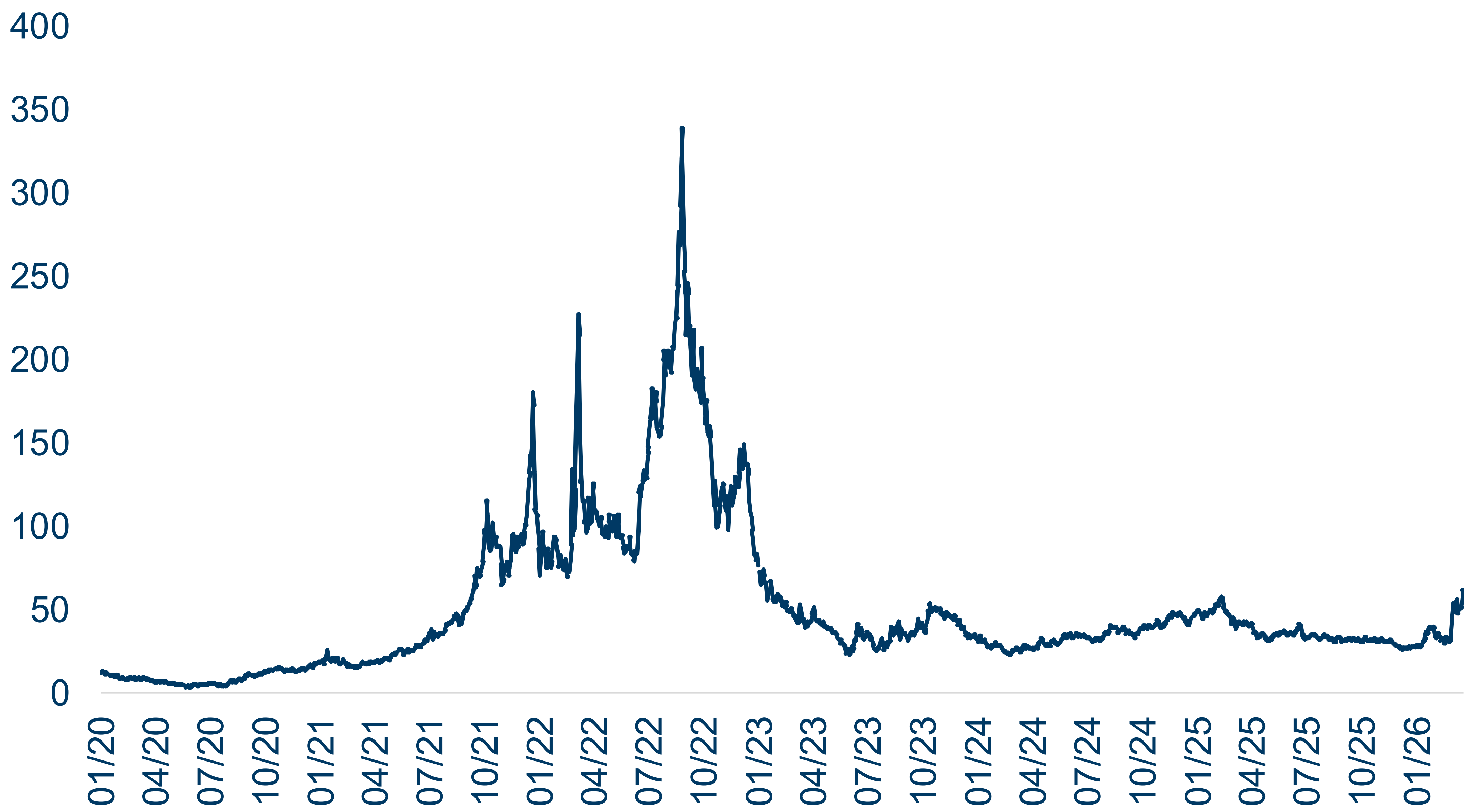
Global energy prices have risen dramatically in response to the Iran war.

- Brent crude oil prices surged to above $100/barrel due to disruptions to Gulf production and Strait of Hormuz flows.
- European natural gas prices also rose markedly to ~€60/MwH (vs. ~€30/MwH) but remain far below their 2022 peak.
- A return to pre-war fundamentals with ample supply of both oil and LNG will not occur until the conflict is resolved.

Brent crude oil price, in U.S. dollar/barrel

Source: Intercontinental Exchange

ICE Dutch TTF natural gas price, in euro/MwH



Source: Intercontinental Exchange

Impact of the Iran war on Russia critically depends on its length.

- The Iran war's impact on Russia is dependent on the length of the conflict and the longevity of supply disruptions.
- We assess it under three scenario: a short (six-week long) active war and quick subsequent restoration of supplies ("optimistic"), a war that lasts three months followed by a quick restoration of supplies ("central"), and a war that lasts six months followed by a much slower restoration of supplies due to significant damage to infrastructure ("pessimistic").

Scenarios for the impact analysis

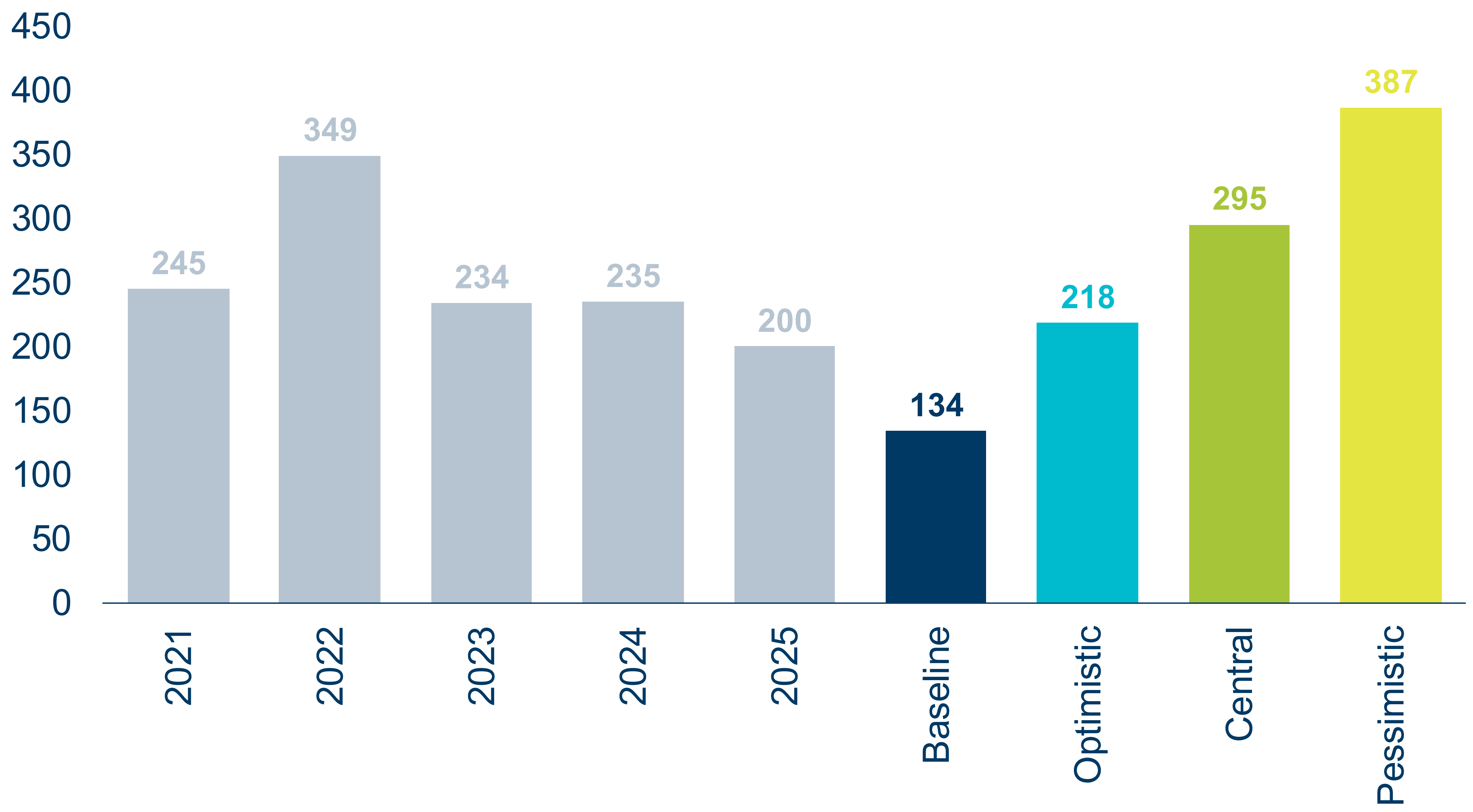
Scenario	Details
Baseline	**No war in the Middle East and receding geopolitical tensions**; **regular oil and gas production in the Gulf and flow levels maintained** through the Strait of Hormuz; **no aggregate reduction of global oil and gas supply**; **oil prices** follow a downward trajectory, averaging ~$58/bbl for the year and falling to ~$54/bbl by December as supply significantly exceeds demand; **LNG prices** remain stable, averaging ~$11/mmbtu and ending the year at ~$11.2/mmbtu.
Optimistic	**Active war lasts for a total of six weeks** (until mid-April); **fast and orderly production restoration** thereafter (50% of pre-crisis volume for four weeks); aggregate **reduction of production of ~600 mb of oil and ~20 bcm of LNG**; **oil prices** remain around $100/bbl until there is a clear pathway to de-escalation and fall to ~$70/bbl by the end of the year; **LNG prices** rise to around $25/mmbtu in Asia and slightly less in Europe and end the year around the pre-war level of $12/mmbtu.
Central	**Active war lasts for a total of three months** (until end of May); **fast and orderly production restoration** thereafter (50% of pre-crisis volume for four weeks); aggregate **reduction of production of ~1,100 mb of oil and ~30 bcm of LNG**; **oil prices** rise to $140/bbl until there is a clear pathway to de-escalation and fall to ~$80/bbl by the end of the year; **LNG prices** rise to around $30/mmbtu in Asia and slightly less in Europe, and end the year at $15/mmbtu.
Pessimistic	**Active war lasts for a total of six months** (until end of September); **slower restoration of production** thereafter due to significant damage to facilities (50% of pre-crisis volume for three months); aggregate **reduction of production of ~2,300 mb of oil and ~70 bcm of LNG**; **oil prices** rise to $150–200/bbl until there is a clear pathway to de-escalation and end the year at $90/bbl; **LNG prices** rise to around $40/mmbtu in Asia and slightly less in Europe, and end the year at $18/mmbtu.

Source: KSE Institute. Full report is available here.

A longer war would significantly improve Russia's situation.

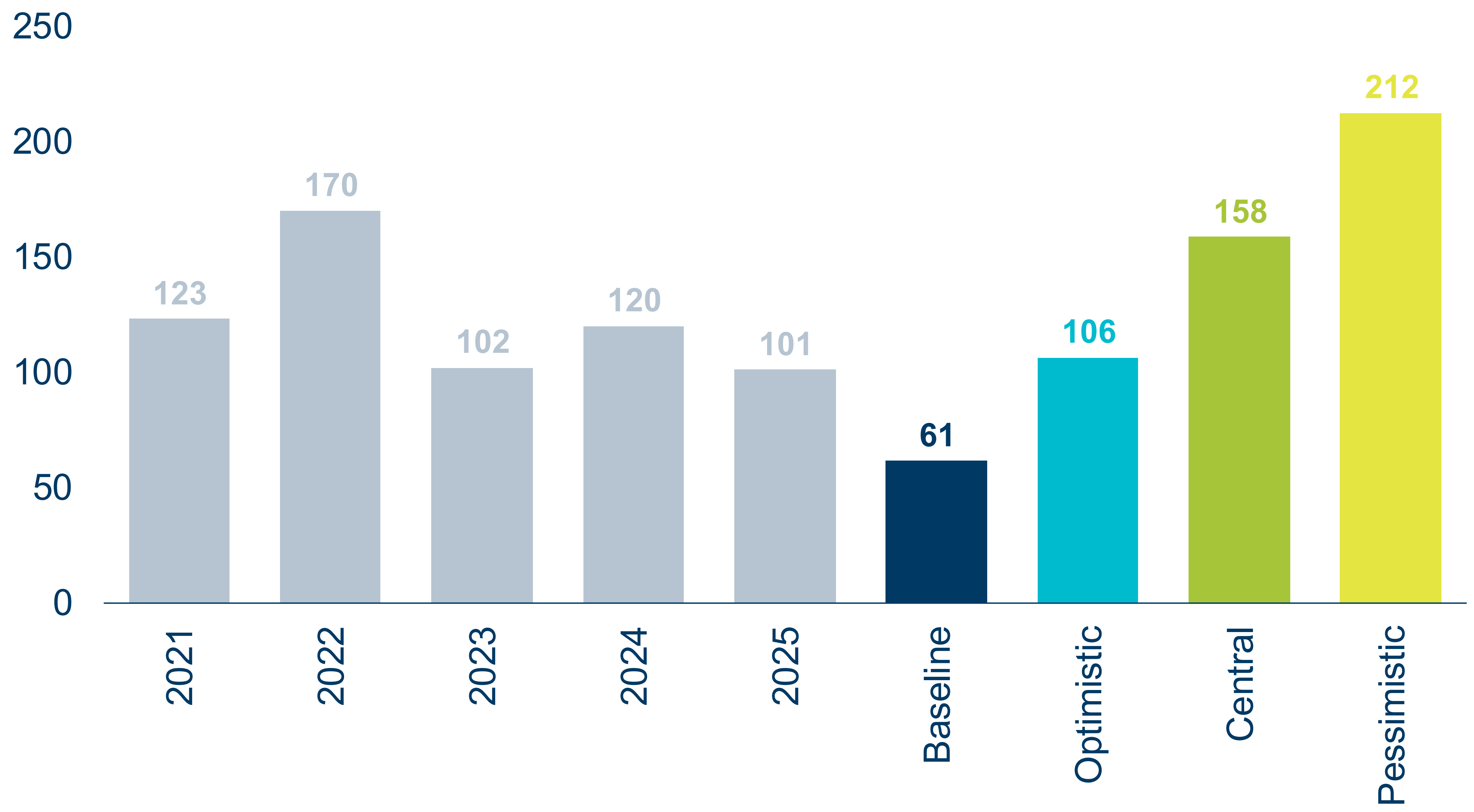
- In the optimistic scenario, export earnings will be $84 billion and budget revenues $45 billion higher vs. the baseline.
- In the central scenario, export earnings will be $161 billion and budget revenues $97 billion higher vs. the baseline.
- In the pessimistic scenario, export earnings will be $253 billion and budget revenues $151 billion higher vs. the baseline.

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



Source: KSE Institute

Oil and gas budget revenues by scenario, in U.S. dollar billion



Source: KSE Institute

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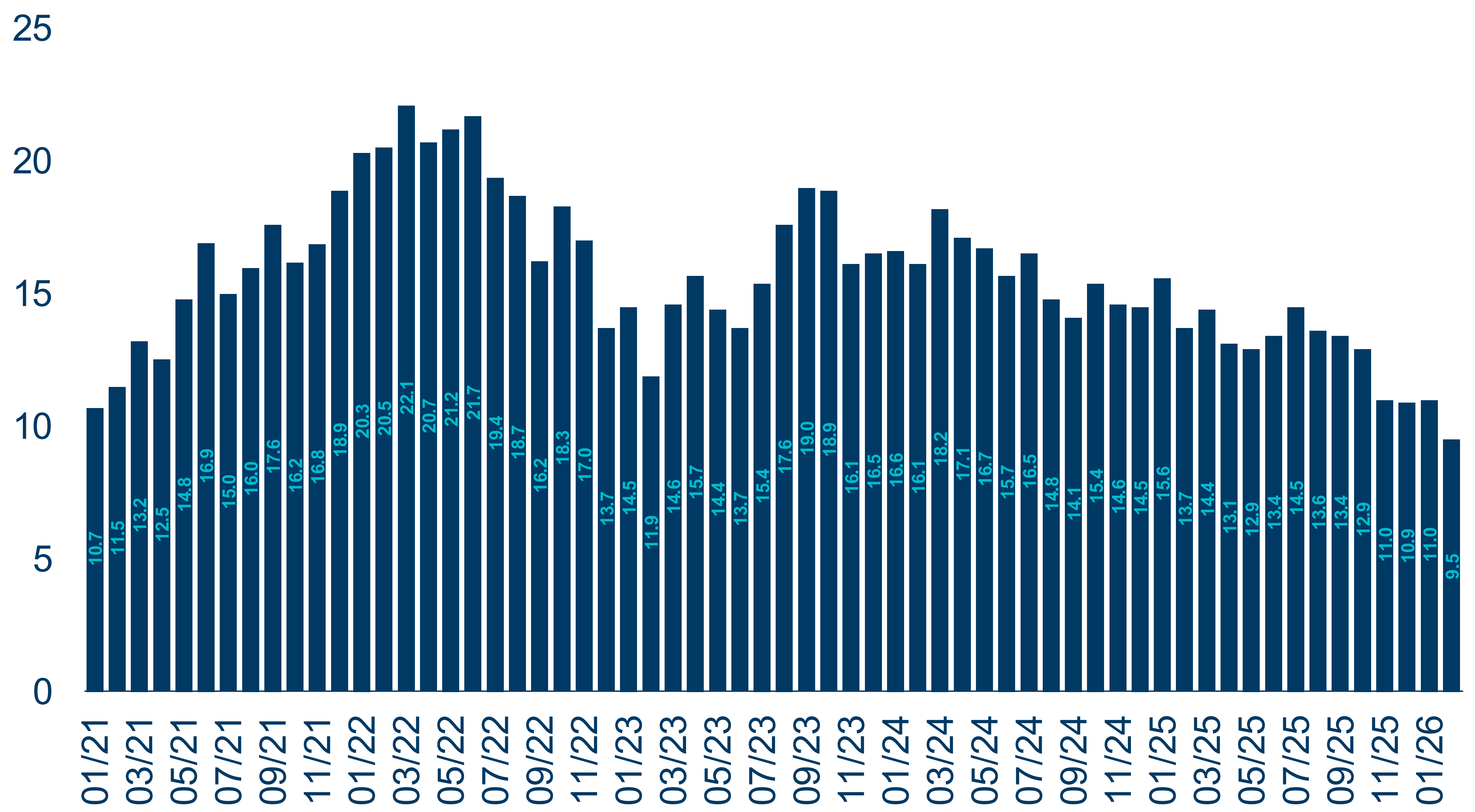
EXTERNAL

Oil export earnings hit a multi-year low amid declining volumes.

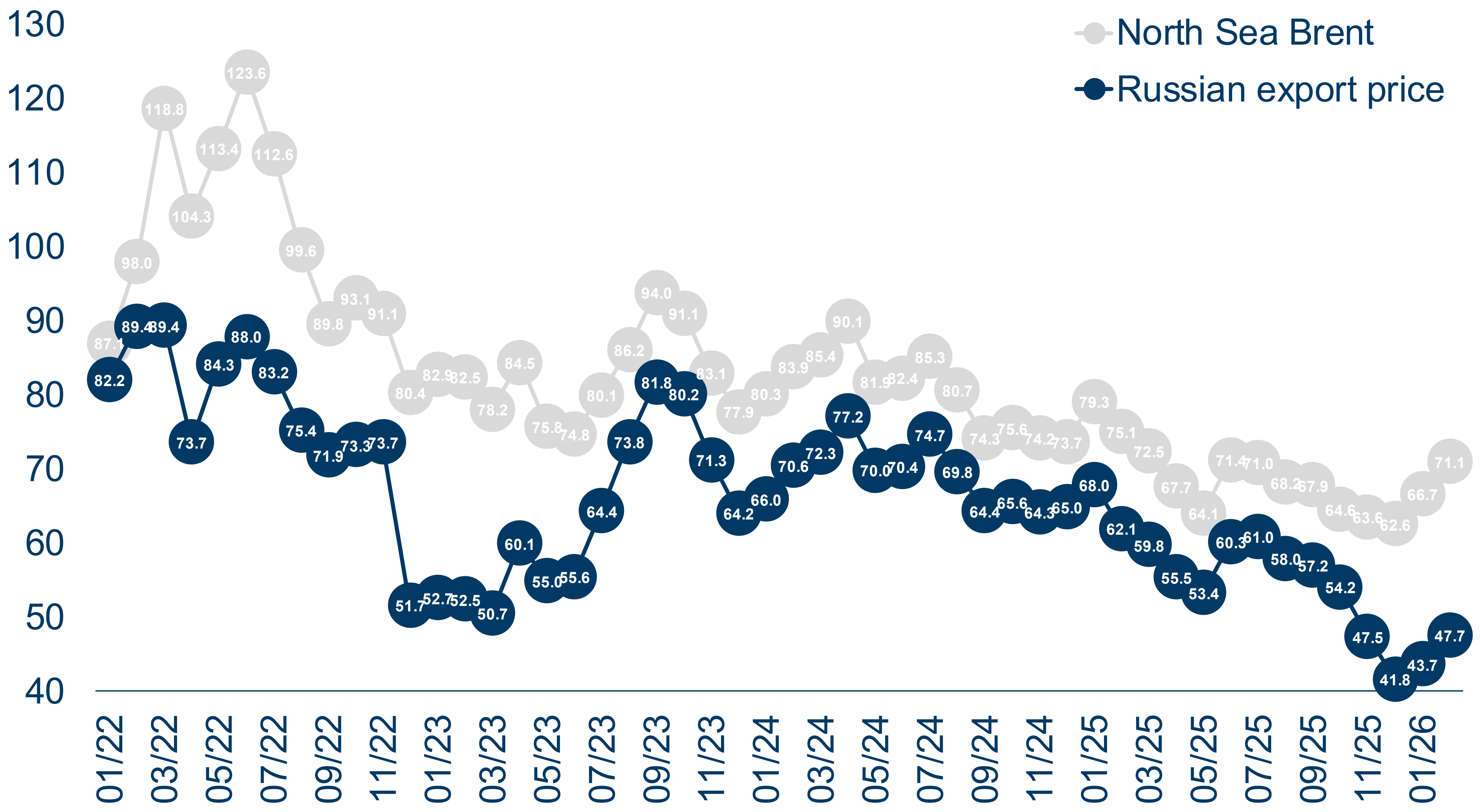
- Oil export earnings declined to $9.5 billion in February (vs. $11.0 billion in January)—the lowest since Covid.
- Russian export prices recovered to $47.7/barrel on the back of higher global prices due the looming Iran war.
- However, exports and production declined for the first time in four years—by 0.9 mb/d and 0.7 mb/d, respectively.

Oil export earnings, in U.S. dollar billion



Source: Federal Customs Service, International Energy Agency, KSE Institute

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



Source: International Energy Agency, KSE Institute

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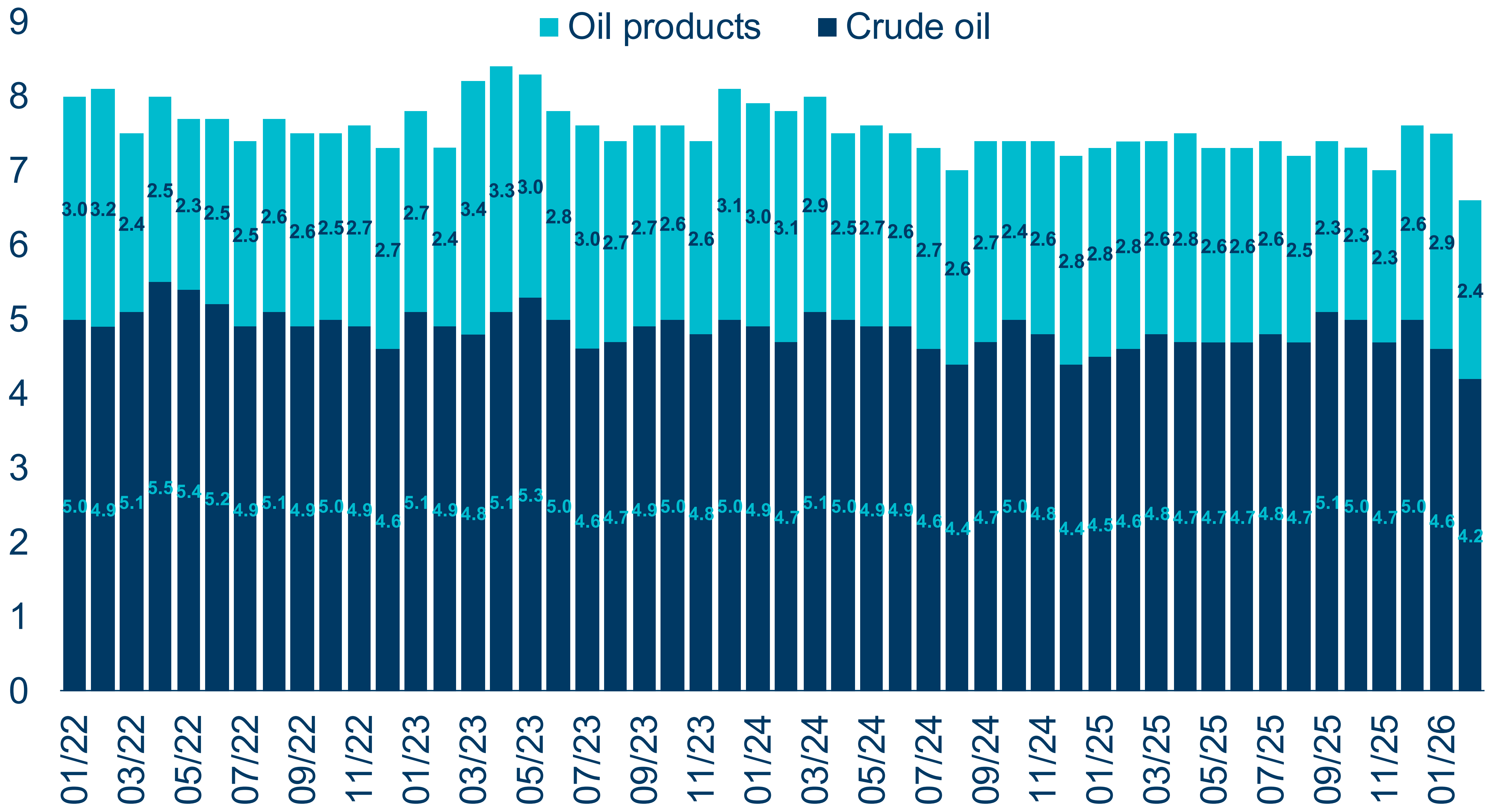
Oil export volumes drop, largely due to lower Indian purchases.

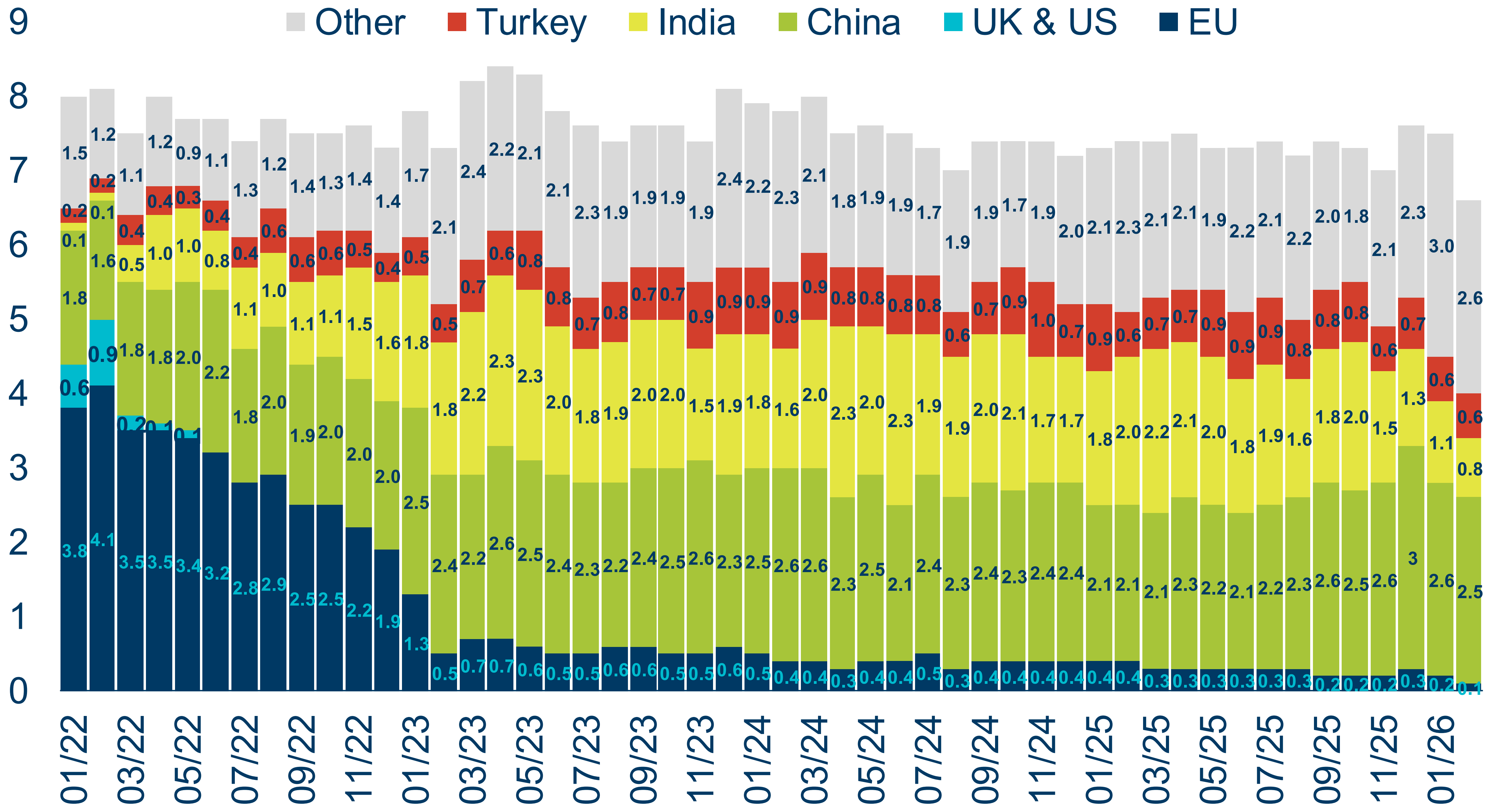
- Export volumes declined markedly for the first time since the full-scale war—to ~6.6 mb/d in Feb. vs. ~7.5 mb/d in Jan.
- While exports to China remained high, those to India continued to drop to below 2 mb/d in Feb. due to US pressure.
- Lower demand from key countries meant more leverage for other buyers and persistent pressure on Russian discounts.

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

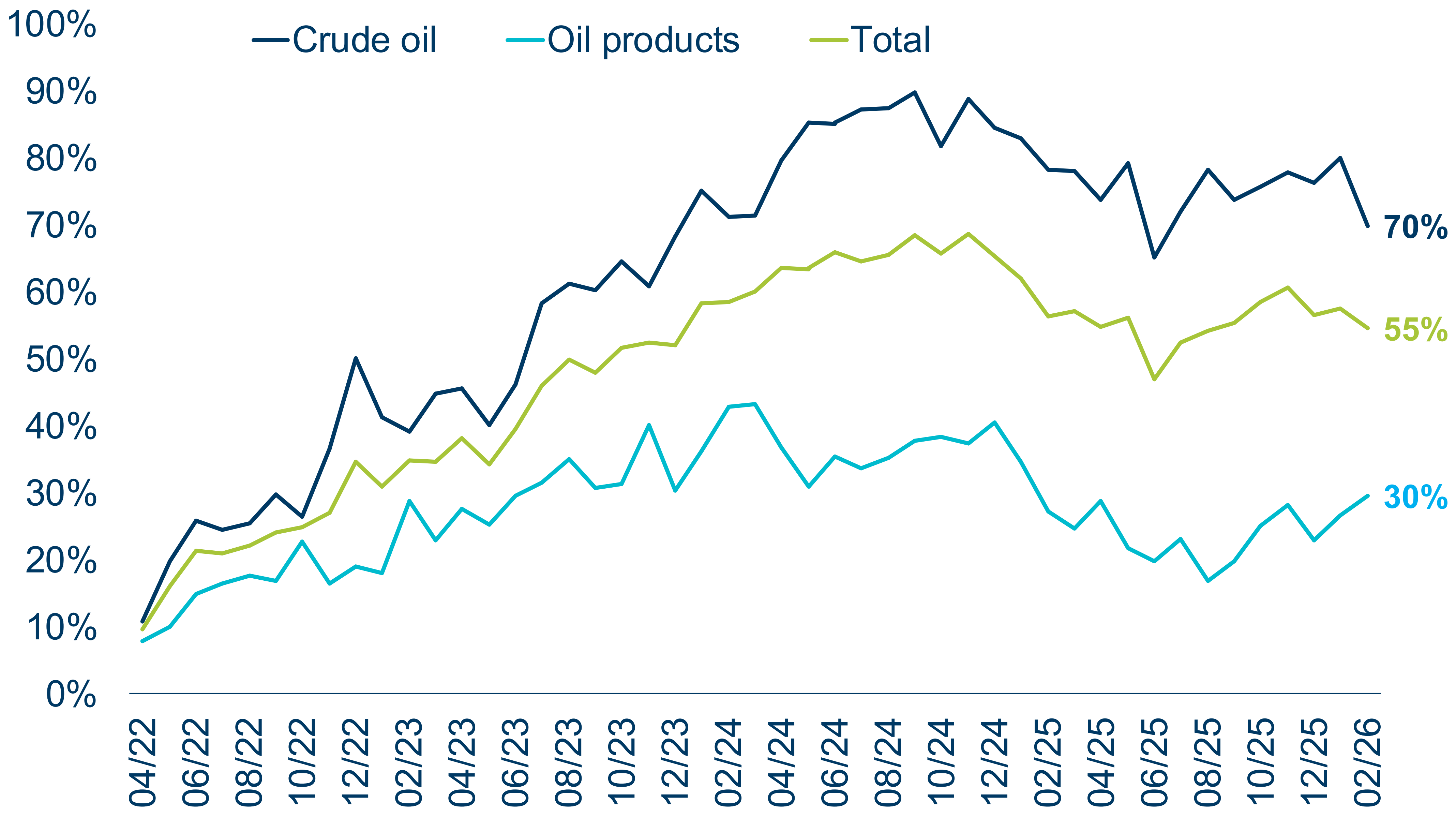


Source: International Energy Agency, KSE Institute

Stepped-up shadow tanker sanctions require tighter enforcement.

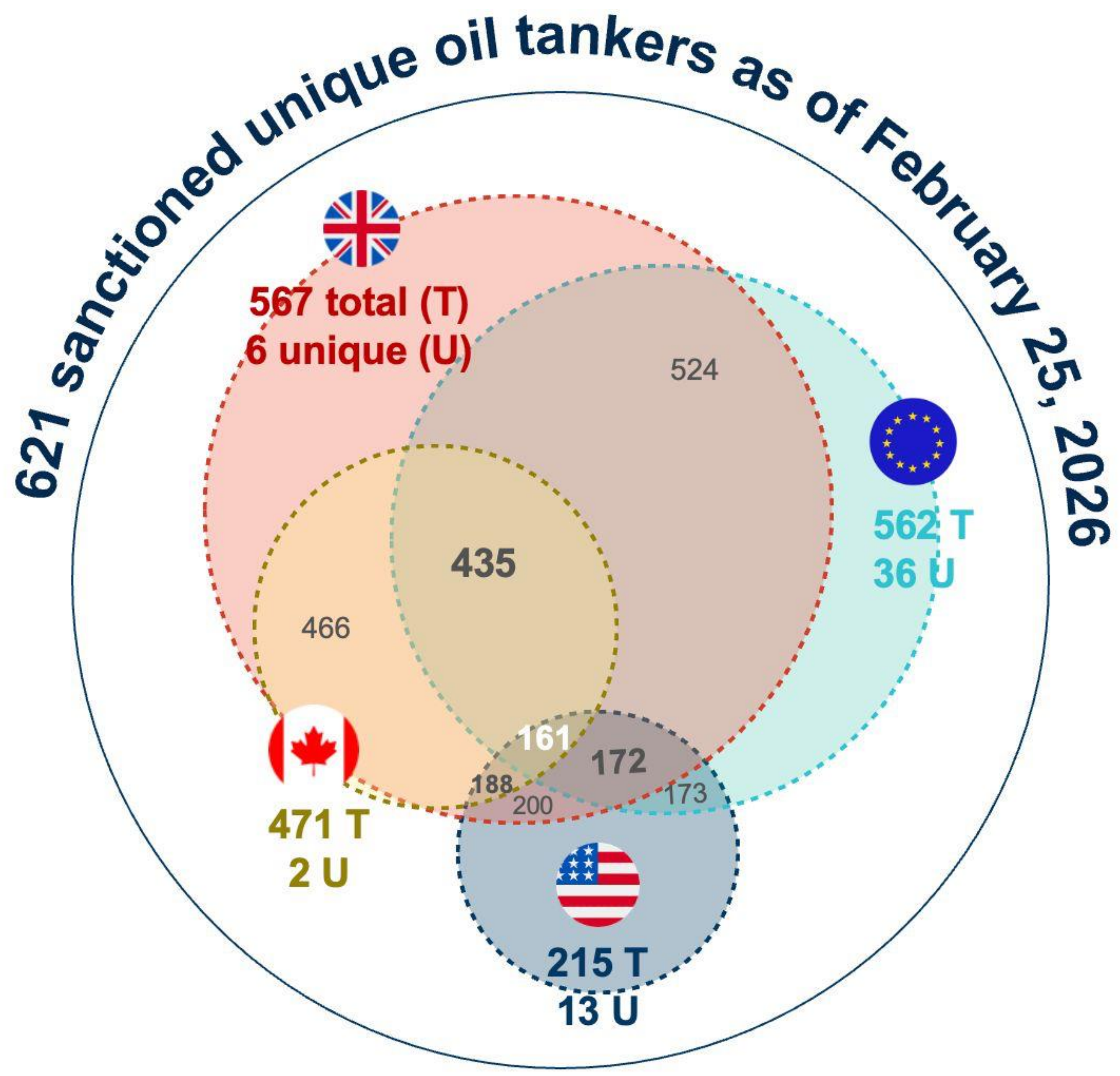
- The total number of sanctioned shadow tankers remained at 621, with 172 listed by the EU, UK, and US.
- With listings reaching ~70% of the shadow fleet, more effective enforcement will need to be in the focus.
- The shadow fleet's share of crude oil exports declined, while its share of oil products ticked up.

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction*



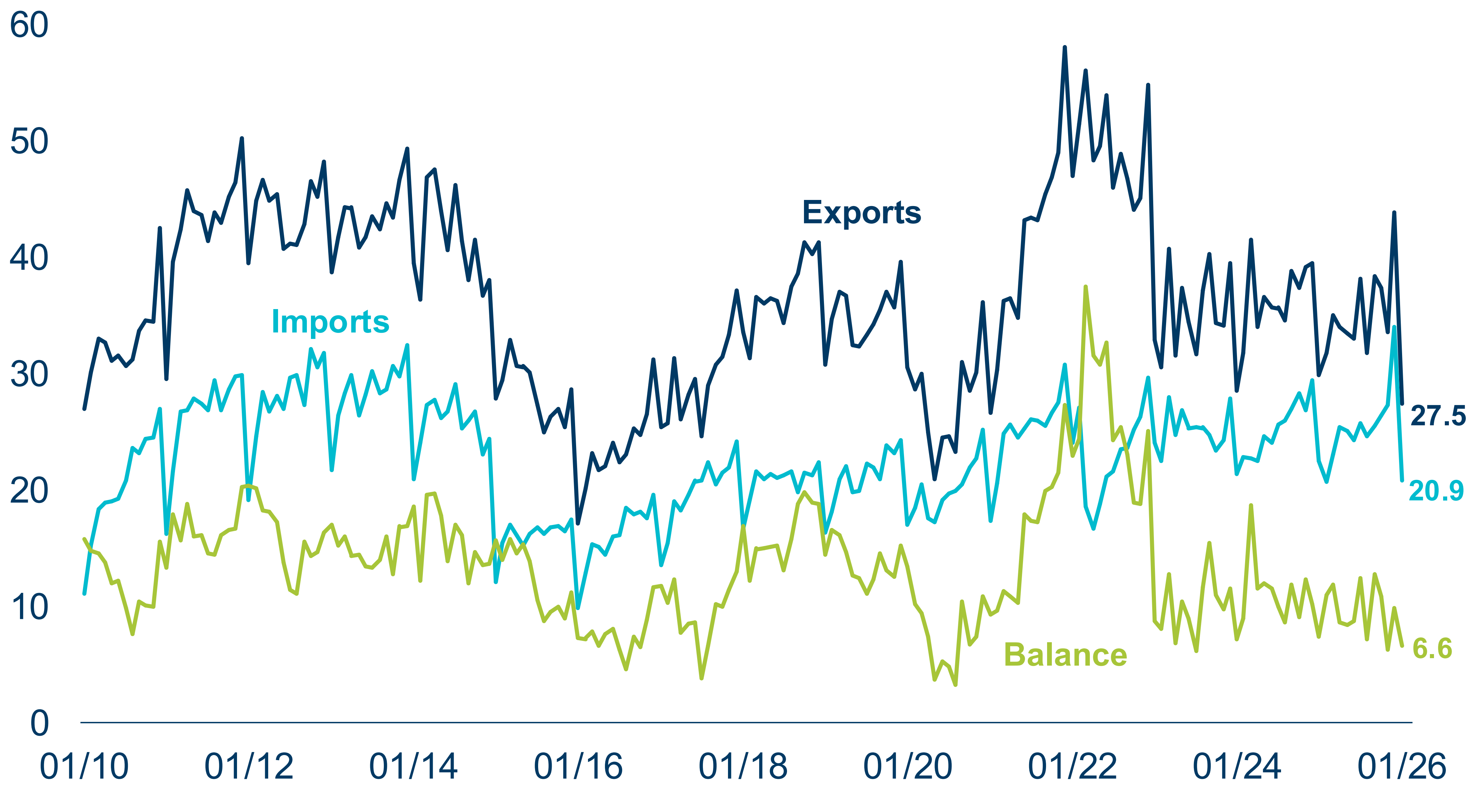
Source: European Commission, OFAC, OFSI, KSE Institute.

The numbers inside the circles show overlaps between jurisdictions, and do not add up to the total. Australia (255 vessels) and New Zealand (204 vessels) are not included: lists are almost fully aligned with the EU, UK and Canada. Ukraine listing is not included. Total (T) - total number of sanctioned shadow oil tankers by jurisdiction. Unique (U)– stands for the number of vessels sanctioned by jurisdiction solely.

Trade turnover declines in January in line with historical seasonality.

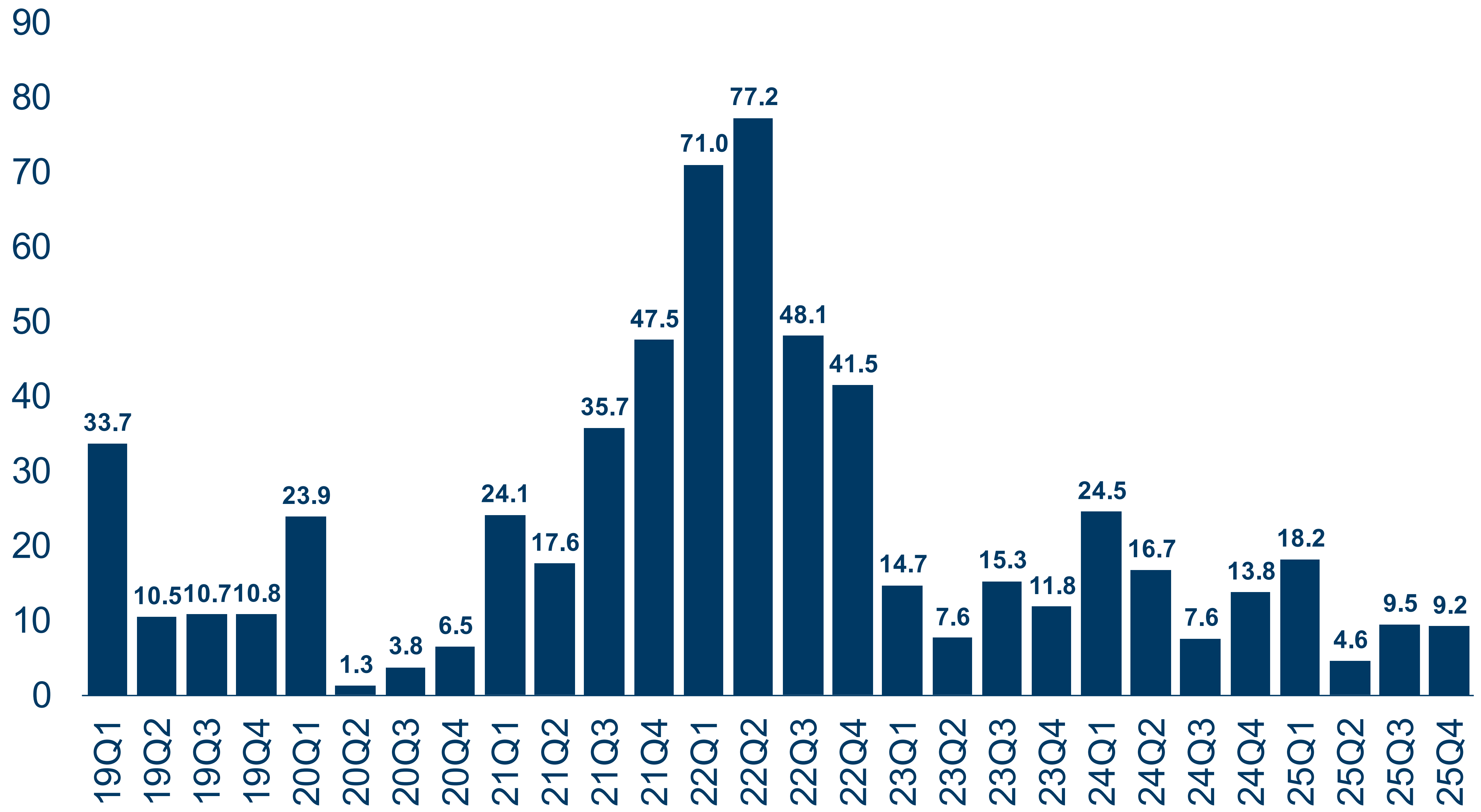
- Both exports and imports declined in Feb. after a late-2025 spike, with the trade surplus narrowing to $6.6 billion.
- This sharp drop in January is a regular seasonal pattern following the typical end-of-year surge in trade activity.
- The current account surplus remained largely unchanged in Q4 2025 at $9.2 billion (vs. $9.5 billion in Q3 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

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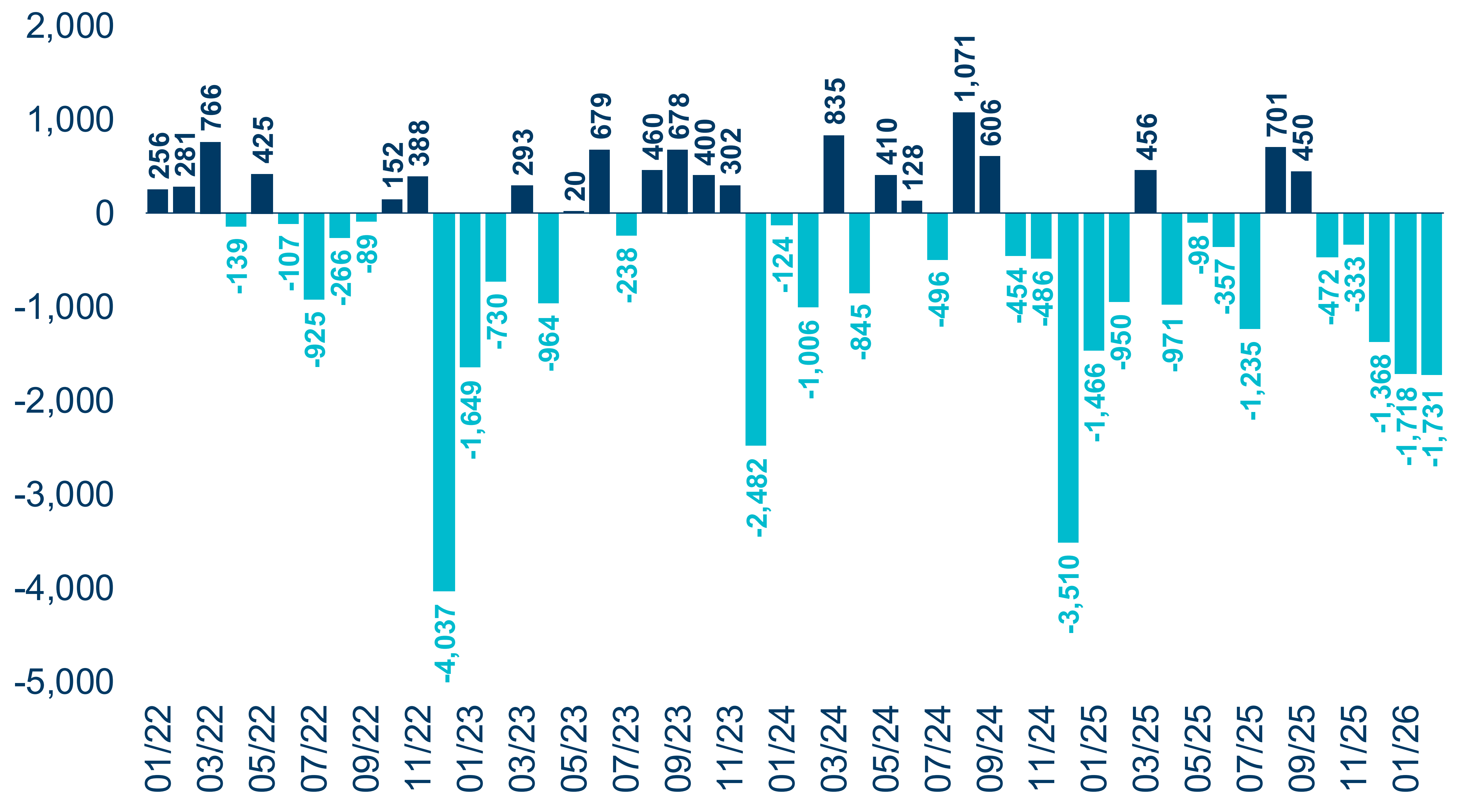
Budget deficit soars but higher oil prices will provide relief.

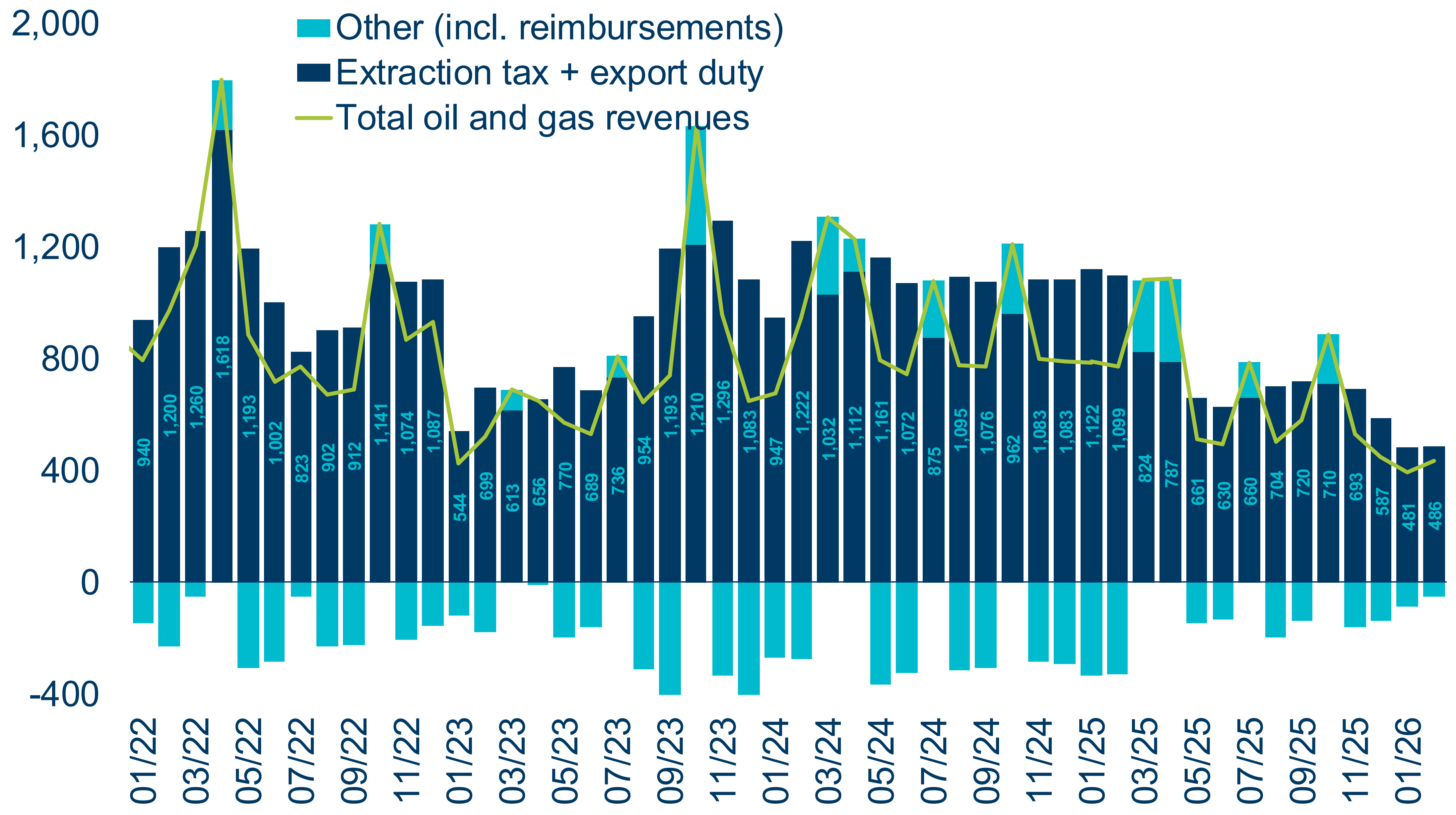
- The federal budget deficit continued to rise in Feb. (1.73 trillion rubles) after a large deficit in Jan. (1.72 trillion).
- Oil and gas revenues recovered marginally but remained suppressed due to low global prices and high discounts.
- The recent surge in global energy prices could significantly ease budgetary challenges in the coming months.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Federal oil and gas revenues, in ruble billion

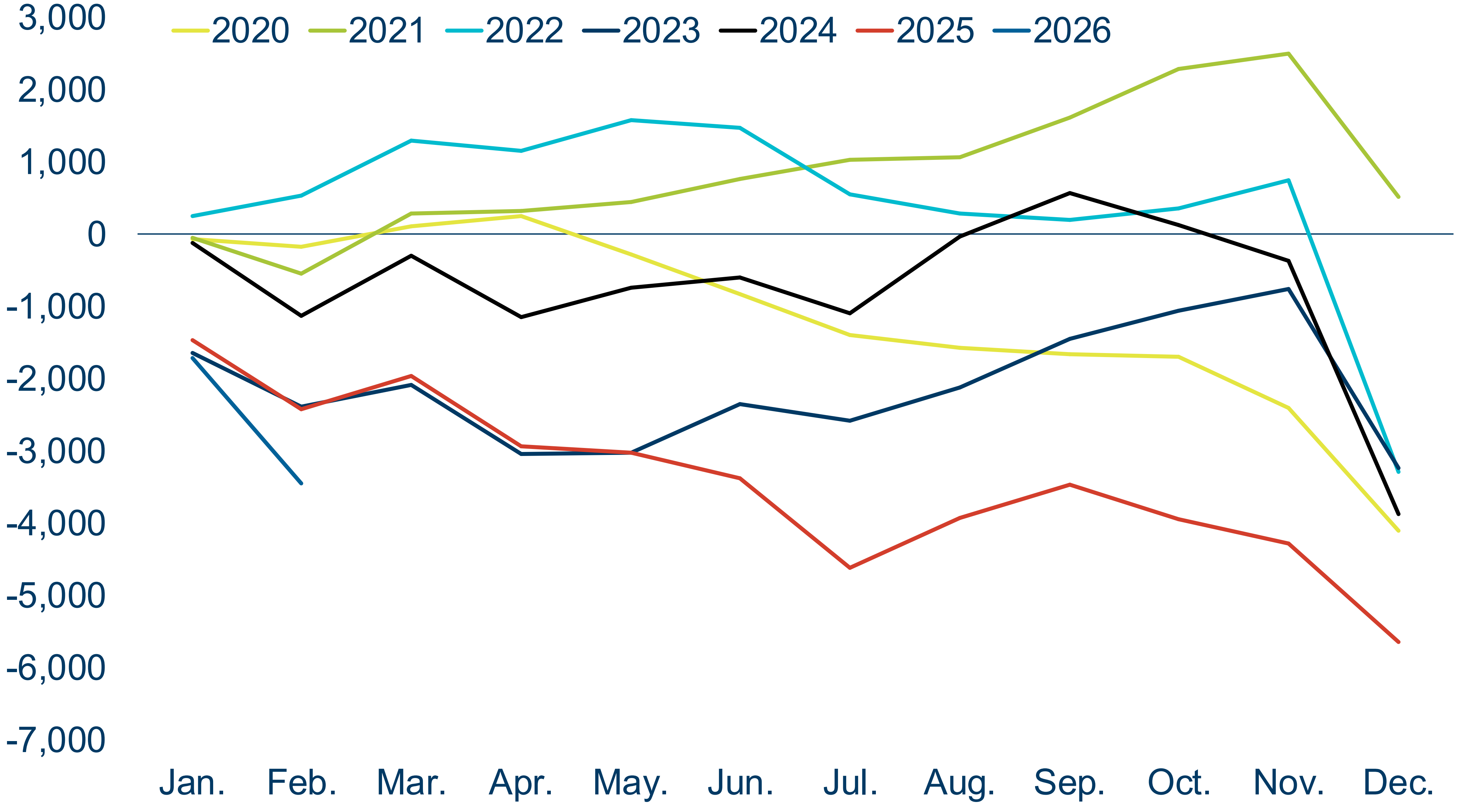


Source: Ministry of Finance, KSE Institute

Massive deficit prompts spending review; oil prices may delay cuts.

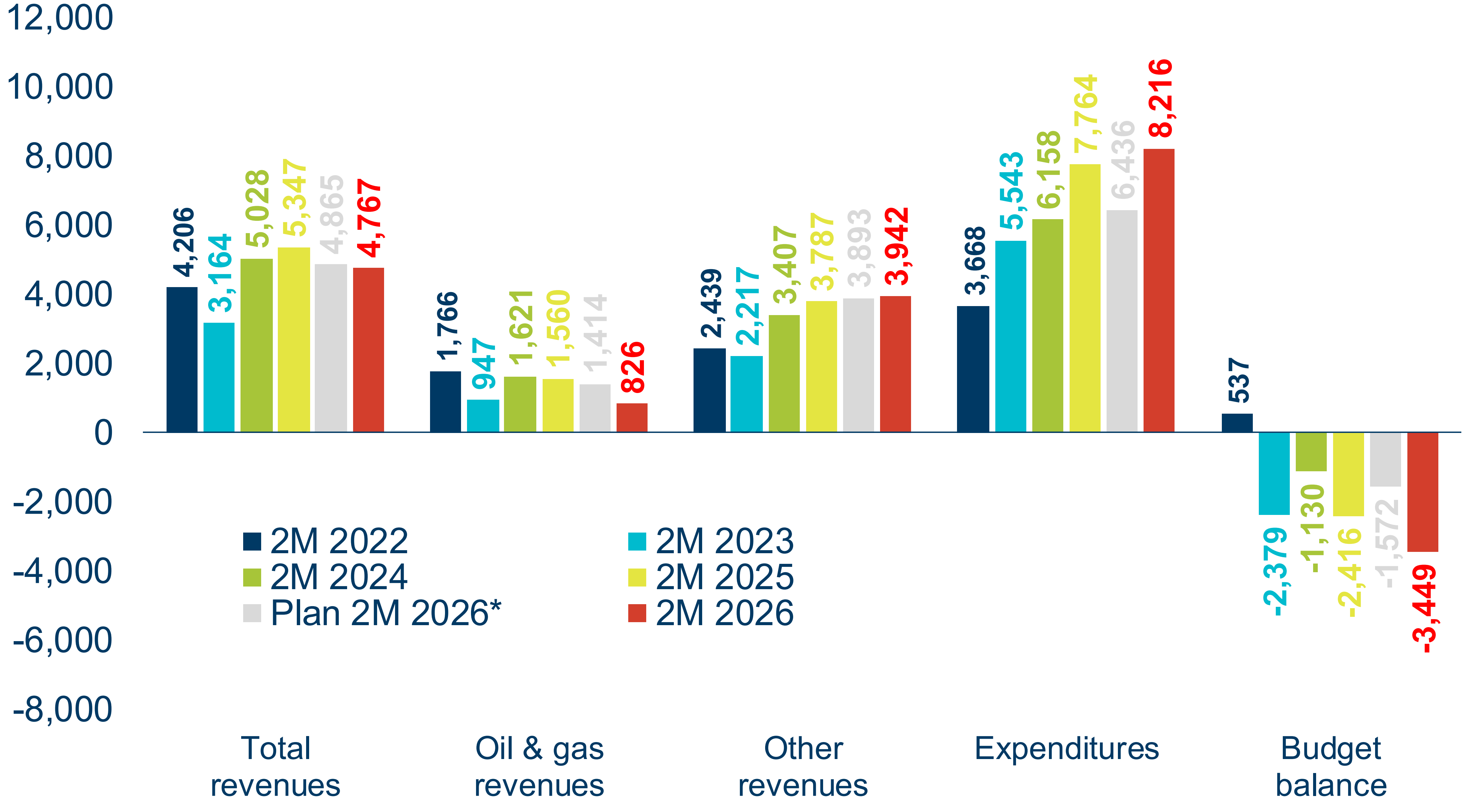
- In Jan.-Feb. 2026, O&G revenues were 47% weaker y-o-y, non-O&G only 4% stronger, and expenditures 6% higher.
- The cumulative federal budget deficit reached 3.45 trillion rubles—the largest shortfall in nominal terms on record.
- MinFin considered cutting non-defense/social expenditures by 10%, but soaring oil prices may postpone these plans.

Cumulative federal budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Federal budge revenues and expenditures, in ruble billion

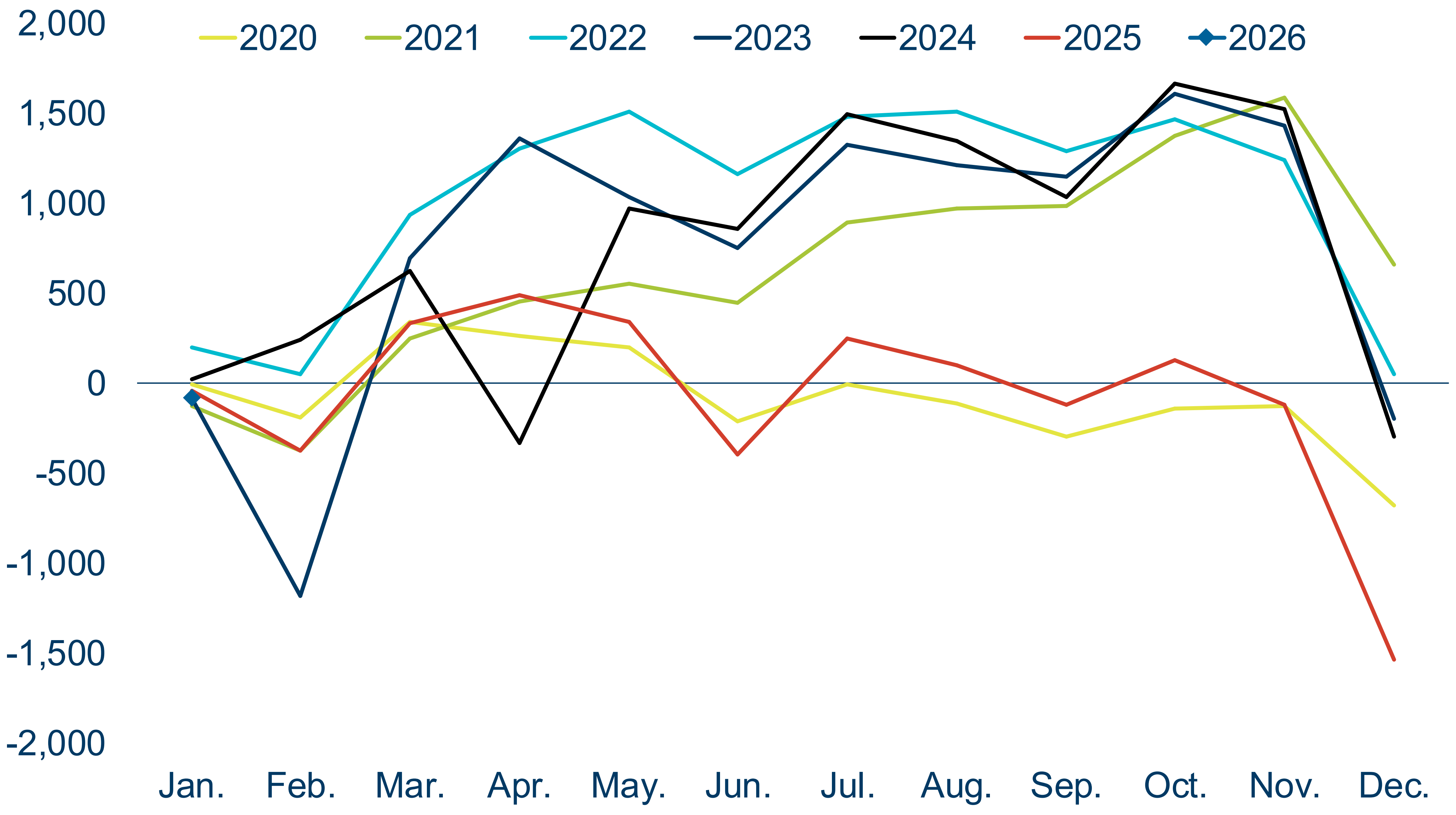


Source: Ministry of Finance, KSE Institute *based on avg. 2019-25 within-year distribution.

Regional debt rises while January deficit follows historical trends.

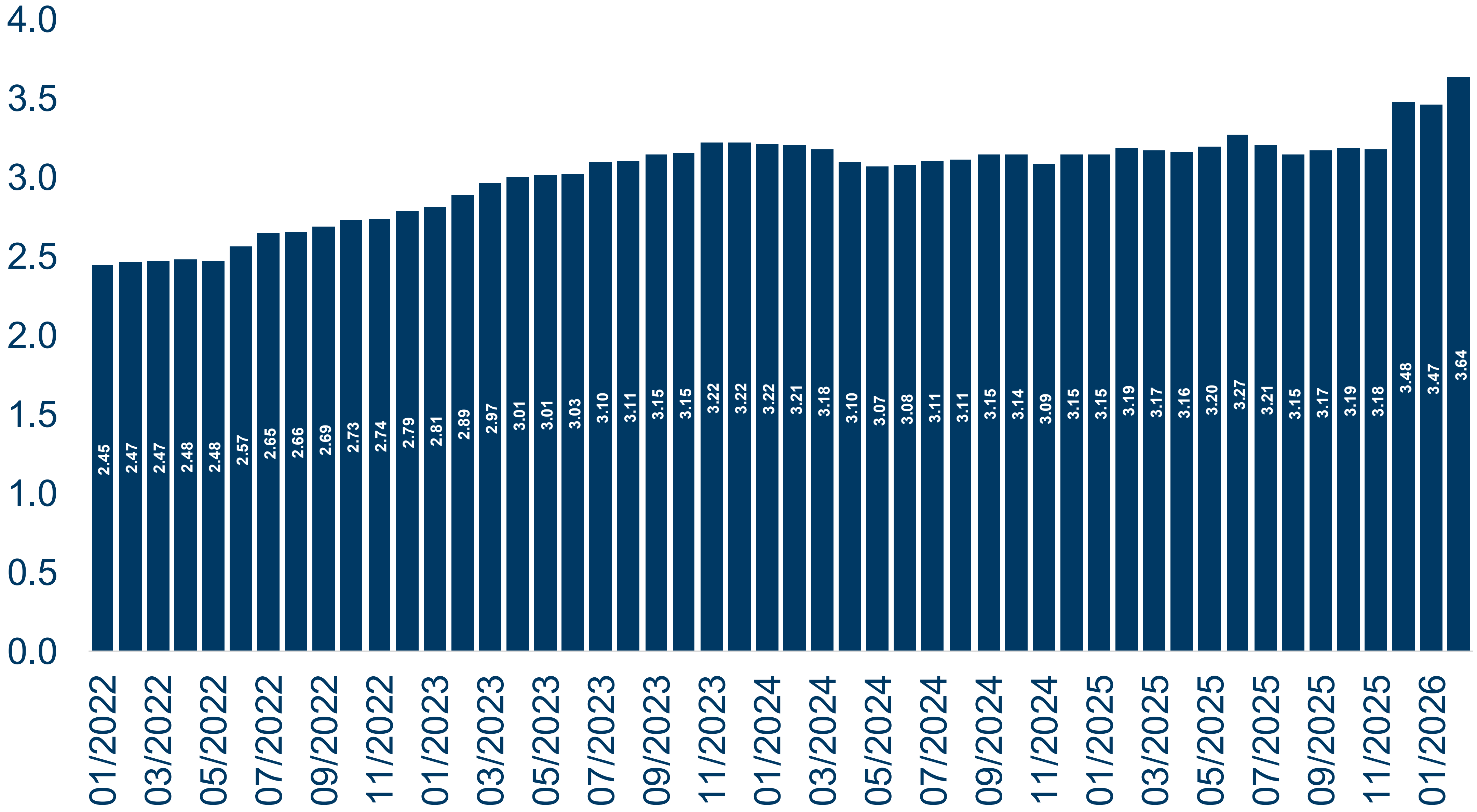
- Regional government debt jumped sharply to 3.64 trillion rubles in February, up from 3.47 trillion in January.
- These developments indicate that the financial burden of the war is being pushed down to the regional level.
- The combined regional budget deficit in January remained roughly at the same (low) level as in previous years.

Cumulative consolidated regional budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Regional government debt, in ruble trillion



Source: Ministry of Finance, KSE Institute

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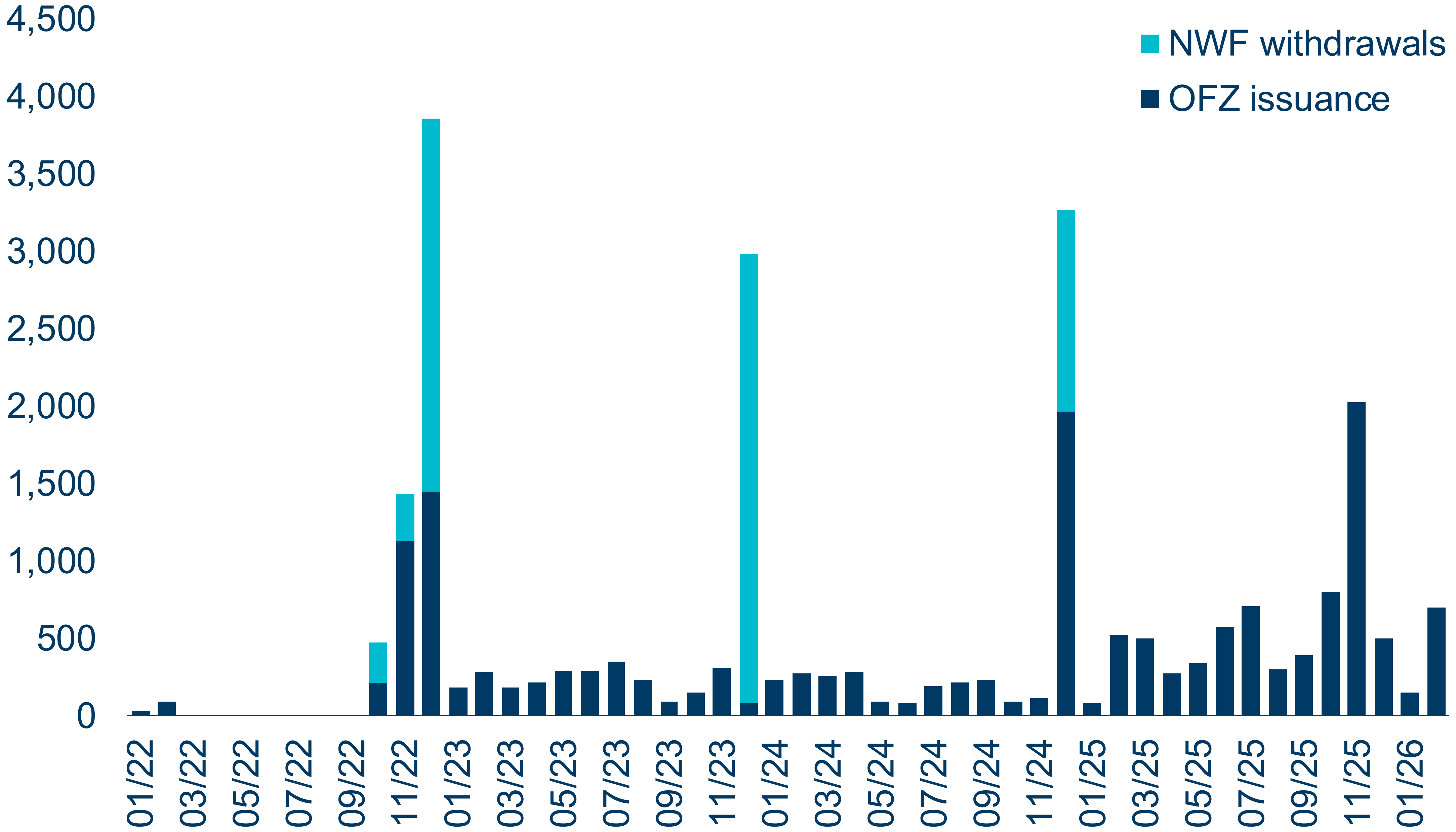
FISCAL

CBR maintains repo operations to support ambitious Q1 borrowing targets.

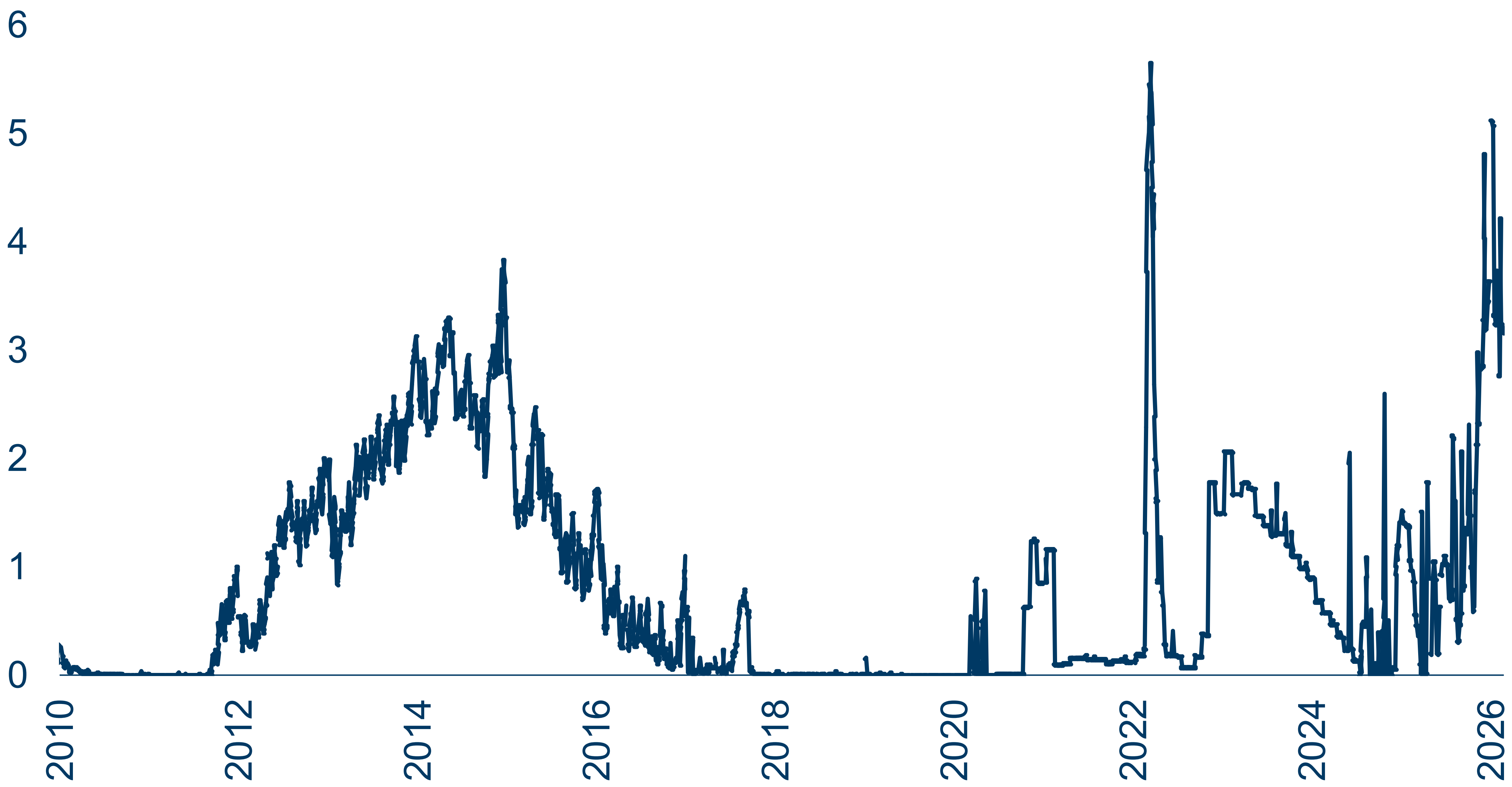
- While recent OFZ placements have been moderately below average, OFZ issuance in Feb. was higher than in Jan.
- Domestic borrowing remains the key budget financing tool, with ~1.2 trillion rubles in issuance planned for Q1 2026.
- The CBR continues to support domestic banks' ability to absorb OFZ issuance through significant repo operations.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

Total outstanding repo loans, in trillion rubles

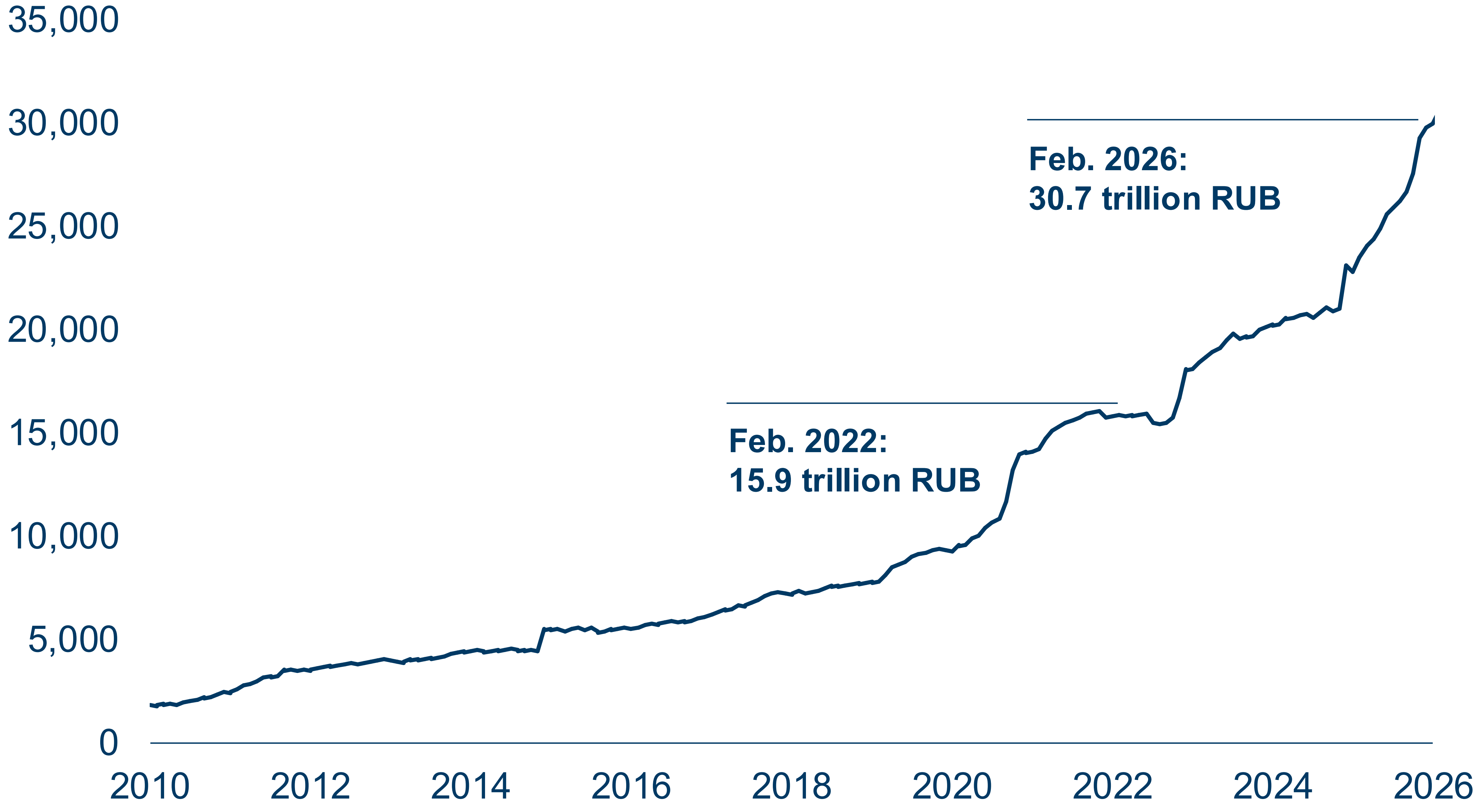


Source: Bank of Russia, KSE Institute

Domestic debt soars, budget exposed to rising servicing costs.

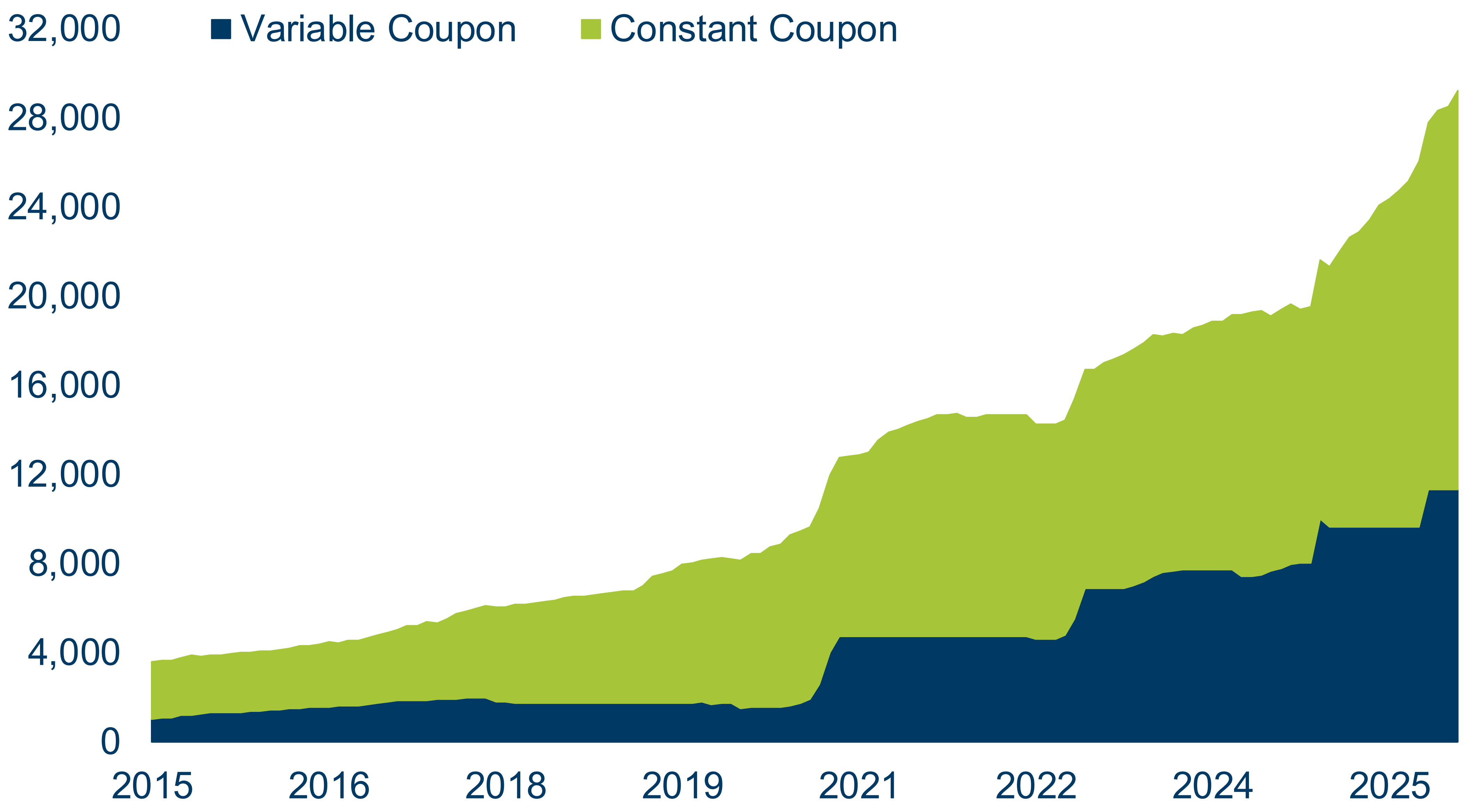
- Federal domestic debt nearly doubled since Feb. 2022, reaching almost 31 trillion rubles by the end of Feb. 2026.
- Recently, MinFin has shifted towards issuing more constant-coupon OFZs instead of variable-rate bonds.
- This reflects dropping investor demand for floating yields as the CBR continues to cut the key interest rate.

Federal government domestic debt, in ruble billion



Source: Ministry of Finance, KSE Institute

Dynamics of OFZ volume by coupon income types, in ruble billion

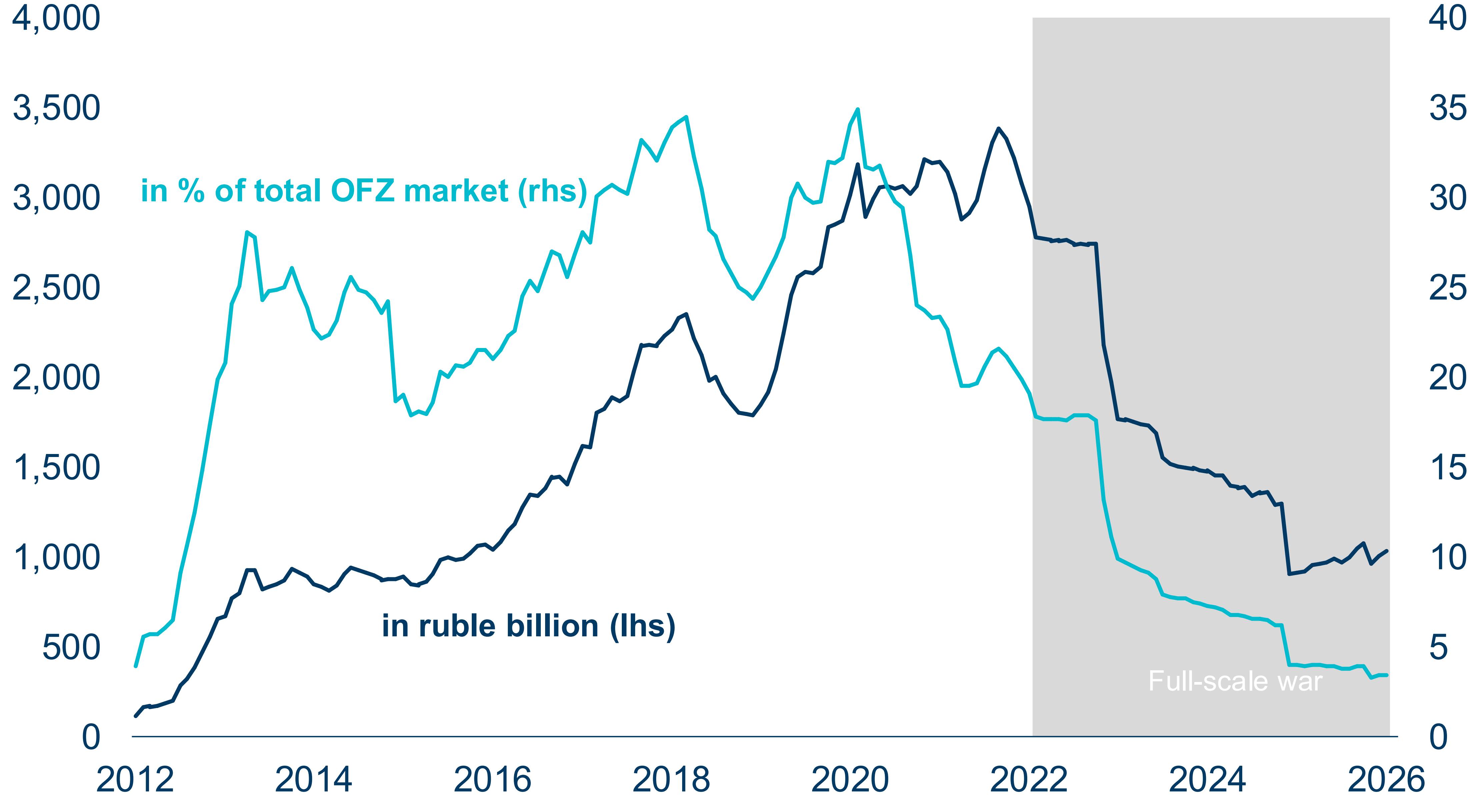


Source: Ministry of Finance, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

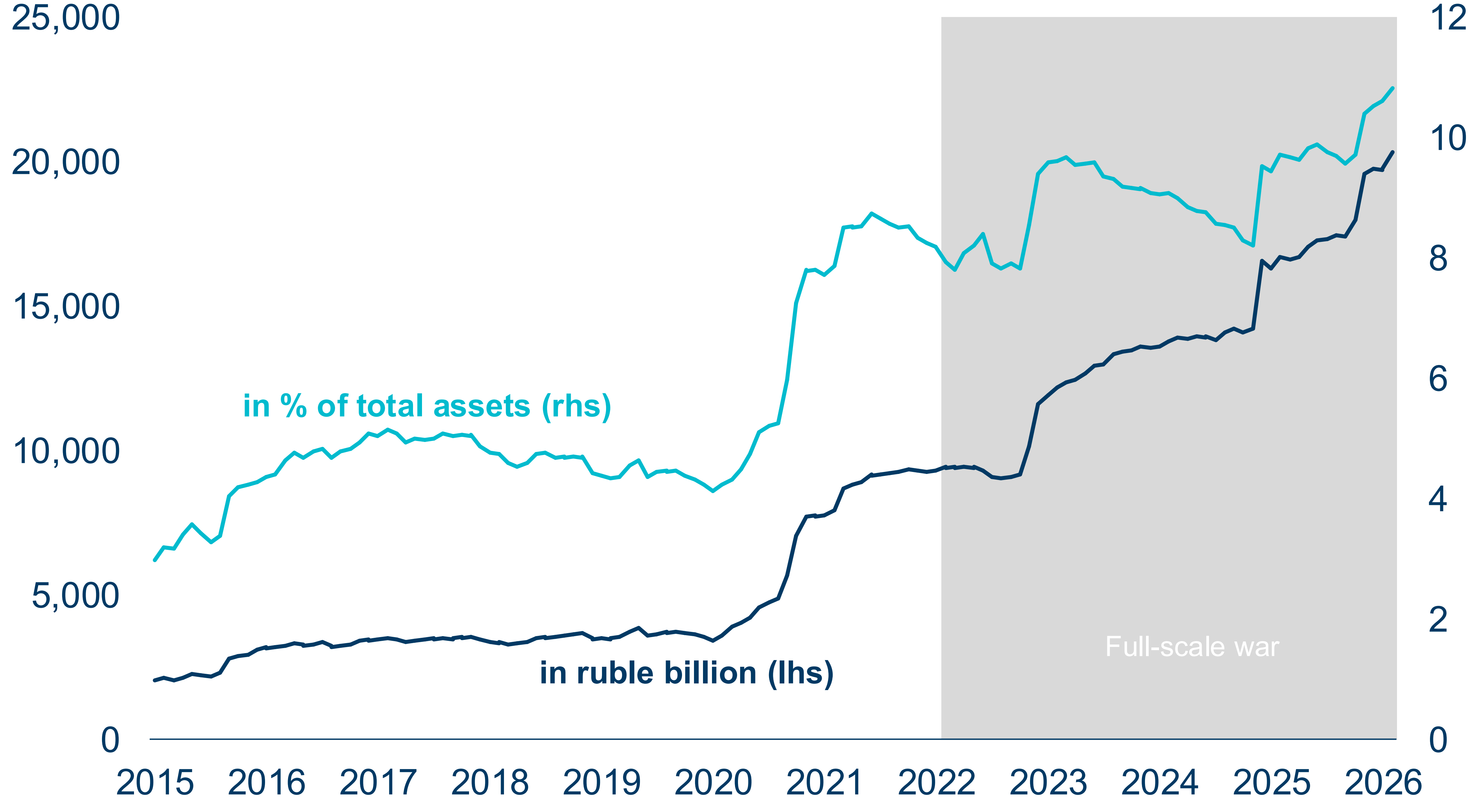
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2 trillion rubles (or 66%) since January 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

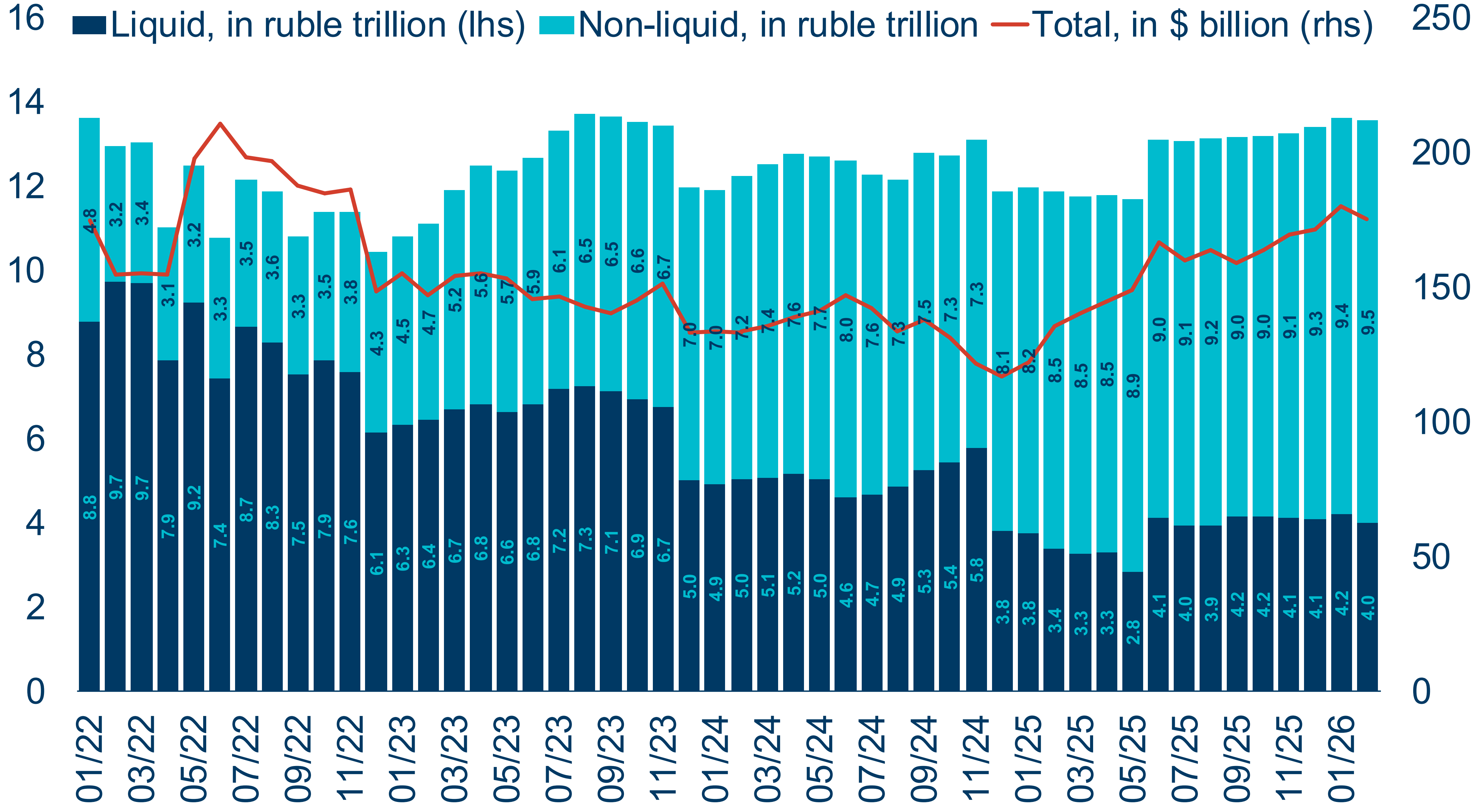


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

MinFin largely avoids tapping NWF as liquid reserves run low.

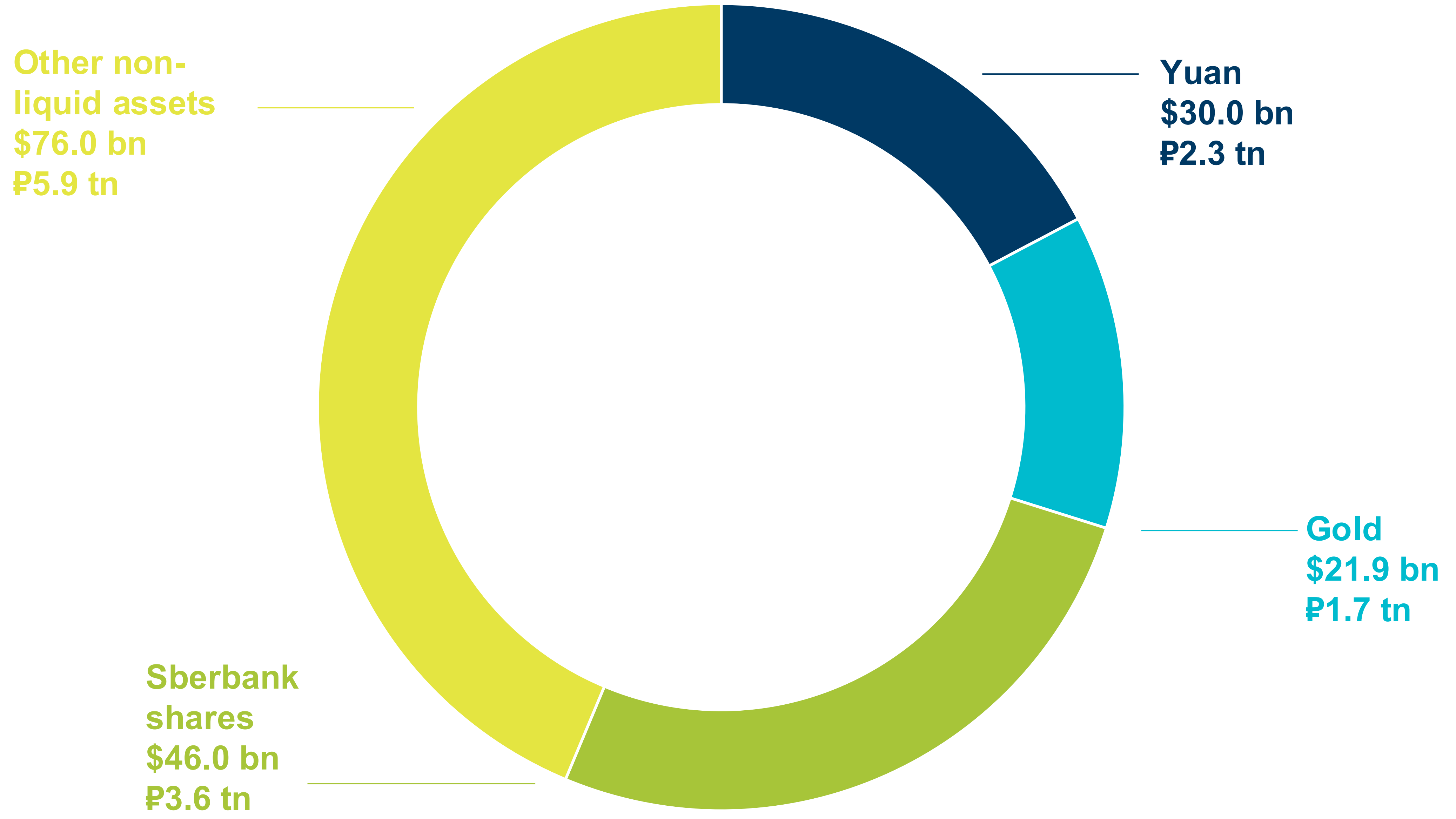
- Total assets of the National Welfare Fund stood at 13.5 trillion rubles ($175.3 billion, 5.8% of GDP) in Feb. 2026.
- Liquid assets have declined by 55% since early-2022 and only account for 30% of the total (vs. 75% in Feb. 2022).
- The minor decrease in liquid assets is due to the sale of gold and Chinese yuan, executed in relatively small volumes.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of March 1, 2026*

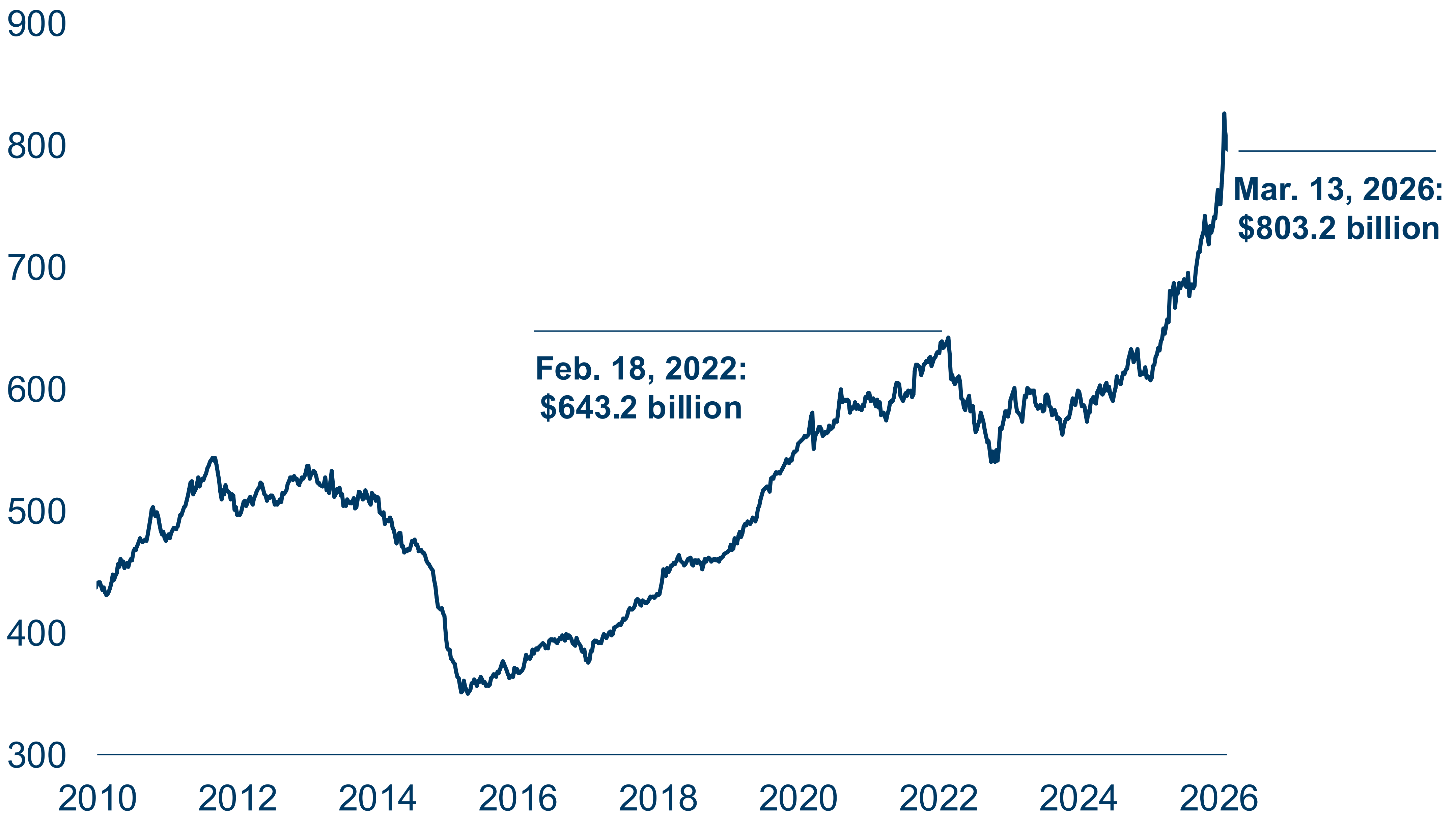


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

Reserves decline as gold prices fall and some assets are sold.

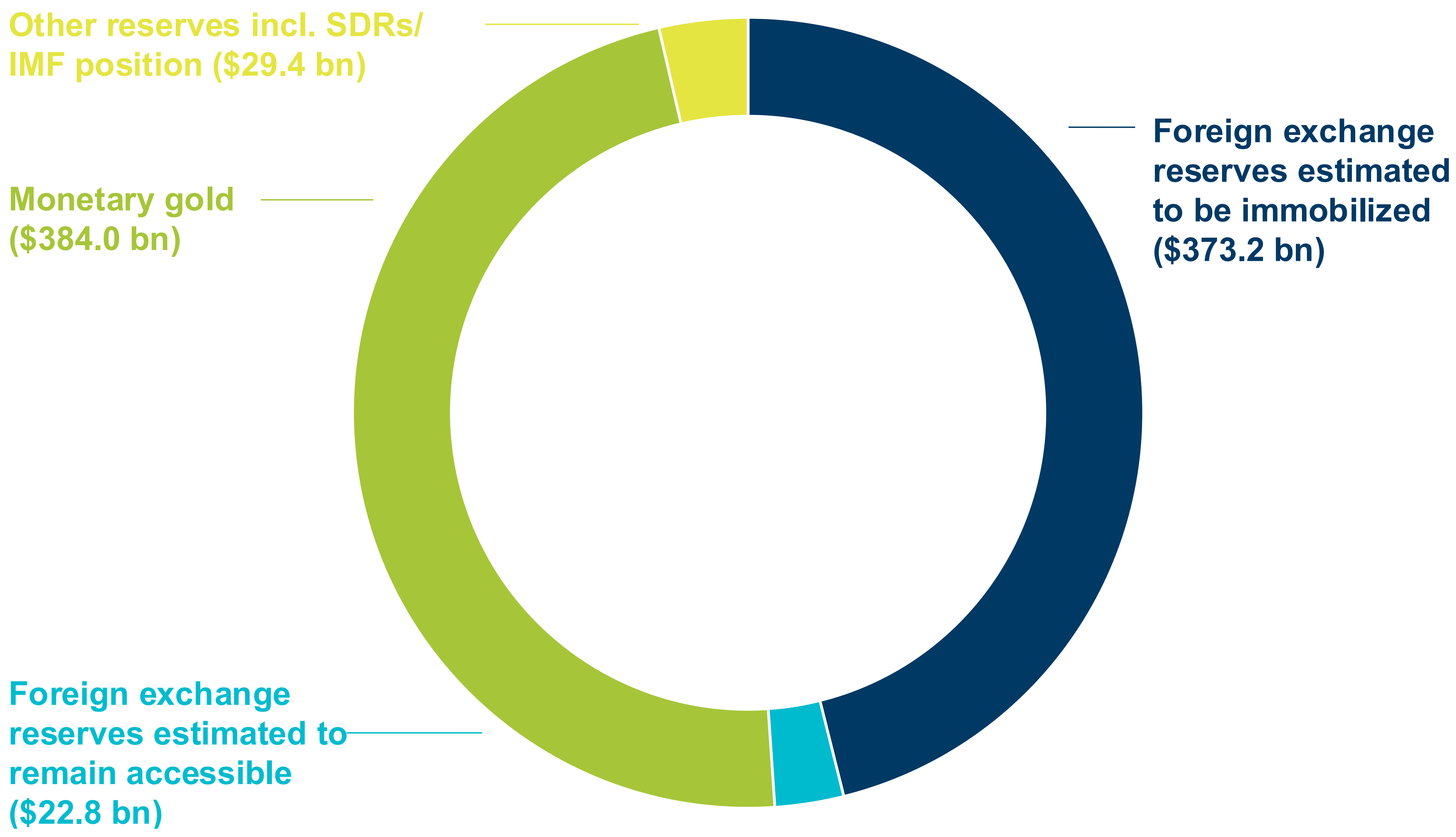
- Russia's total international reserves stand at $803 billion vs. $643 billion before the start of the full-scale war.
- The decline is primarily driven by falling global gold prices—following months of increases due to rising prices.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves had a value of ~$373 billion at end-Feb.

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

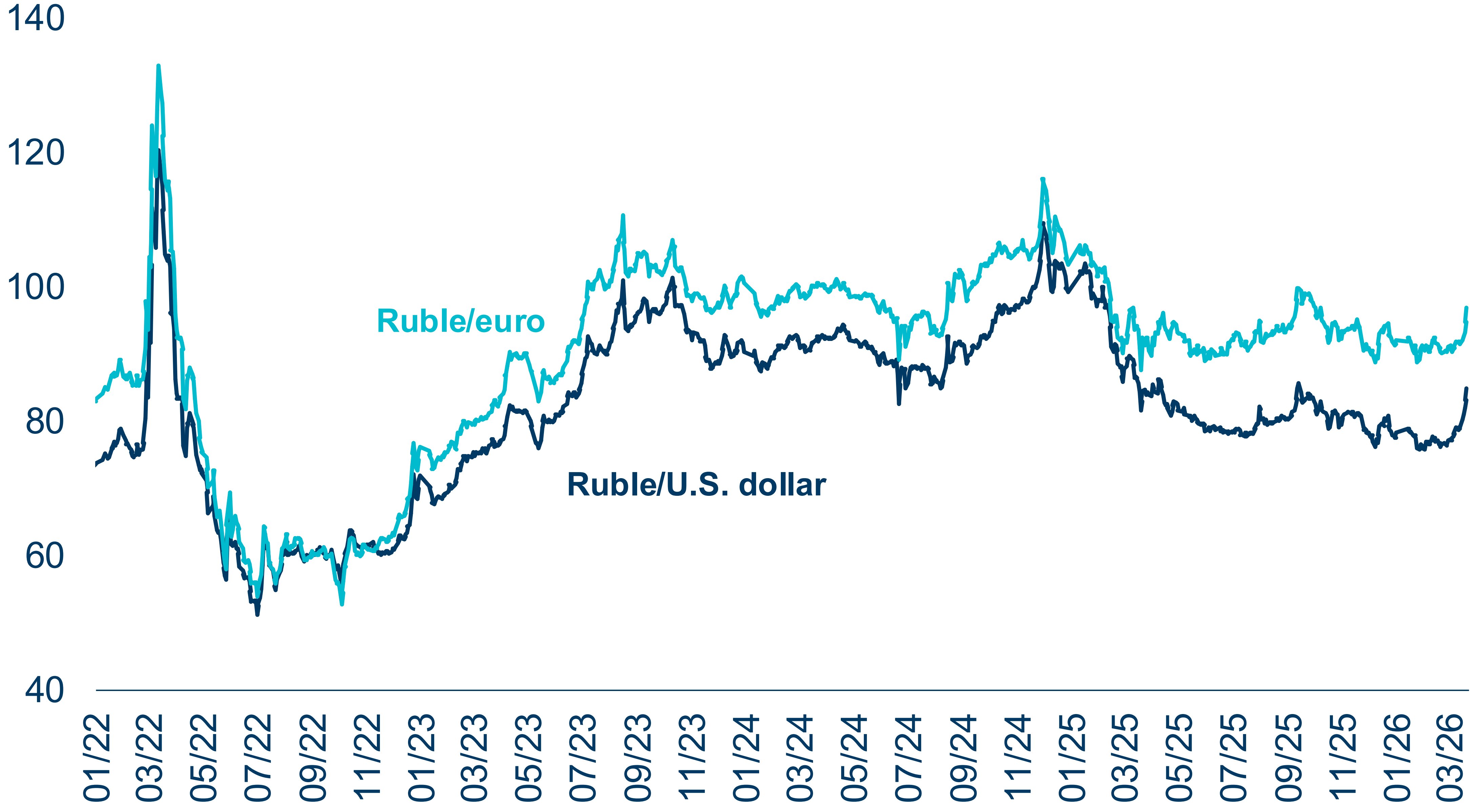


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

CBR cuts rate again as inflation edges down and ruble weakens.

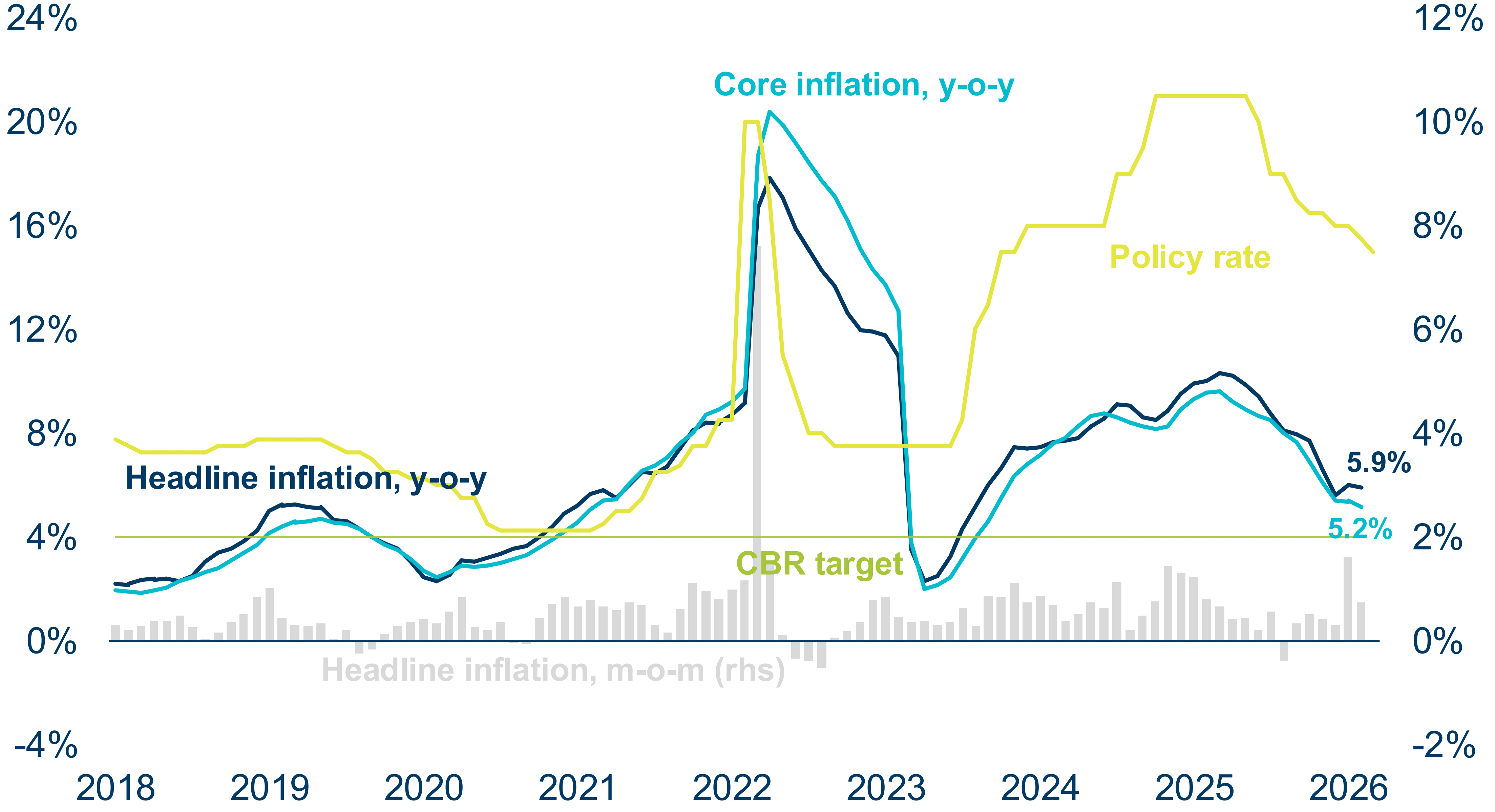
- The ruble has weakened rapidly in recent days, reaching approximately 85 per U.S. dollar and 97 per euro.
- Headline inflation ticked down from 6.0% in Jan. to 5.9% in Feb. and m-o-m inflation drops after VAT hikes.
- The CBR cut the key rate for the second consecutive month (to 15.0%) amid growing fears of a recession.

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



Source: Bank of Russia, KSE Institute

Inflation and CBR policy rate, in %

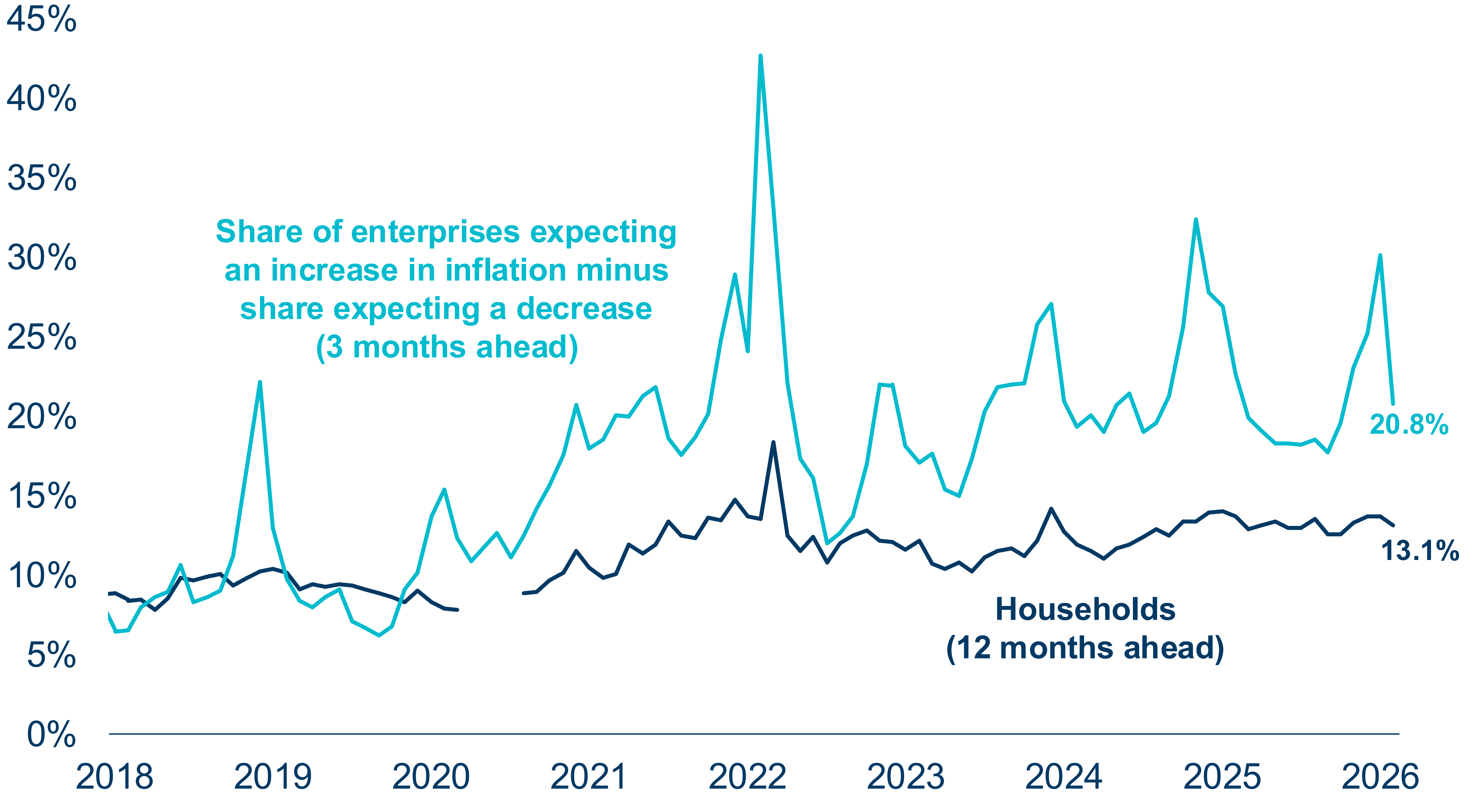


Source: Bank of Russia, KSE Institute

Inflation expectations moderate but remain elevated.

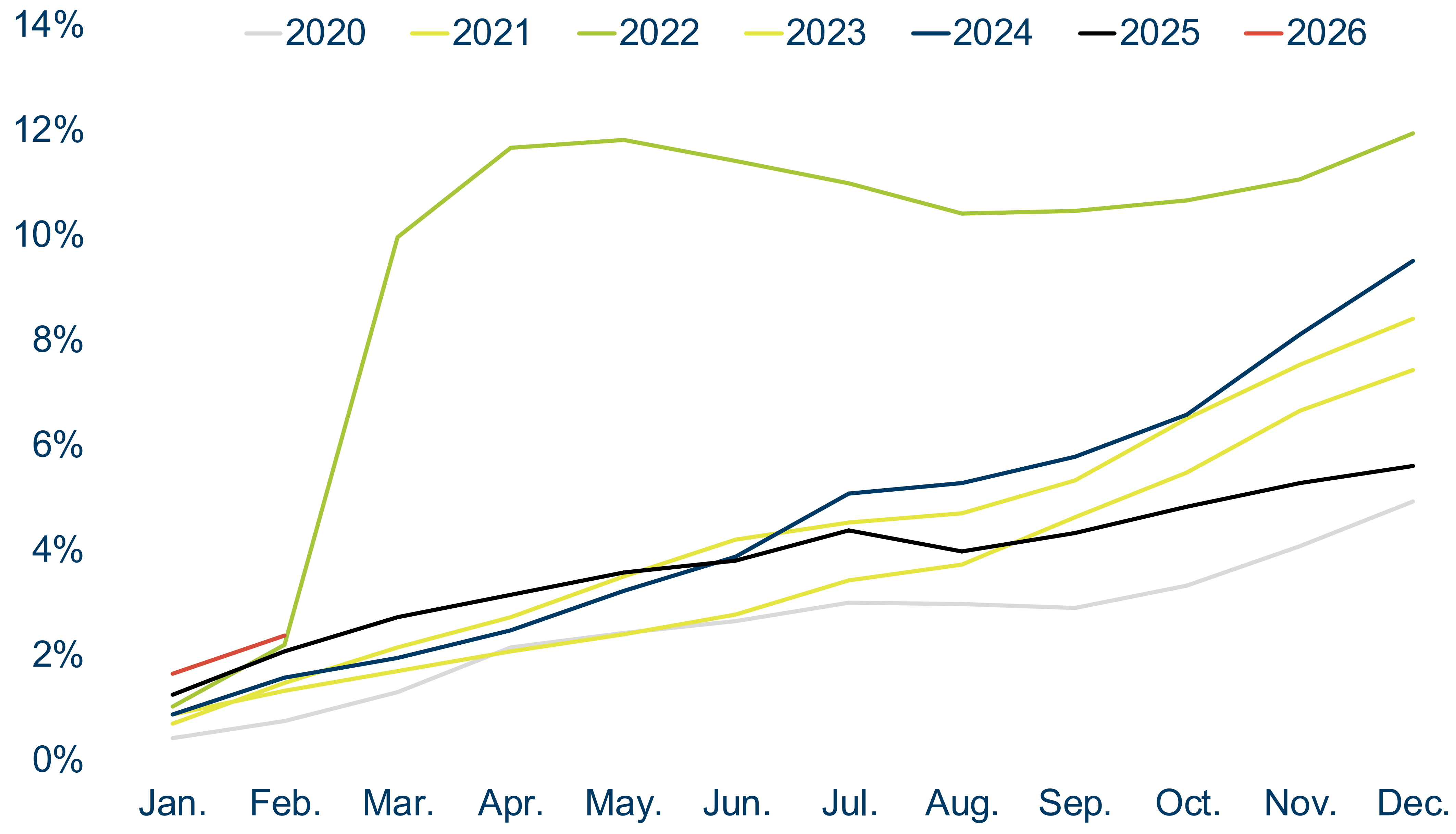
- Household and business expectations retreated to 13.1% and 20.8%, respectively, yet stay above official rates.
- Cumulative inflation since the beginning of the year remains elevated, staying above previous' years levels.
- The Jan. increase in inflation due to VAT and other fee hikes will impact inflation levels for the rest of the year.

Inflation expectations, %



Source: Bank of Russia, KSE Institute

Cumulative inflation, in %



Source: Bank of Russia, KSE Institute

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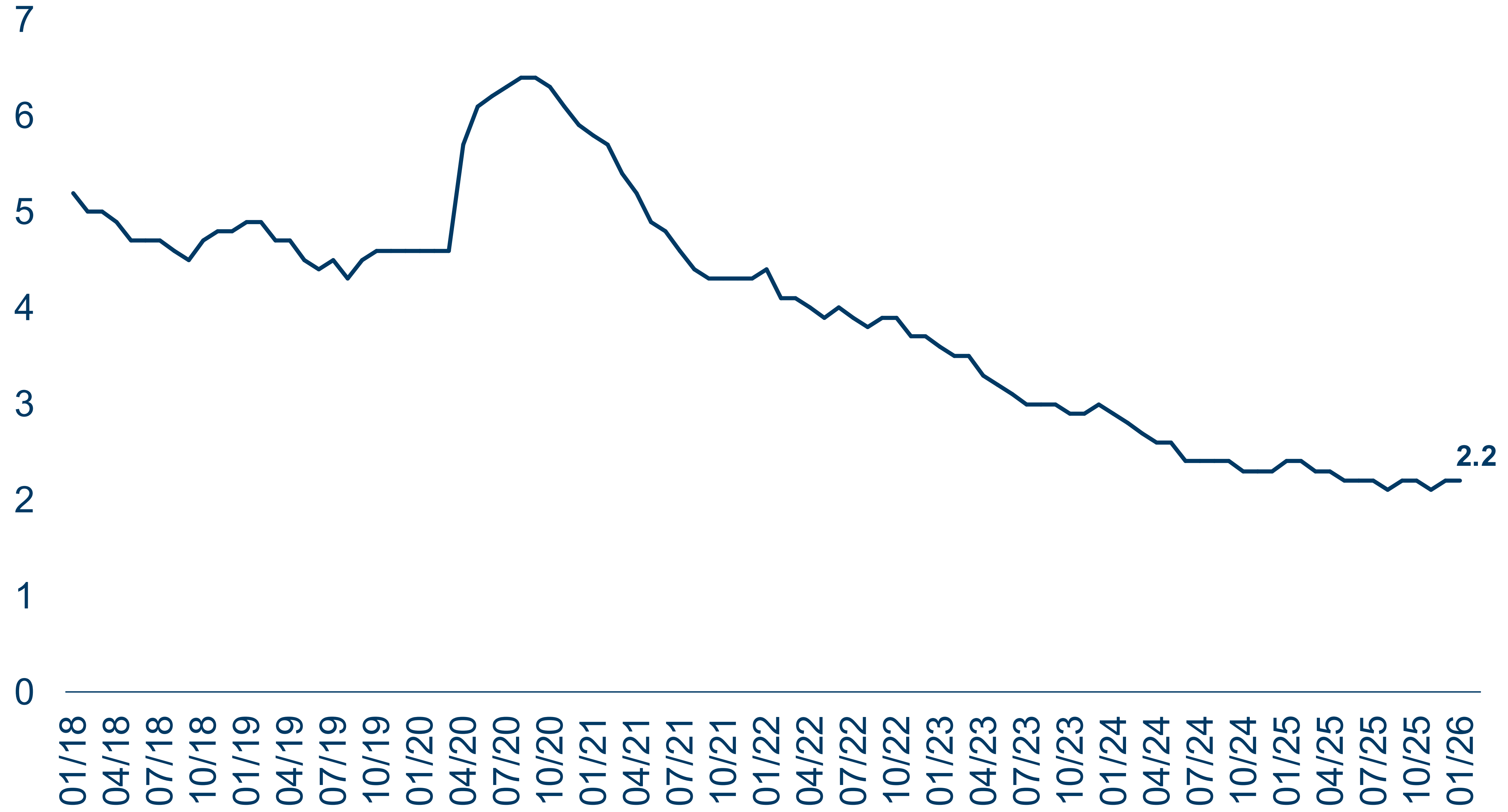
Severe labor shortages continue to cap economic growth potential.

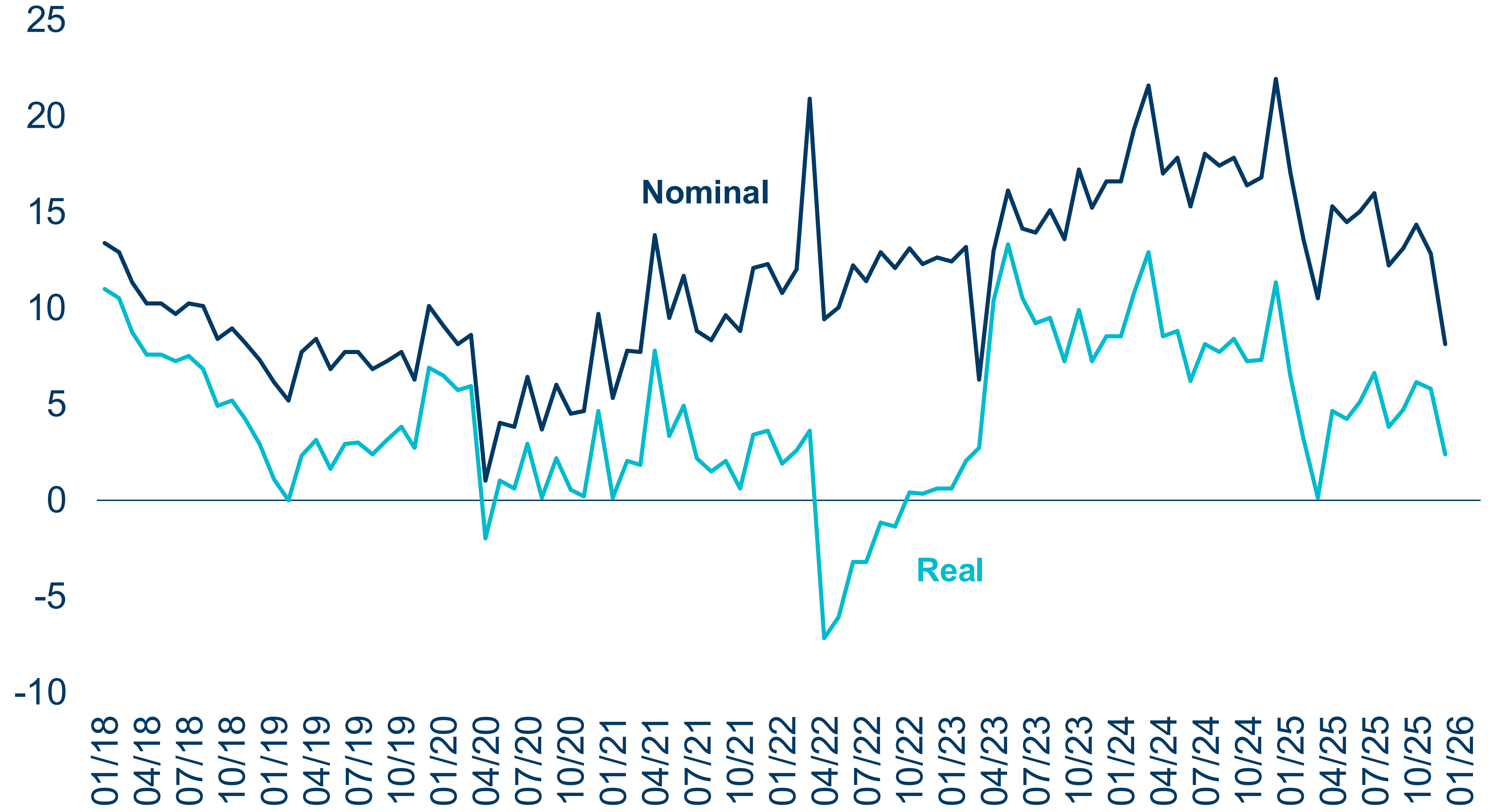
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- Nominal wage growth fell to 8.1% y-o-y in Dec., ending an extended period of double-digit numbers.
- This slowdown shows the economy has likely exhausted its financial capacity to inflate wages.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

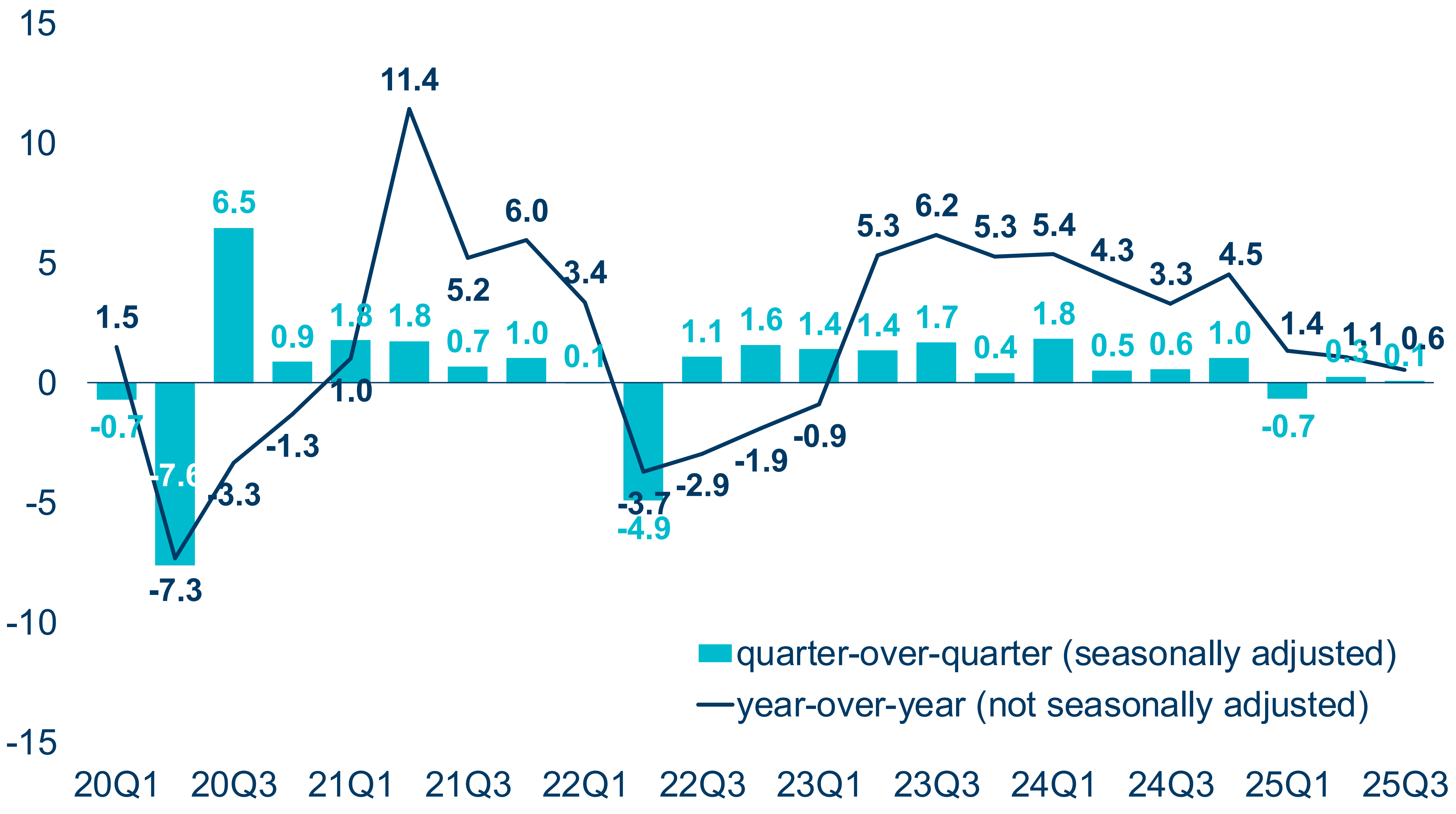


Source: Rosstat

2025 GDP growth hits a five-year low with a bleak outlook for 2026-27.

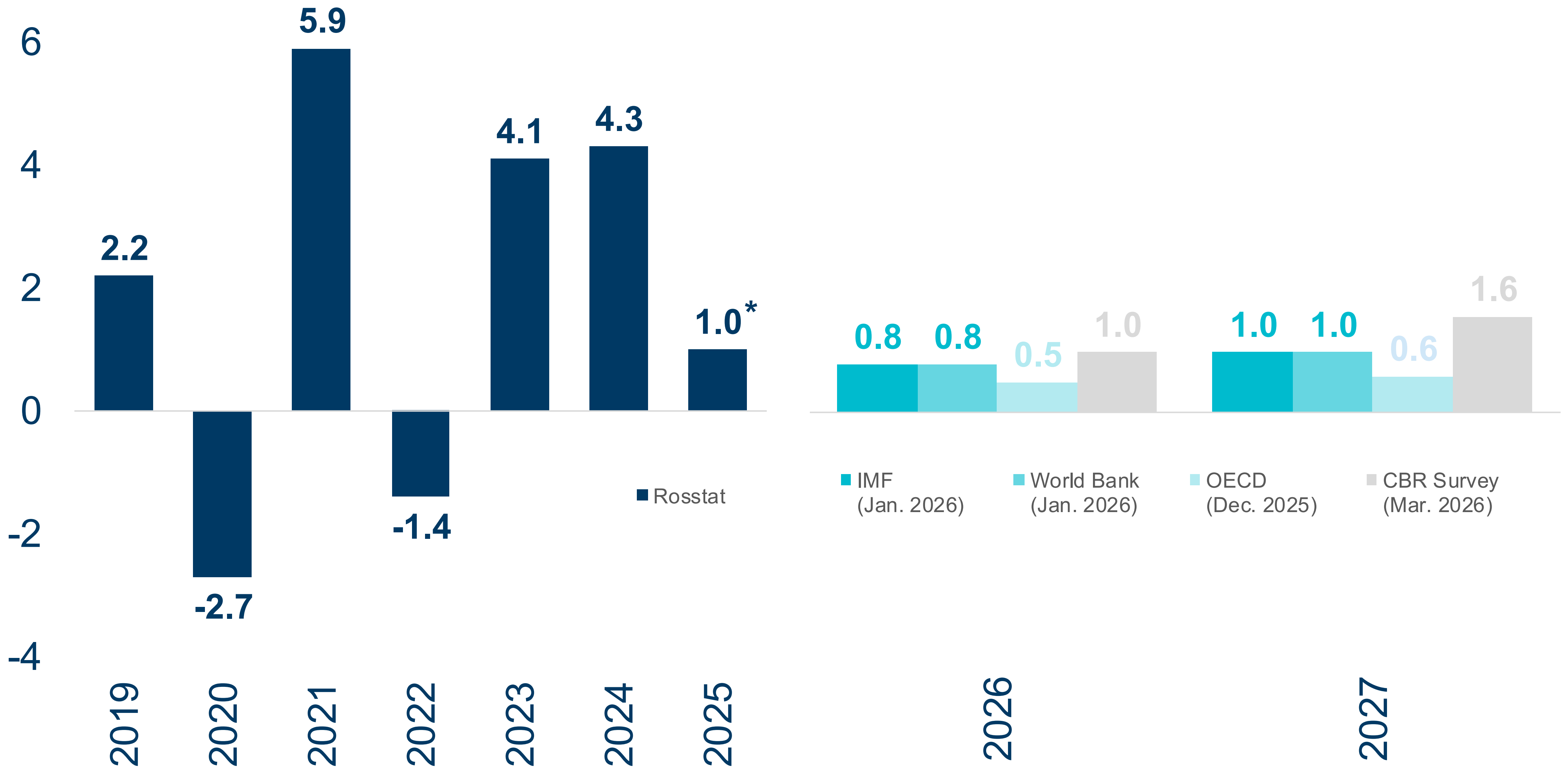
- Rosstat's preliminary estimate for real GDP growth in 2025 is 1%, marking a four-year low.
- Quarter-over-quarter figures illustrate that the economy essentially stalled in Q3 2025 (+0.1%).
- International institutions are expecting ~1% growth for 2026-27, while the CBR has yet to revise.

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
Preliminary assessment

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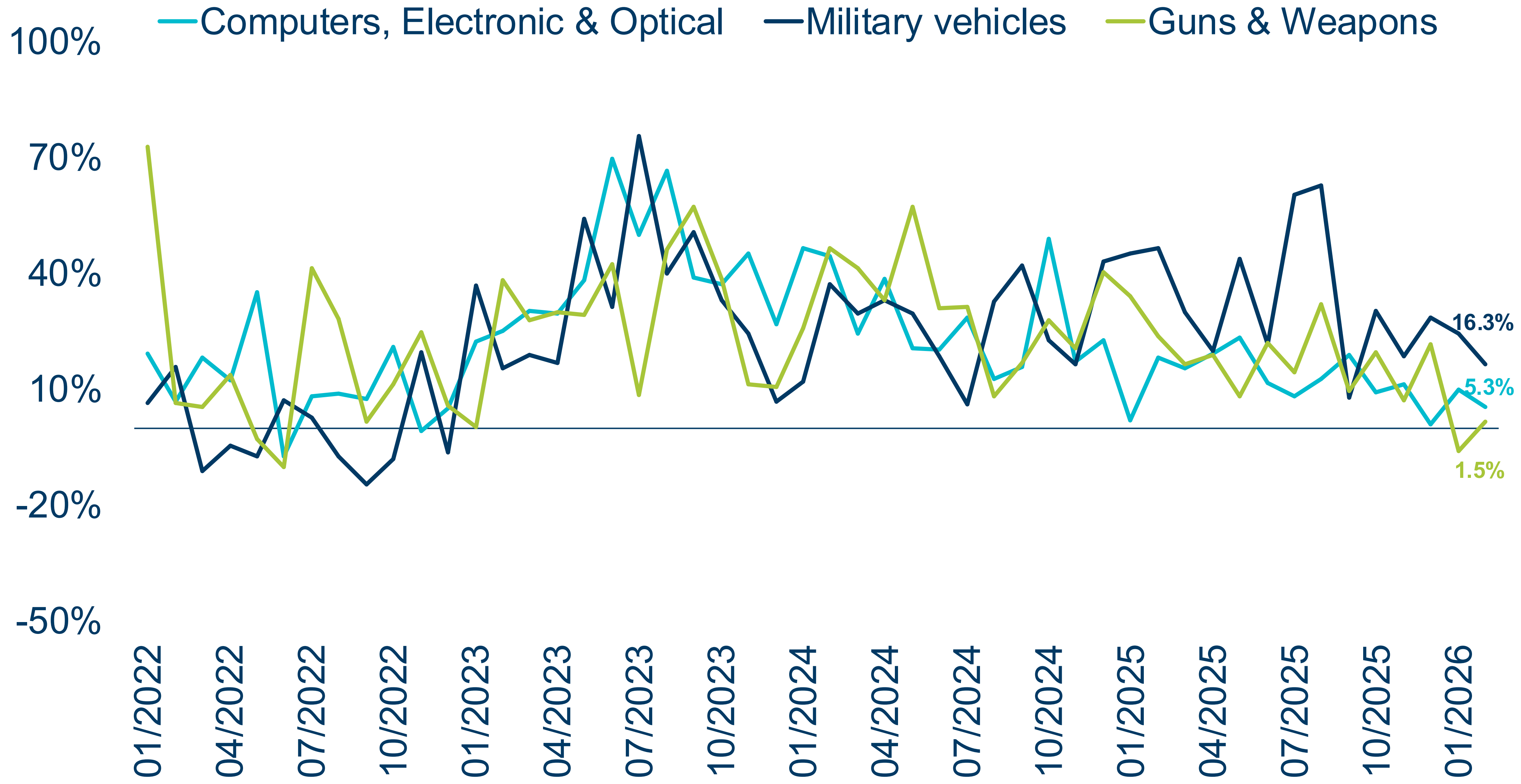
Military production remains robust, while civilian sectors contract.

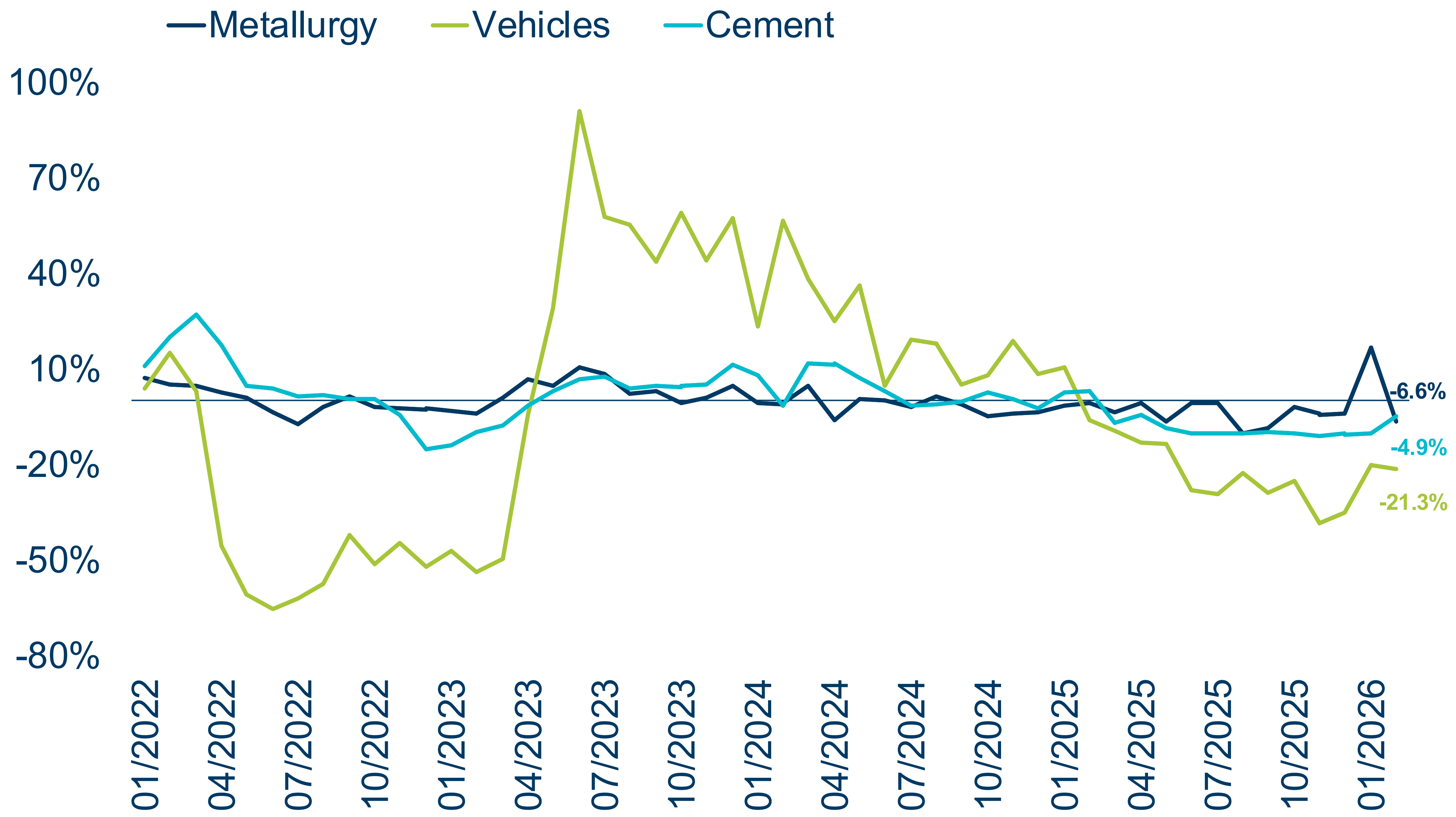
- Russia's industrial sector is propped up by defense spending, with military production maintaining robust growth.
- Meanwhile, the civilian economy is contracting rapidly, driven by steep drops in transport, construction, and metallurgy.
- This divergence exposes a deeply unbalanced economy, effectively driven entirely by defense/war-related orders.

Production of certain types of military products, y-o-y, in %



Source: Rosstat, KSE Institute

Production of certain types of non-military products, y-o-y, in %



Source: Rosstat, KSE Institute

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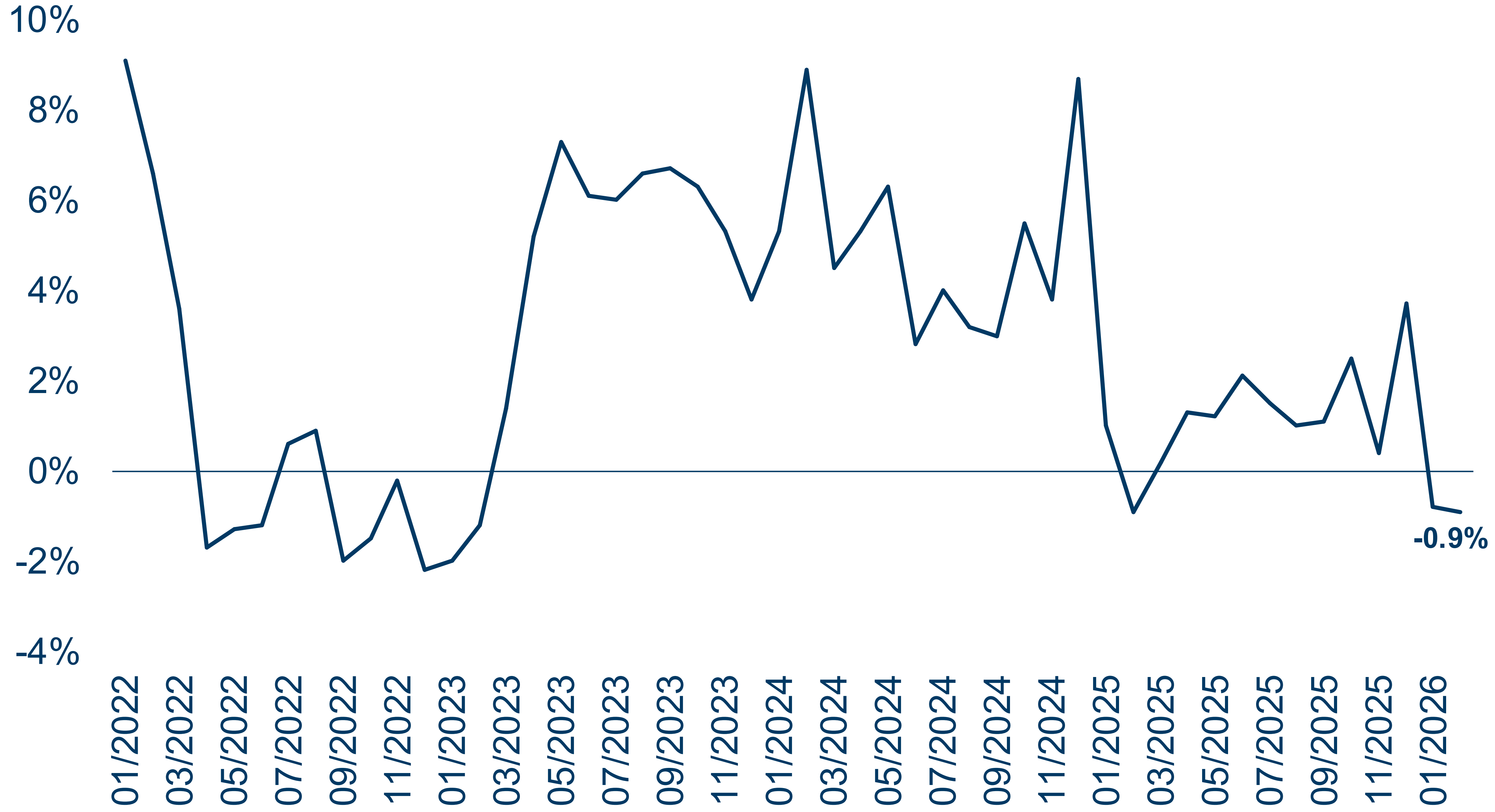
Industrial production turns negative as the economy hits its limits.

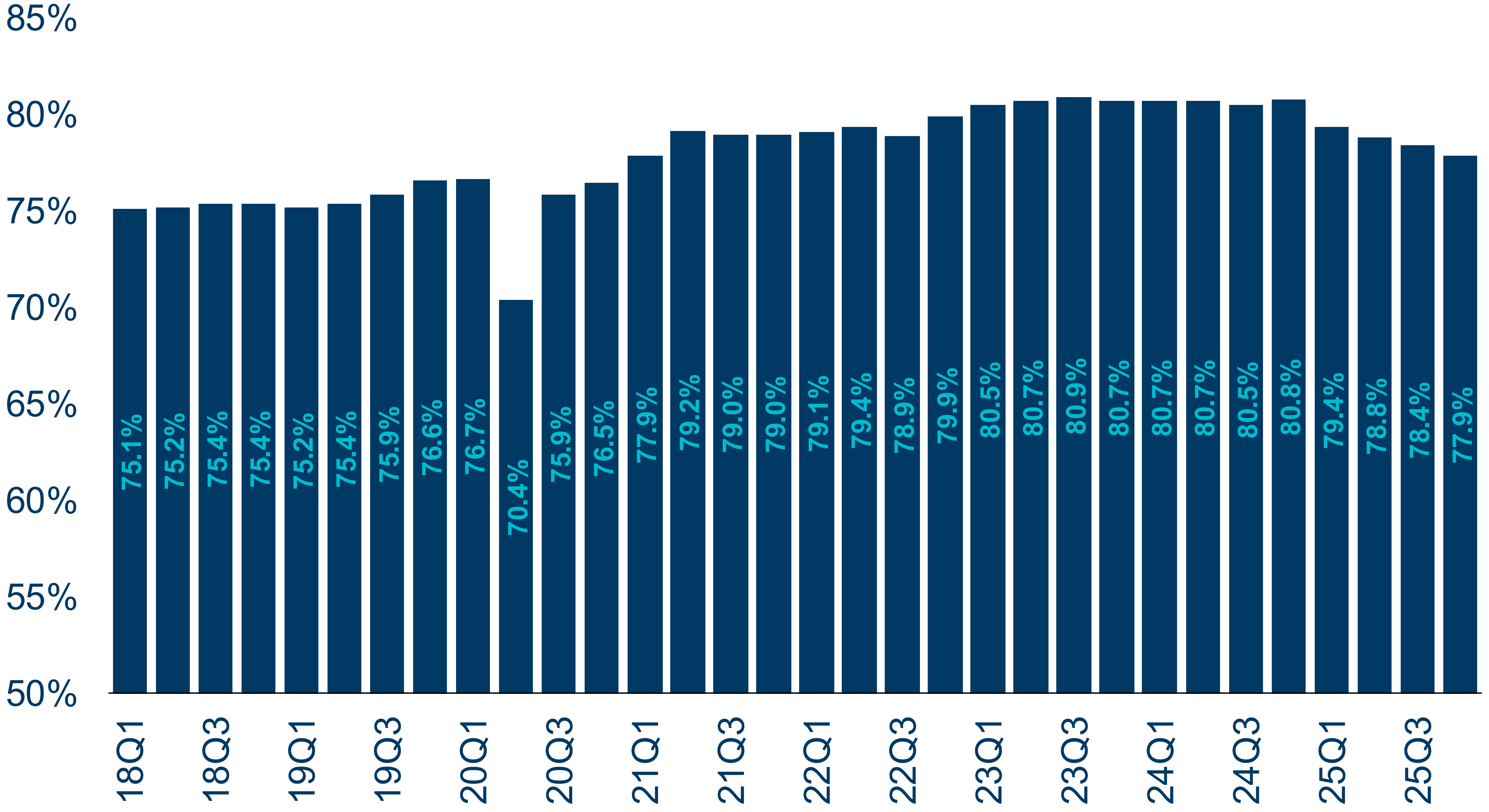
- Industrial production fell by 0.9% y-o-y in Feb. 2026, marking the second month of decline in a row.
- At the same time, capacity utilization is falling from its historic highs, dropping to 77.9% in Q4 2025.
- Together, this indicates that the initial wartime manufacturing boom has exhausted its potential.

Industrial production growth, y-o-y, in %



Source: Bank of Russia, KSE Institute

Capacity utilization, in %



Source: Bank of Russia, KSE Institute

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