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KSE Institute Russia Chartbook

Windfall from Iran War in Line with Expectations; Lasting Peace Deal Would Exacerbate Structural Challenges

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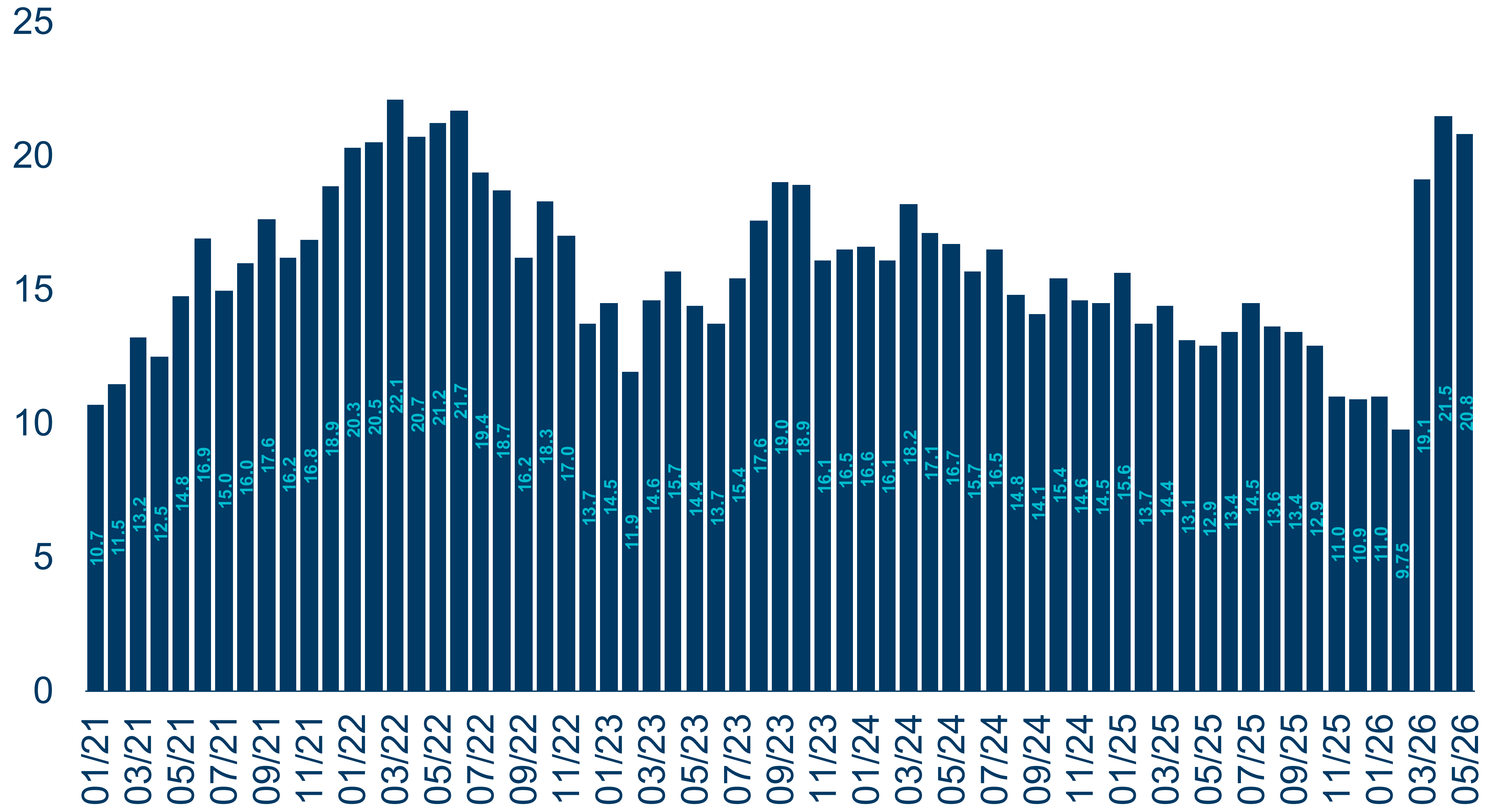
Executive Summary

1. **The Iran war's impact on Russia continues to materialize.** Oil export earnings increased from $10.4 billion per month in Jan.-Feb. (avg.) to $20.5 billion in Mar.-May. Oil and gas budget revenues reacted with a one-month lag and increased from $6.2 billion per month in Q1 (avg.) to $13.6 billion in Apr.-May. However, export earnings have weakened moderately in May vs. Apr. as Russian export prices declined from $95.2/bbl in April to $88.7/bbl and Ukrainian drone strikes on refineries shifted exports from petroleum products to crude oil. The effect on budget revenues is weakened by increasing subsidies to keep domestic fuel prices under control and the stronger ruble, which weighs on the local currency value of extraction taxes. Conversely, Russia has benefitted from lower discounts on its oil vs. global prices, partially driven by OFAC sanctions waivers, which have reduced the risk of purchasing Russian oil. A stable peace deal in the Middle East would create significant challenges for Russia due to lower global prices and a potential reinstatement of US sanctions.
2. **Budget deficit grows marginally but structural problems remain.** The cumulative deficit in Jan.-May reached 6.0 trillion rubles—up from (revised) 5.8 trillion in Jan.-Apr.—on the back of expenditure restraint. Spending in May was 30% lower than in Apr. and 25% lower than the Jan.-Apr. average. Nevertheless, it is still up 17% vs. Jan.-May 2025, while oil and gas revenues fell 30% and non-oil and gas revenues grew only 12% y-o-y. Furthermore, O&G revenues are reduced by the damper mechanism which keeps domestic fuel prices low and cost 204 billion rubles in May. With energy prices expected to normalize if the US-Iran agreement holds and the Strait of Hormuz is fully reopened, the economy stalling, and expenditures unlikely to remain on their May level going forward, budget problems will grow. Russia has been relying on its Treasury accounts to finance the deficit, while domestic borrowing has been moderate—albeit markedly higher than last year—and NWF liquid assets have not been used to a significant degree. This will likely not be a sustainable model.
3. **Conflicts between the government and the central bank are poised to grow.** A recent law passed by the State Duma allows the government to increase expenditures and state debt beyond the limits established by the budget law, with the expanding deficit to be covered by increased domestic borrowing. The CBR has repeatedly warned that this unconstrained fiscal expansion acts as a severe pro-inflationary factor. Consequently, the CBR's recent decision to narrow its rate cut step to a mere 25 bps provides no meaningful relief to the civilian economy, where businesses continue to struggle with high borrowing costs that severely constrain growth. This dynamic creates a vicious cycle for the government itself: elevated interest rates make financing the soaring state debt exceedingly expensive.

Oil revenues dip slightly in May amid moderating export prices.

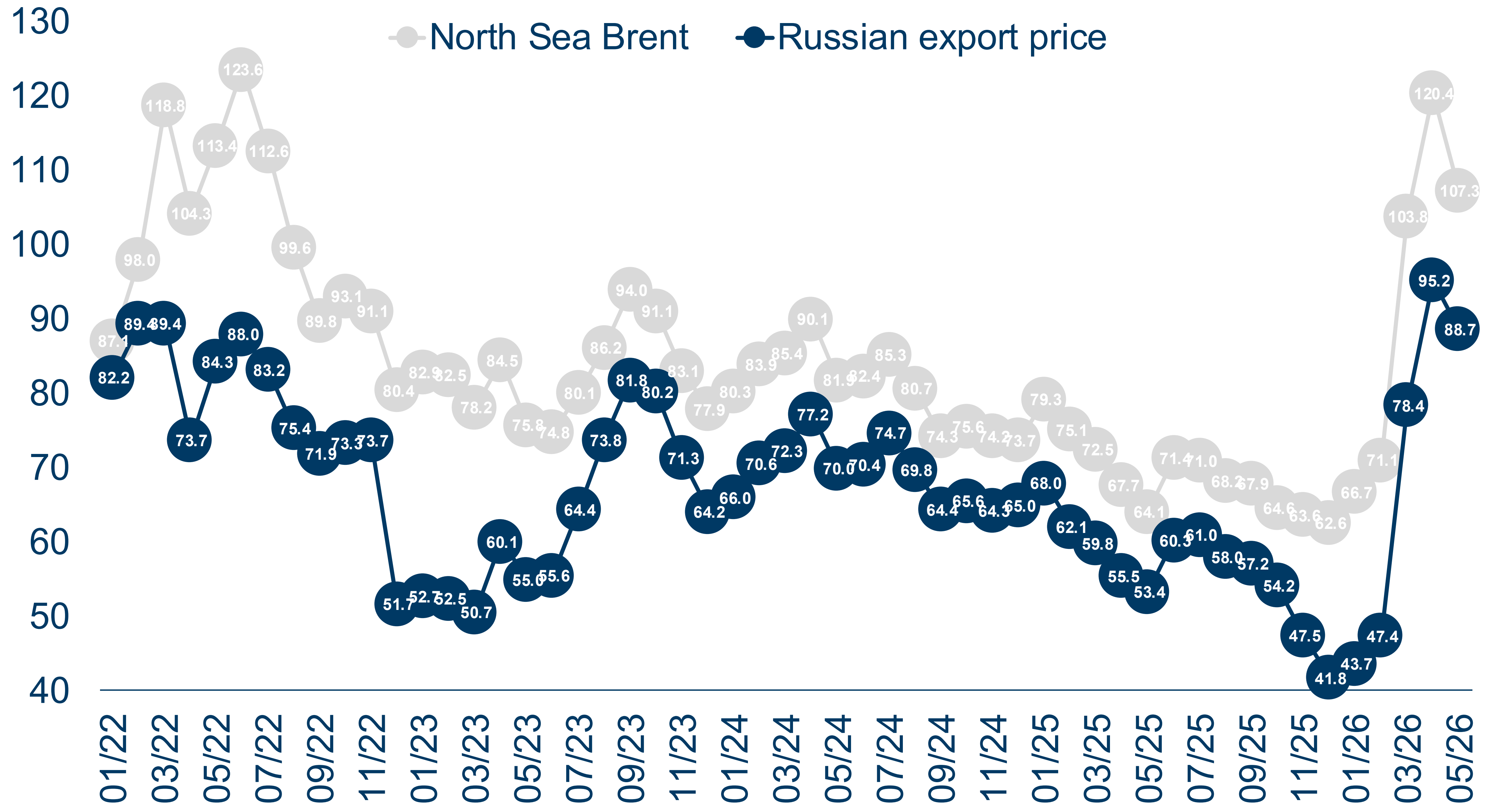
- Oil export earnings decreased slightly in May to $20.8 billion—down from (revised) $21.5 billion in April.
- Russian export prices also declined, dropping to $88.7/barrel in May from a peak of $95.2/barrel in April.
- Meanwhile, the discount on Russian oil narrowed to approximately $18.6/barrel, vs. $25.1/barrel in April.

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

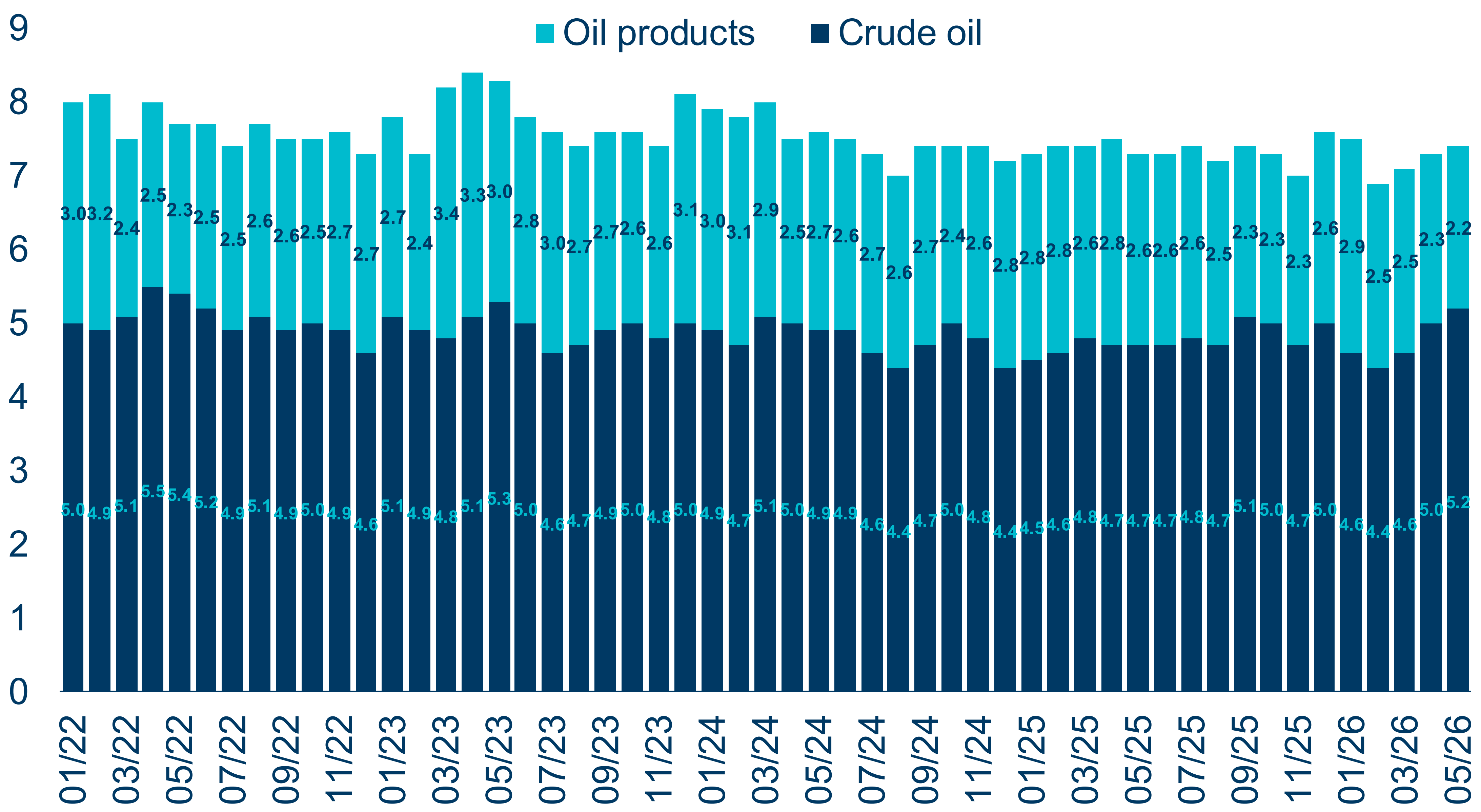


Source: International Energy Agency, KSE Institute

Export volumes hold steady; US waiver expiration would be a challenge.

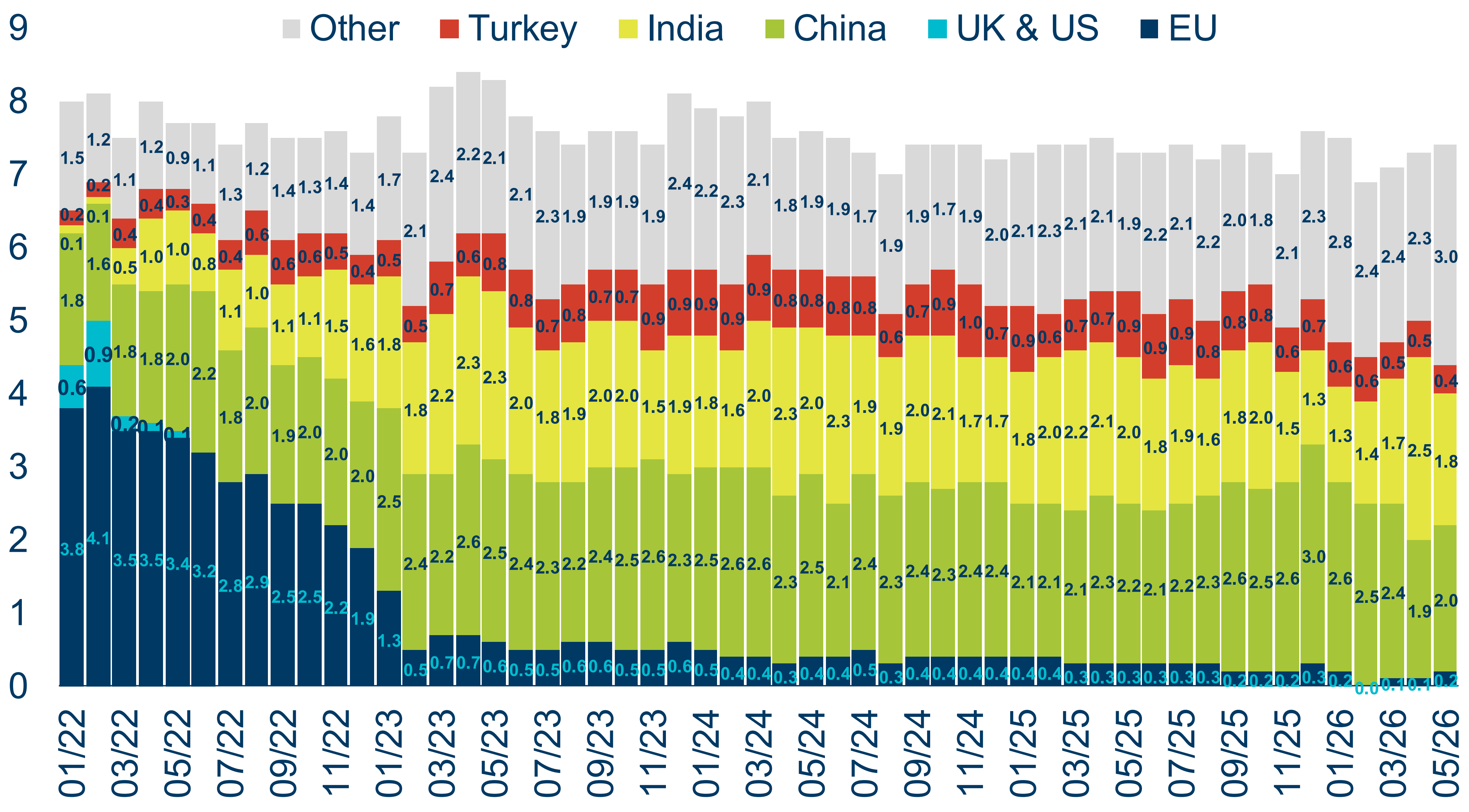
- Total Russian oil export volumes held at ~7.4 mb/d, as rising crude oil (5.2 mb/d) offset falling oil products (2.2 mb/d).
- Updated figures reveal India leveraging the US waiver, with imports reaching 2.5 mb/d in Apr. and 1.8 mb/d in May.
- If the waiver is not renewed, challenges for Russia will rise amid market normalization and renewed Indian reluctance.

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

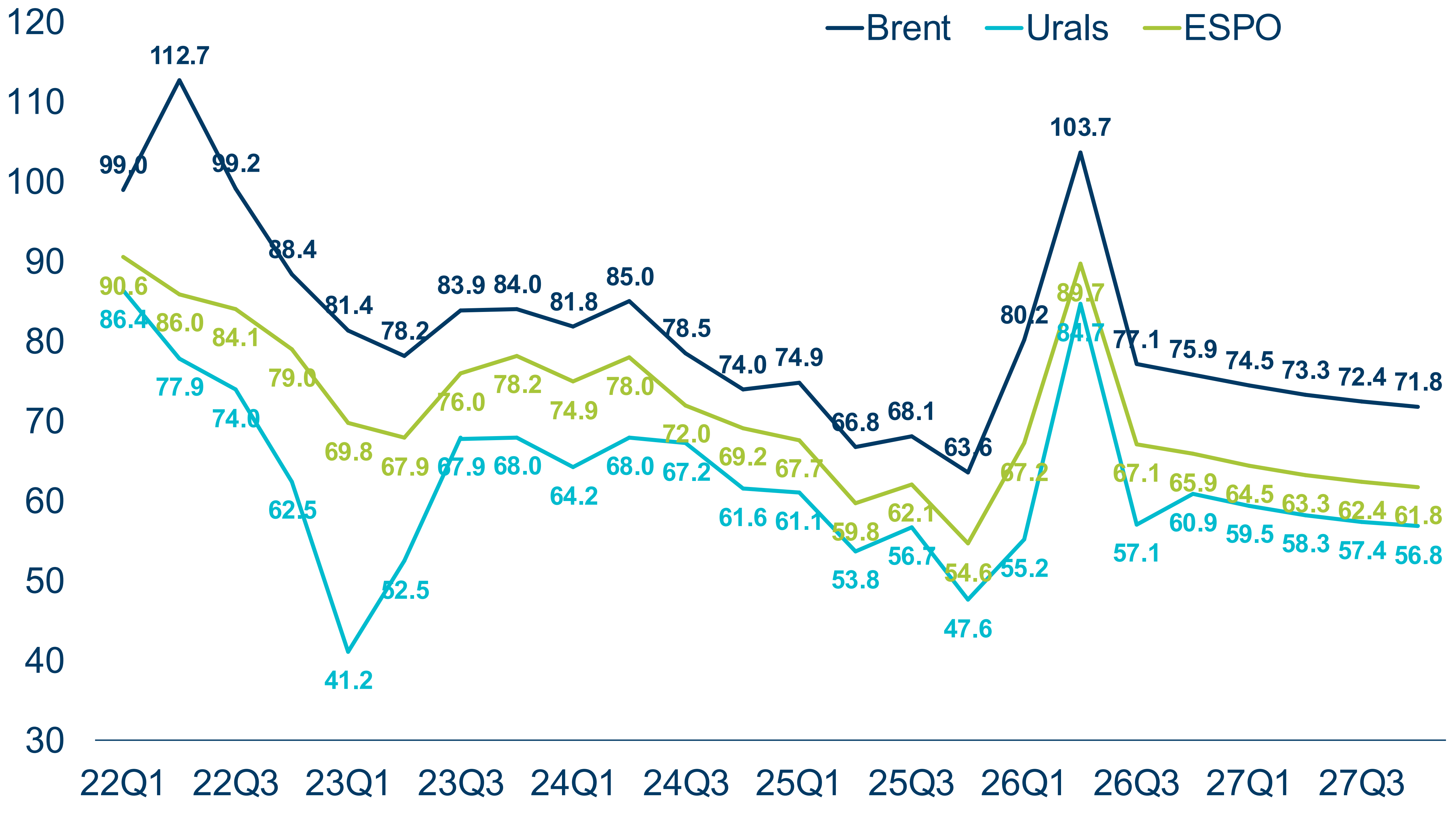


Source: International Energy Agency, KSE Institute

Russian oil prices set to drop markedly after US-Iran peace deal.

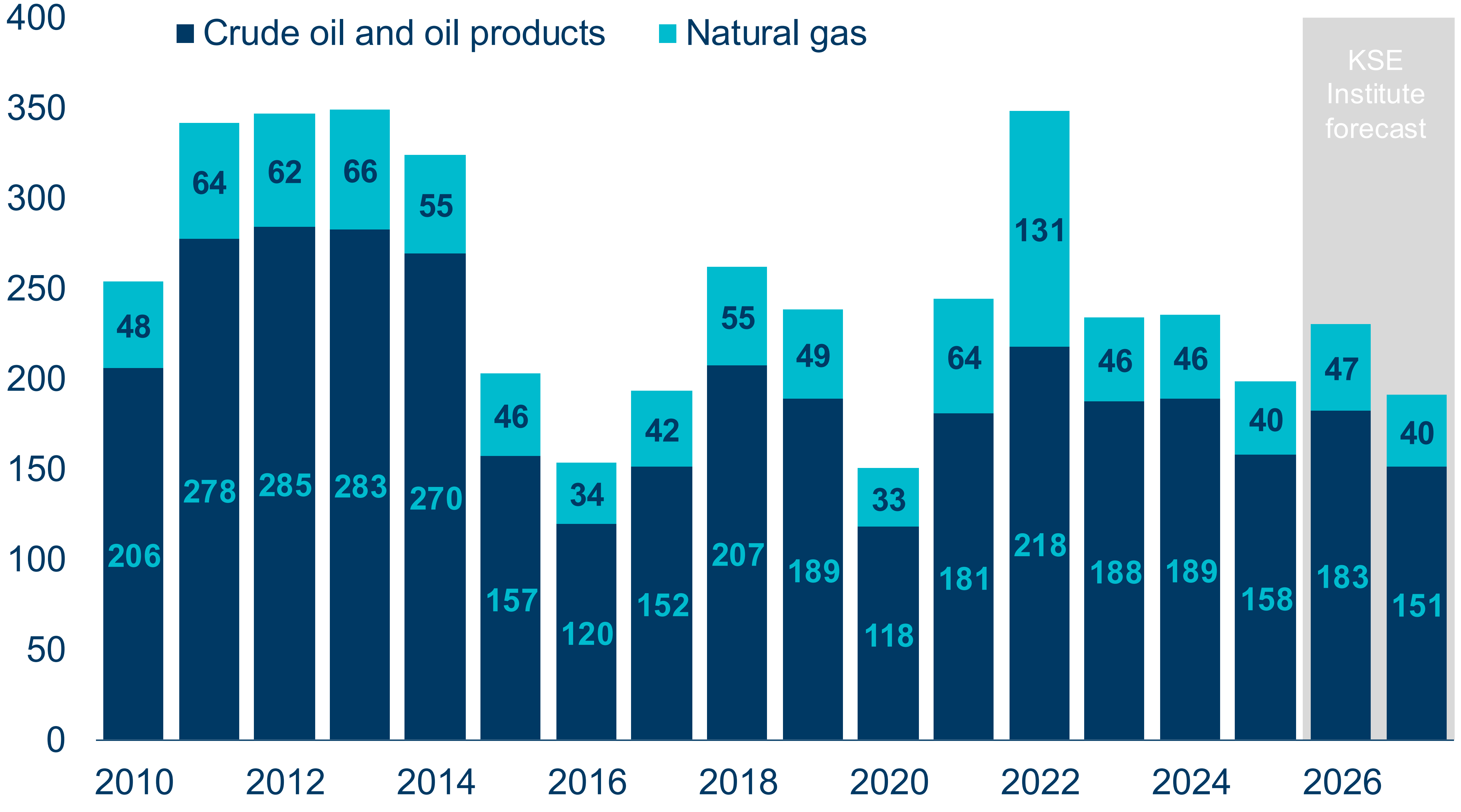
- Global oil prices have fallen markedly after the peace deal, and Brent is expected to move towards $70/bbl over 2026-27.
- Even without a renewed widening of the discount due to US sanctions, Urals would trade below the budget price of ~$60/bbl.
- Altogether, oil exports are projected to increase to $183 billion in 2026 (+$25 billion vs. 2025) before declining to $151 billion.

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



Source: Bank of Russia, KSE Institute
Note: Based on market expectations for Brent and assumption of stable discounts.

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

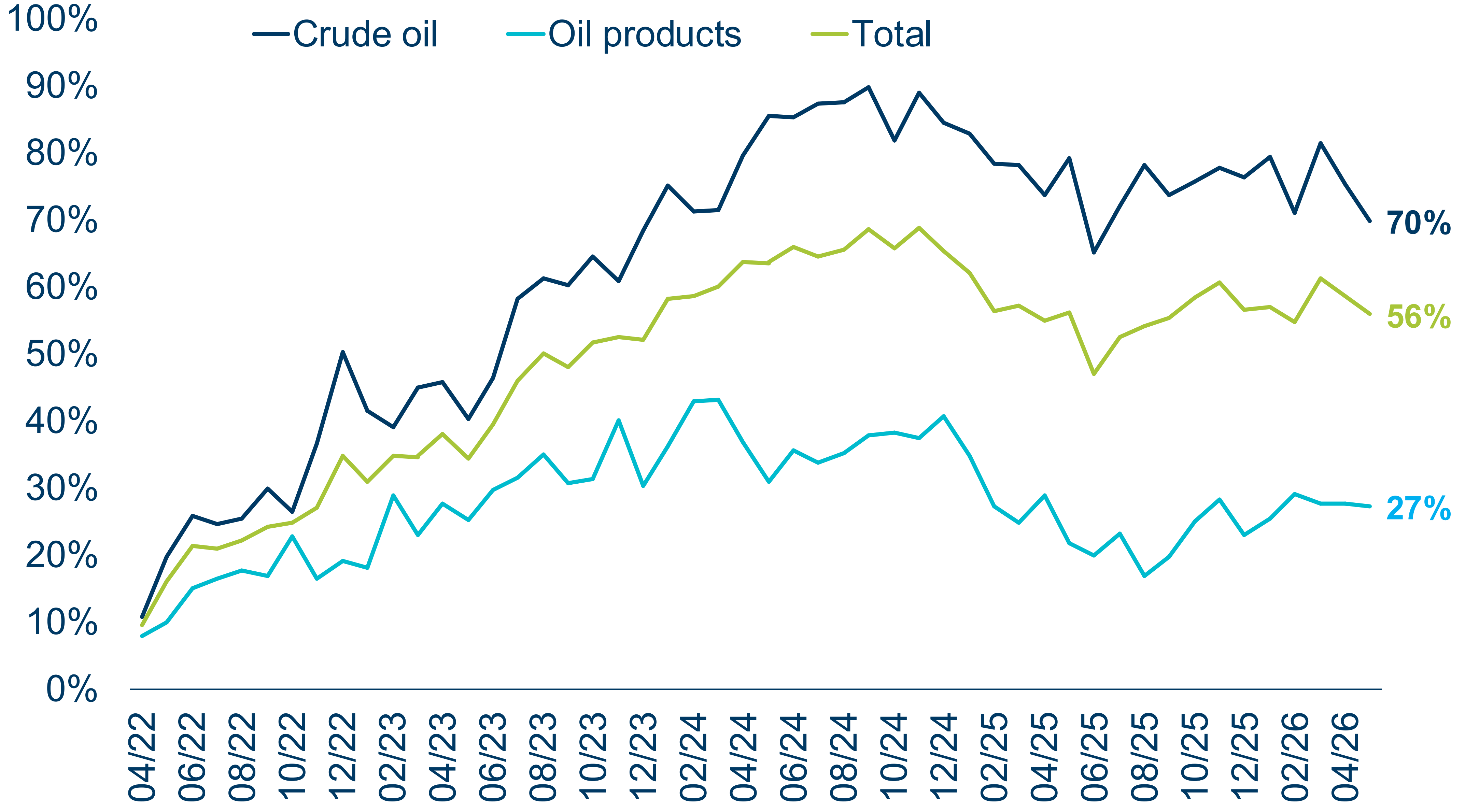


Source: Bank of Russia, KSE Institute

Shadow fleet share remains high despite large number of sanctioned ships.

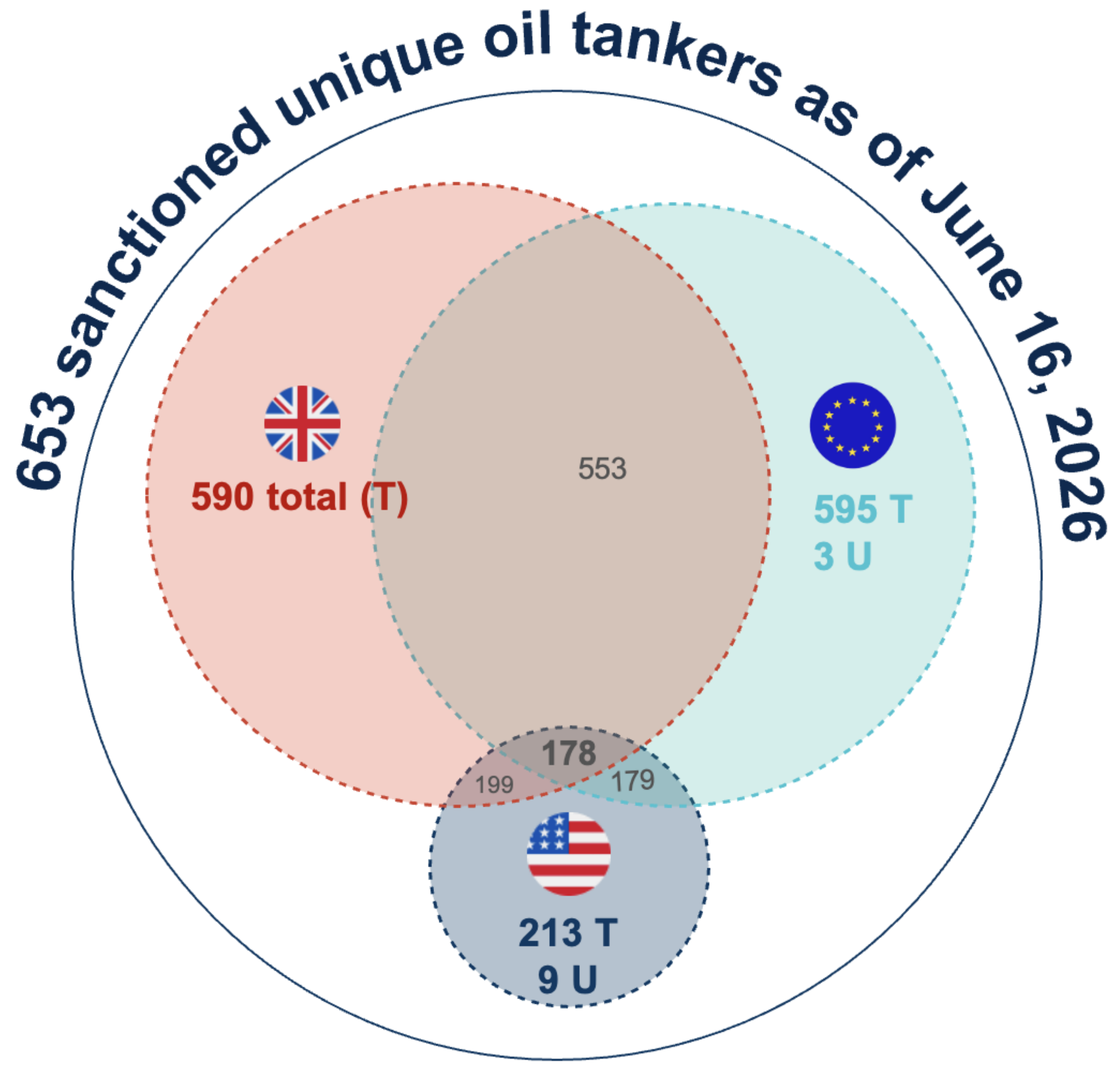
- The shadow fleet's share in Russian oil exports decreased slightly to 56% in May compared to 59% in Mar.
- The share of crude oil dropped to 70% in May (from 75% in Apr.), while oil products remain unchanged at 27%.
- Despite the considerable impact of vessel designations, stepped-up targeting of the ecosystem is needed.

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction



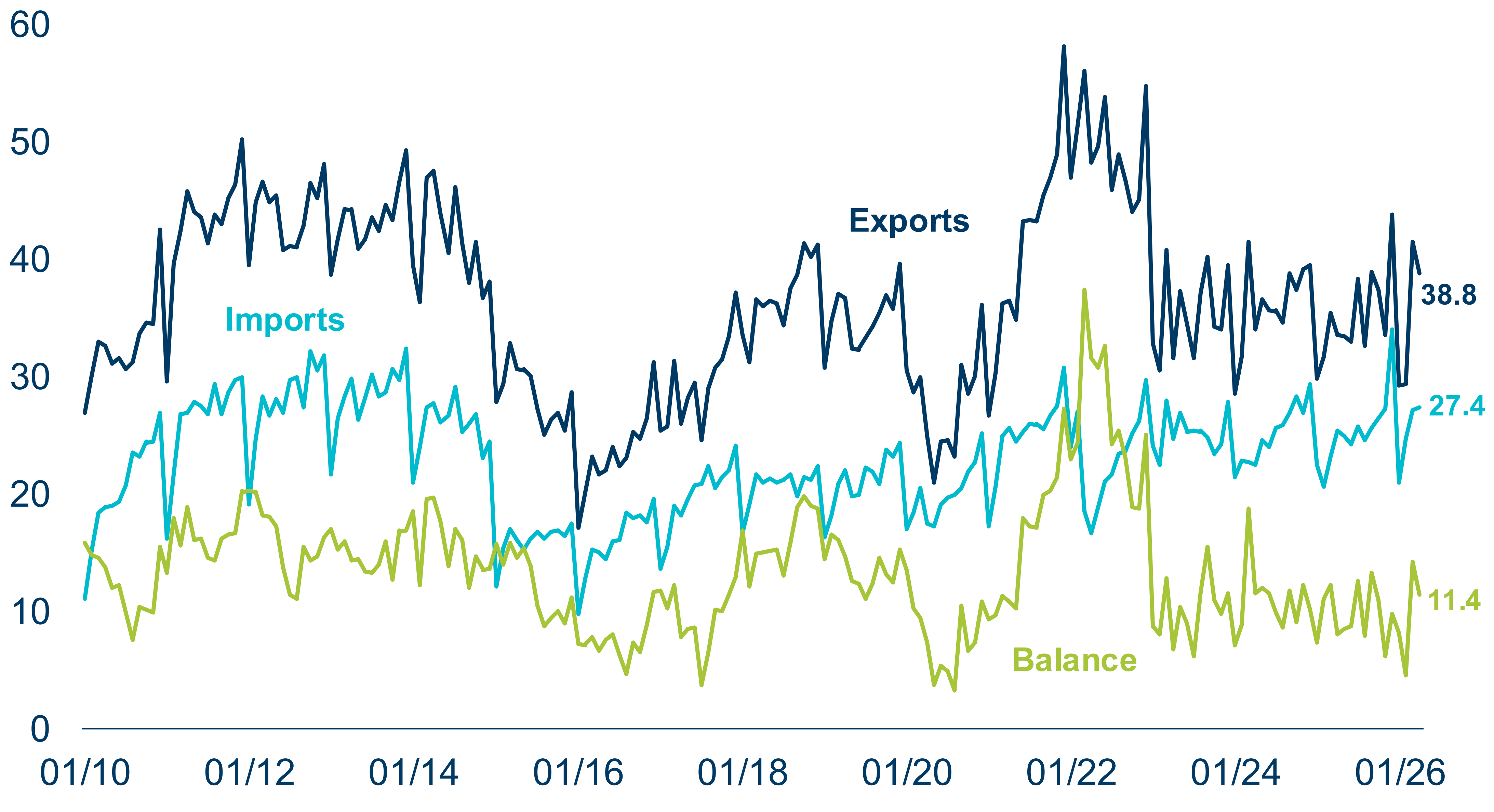
Source: European Commission, OFAC, OFSI, KSE Institute.

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 balance narrows slightly, while current account improved in Q1.

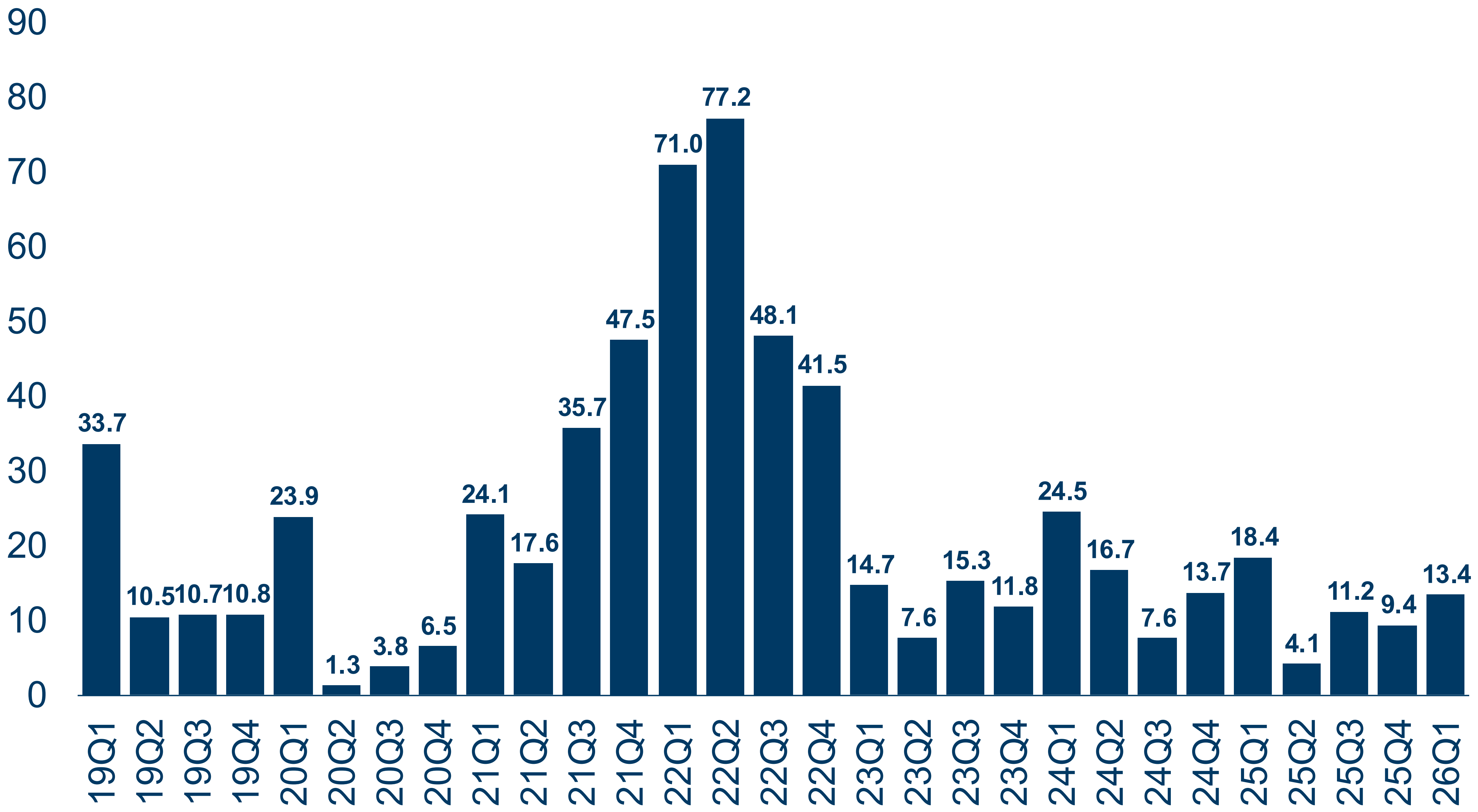
- Exports fell slightly in Apr. while imports remained unchanged, narrowing the trade balance to $11.4 billion.
- Export earnings contracted due to weakness in non-oil exports, offsetting a $2.4 billion m-o-m rise in oil revenues.
- The Q1 2026 balance stood at $13.4 billion, growing by 43% q-o-q ($9.4 billion), but dropping 27% y-o-y ($18.4 billion).

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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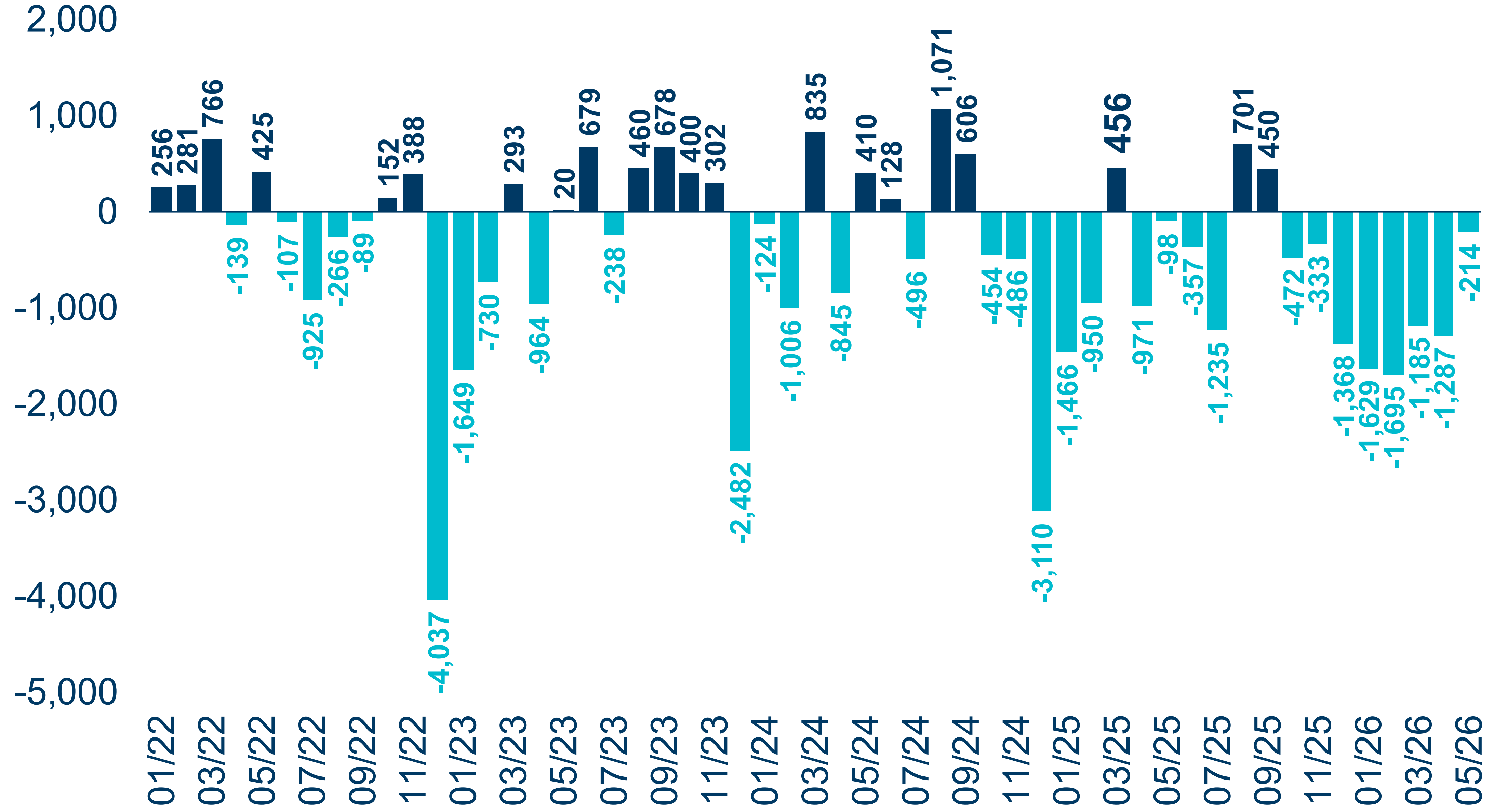
Lower spending limits May deficit; cumulative gap continues to break records.

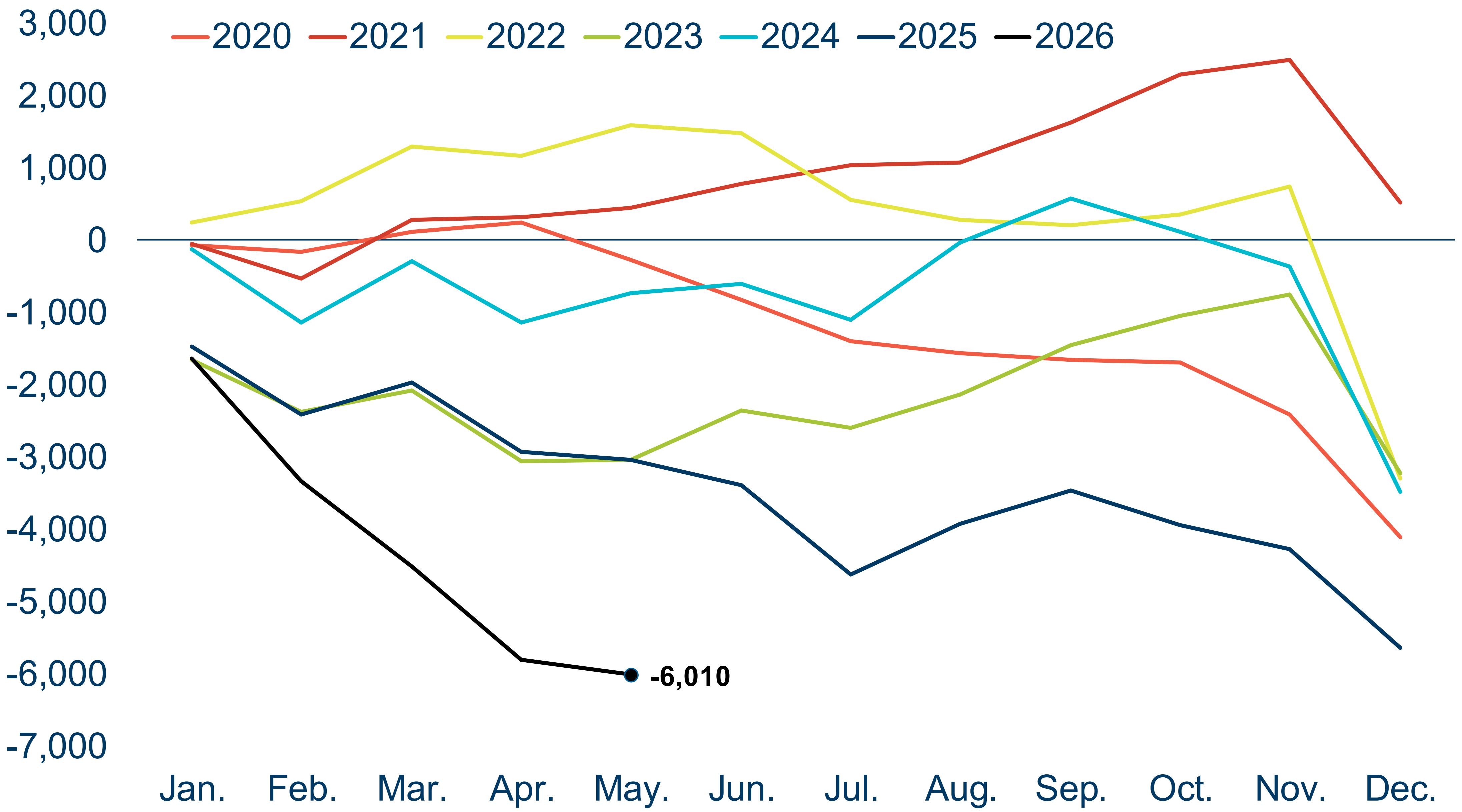
- The cumulative federal budget deficit grew marginally compared to last month, reaching 6.0 trillion rubles in Jan.-May.
- Despite a smaller May shortfall, the cumulative deficit was 98% higher year-over-year and ~60% above the full-year plan.
- The May deficit shrunk primarily due to markedly lower expenditures (-30% vs. Apr., -25% vs. Jan.-Apr. 2026 average).

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

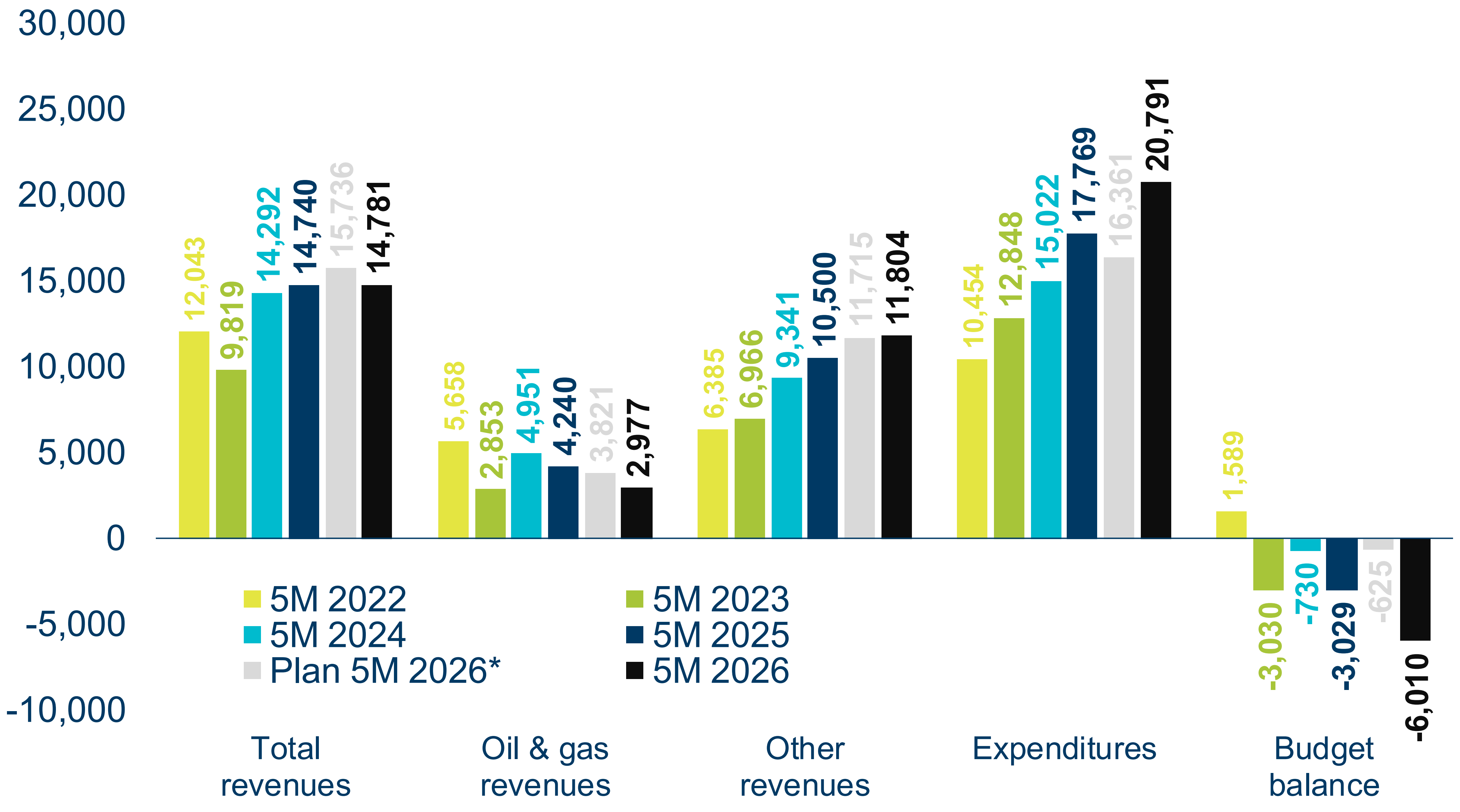


Source: Ministry of Finance, KSE Institute

Energy revenues rise, but are limited by higher subsidies and stronger ruble.

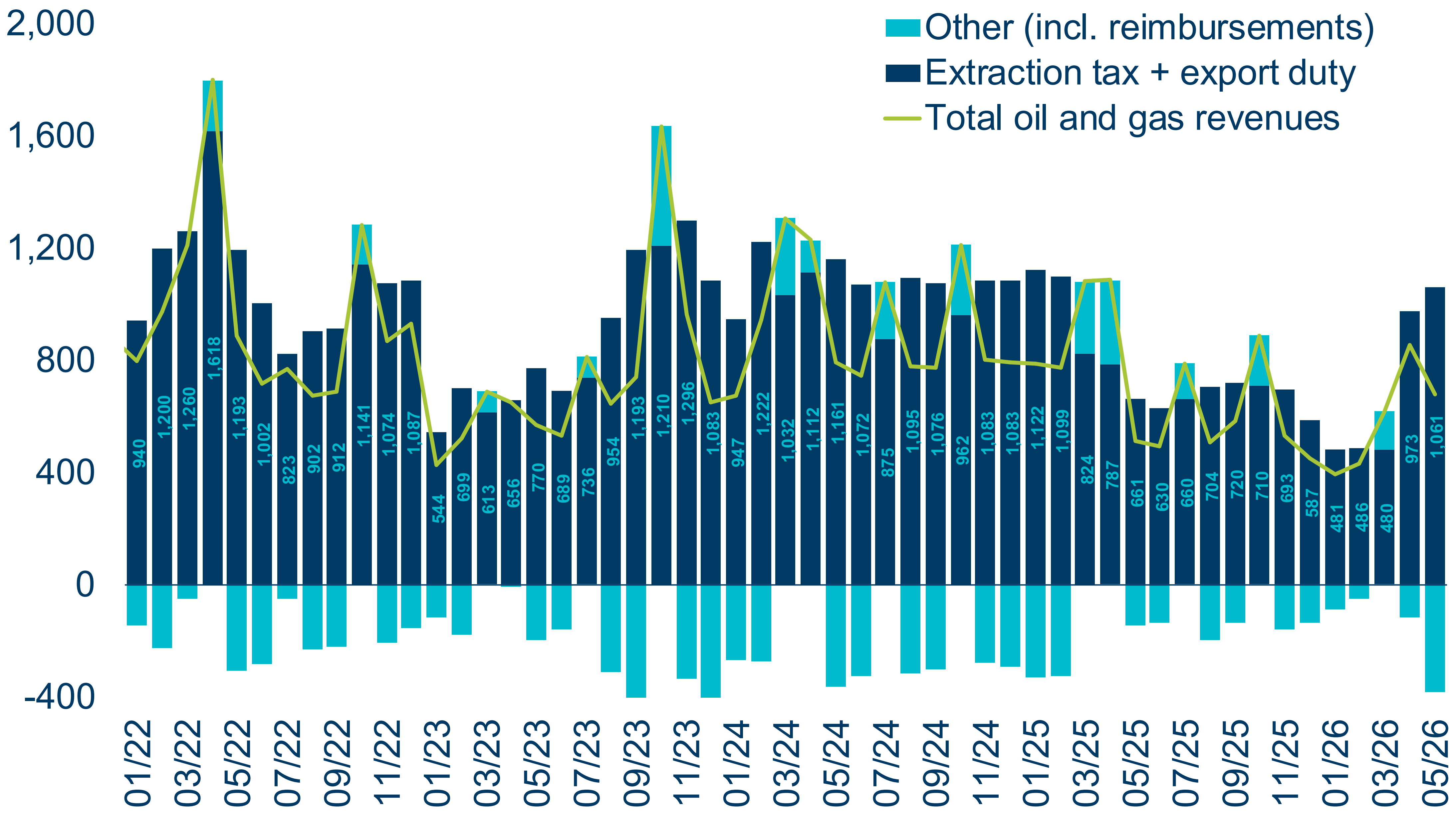
- In Jan.–May, O&G revenues were 30% weaker y-o-y, non-O&G revenues 12% stronger, and expenditures 17% higher.
- O&G base revenues have risen sharply—up $6.7 billion (105%) in Apr. and $8.6 billion (136%) in May (vs. Q1 average).
- However, higher energy prices drove up damper payments and the stronger ruble weighed on revenues in local currency.

Federal budget revenues and expenditures, in ruble billion



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

Federal oil and gas revenues, in ruble billion

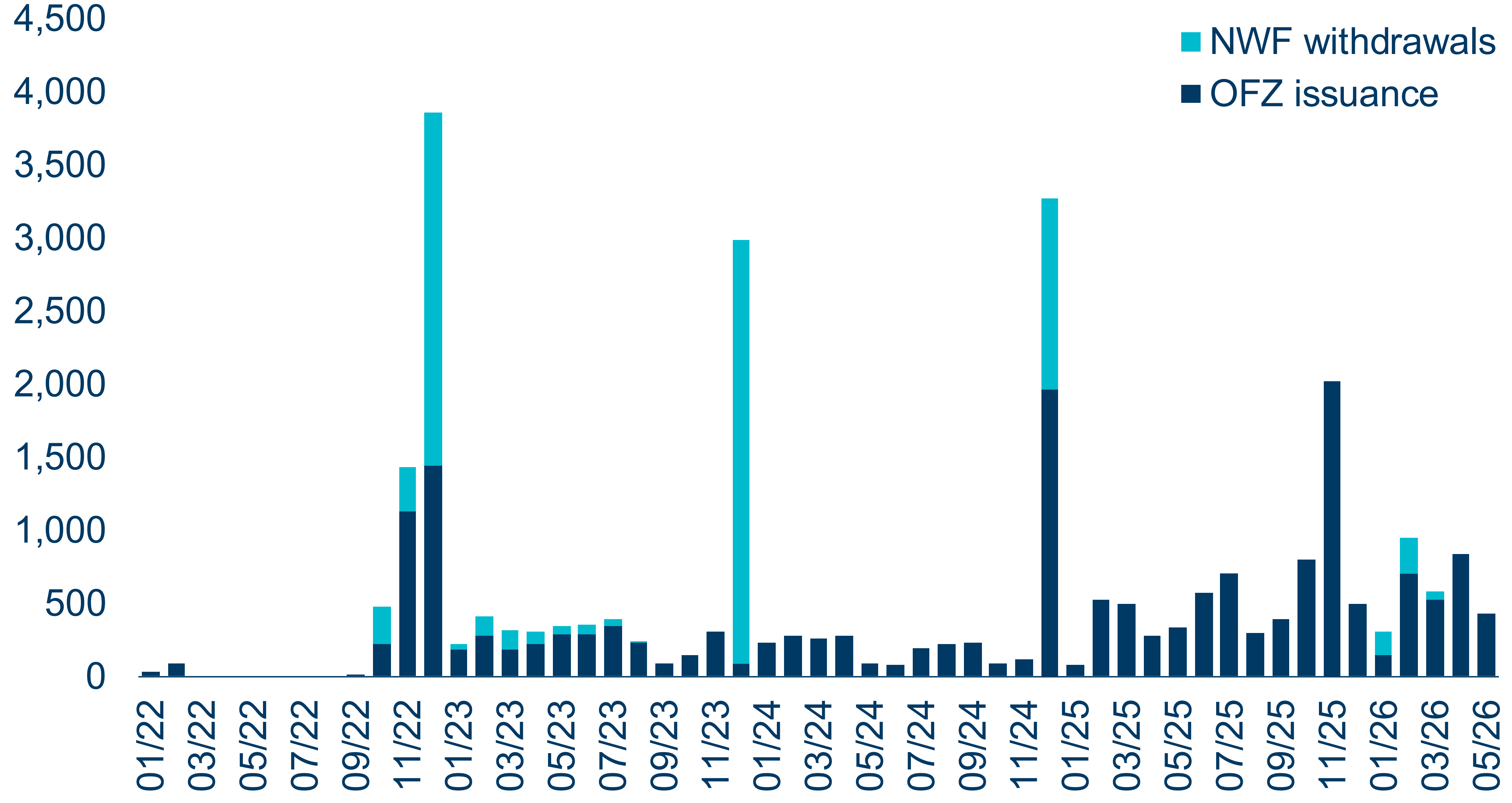


Source: Ministry of Finance, KSE Institute

OFZ issuance is rising, supported by continued large repo operations.

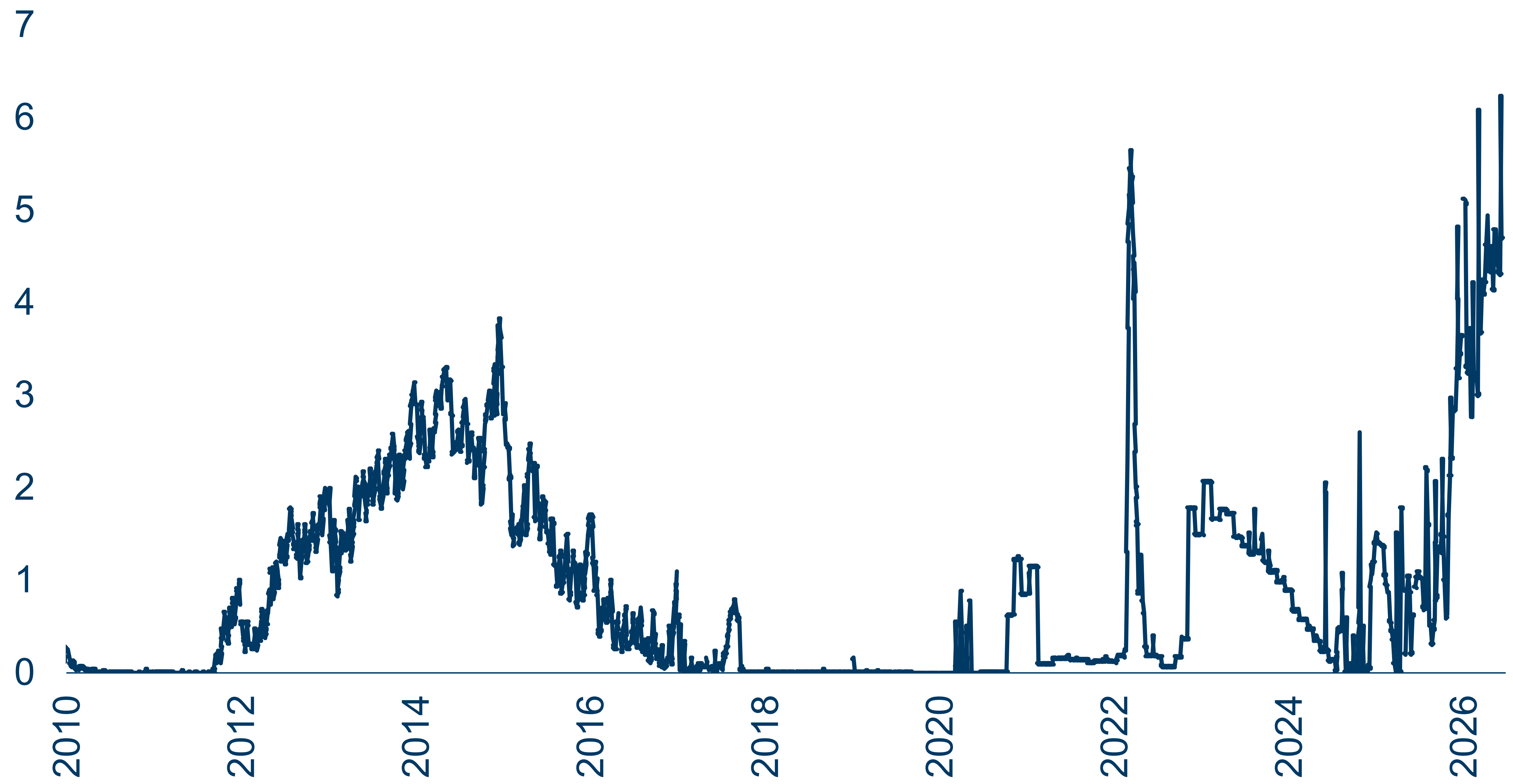
- Domestic debt (OFZ) issuance in Jan.-May reached 2.6 trillion rubles (+54% vs Jan.-May 2025).
- Jan.-May issuance hit 40% of the 6.5 trillion yearly target, likely to be surpassed given the large budget deficit.
- The CBR continued to provide significant amounts of liquidity through repo operations to enable banks’ absorption.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

Total outstanding repo loans, in trillion rubles

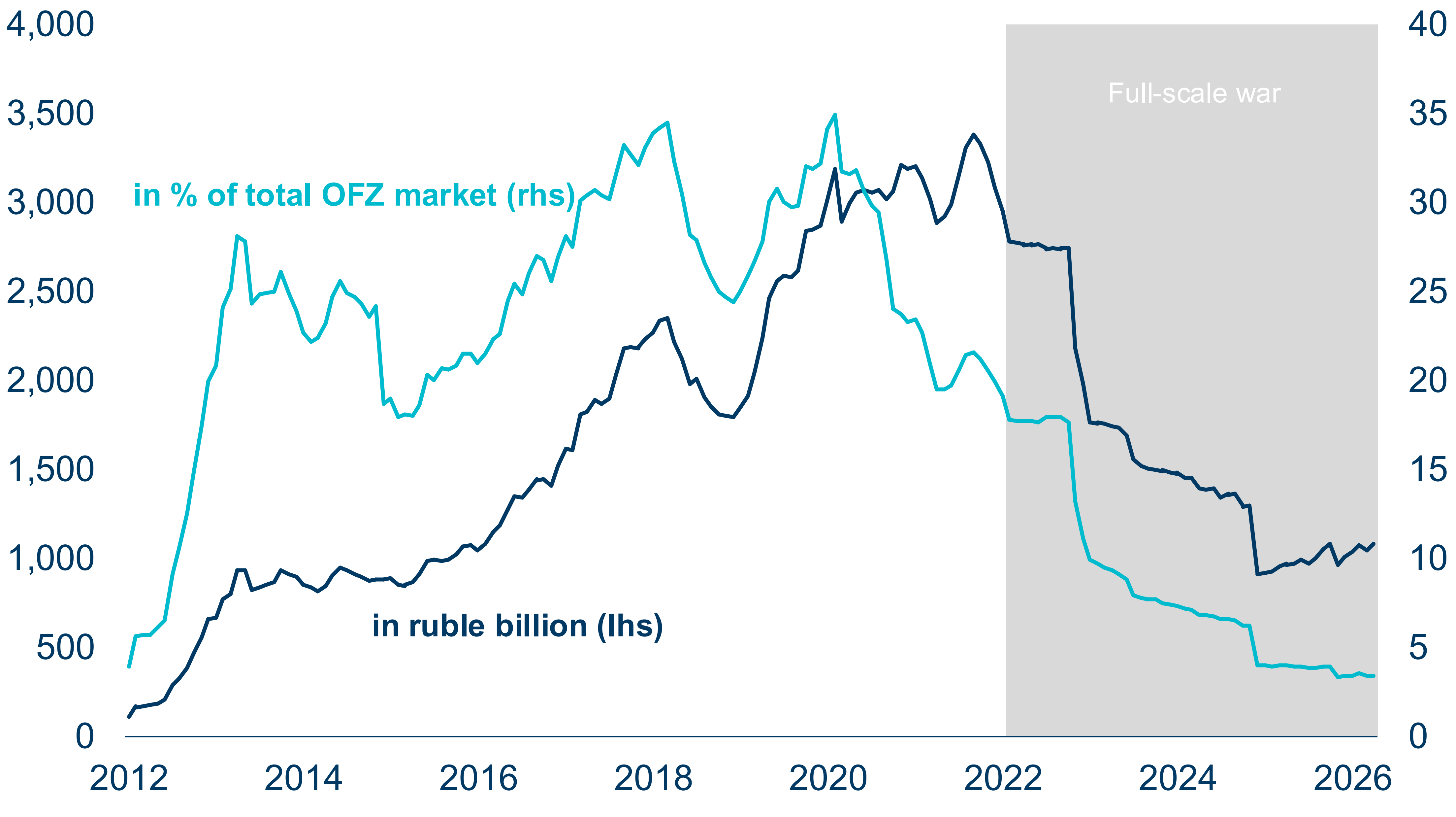


Source: Bank of Russia, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

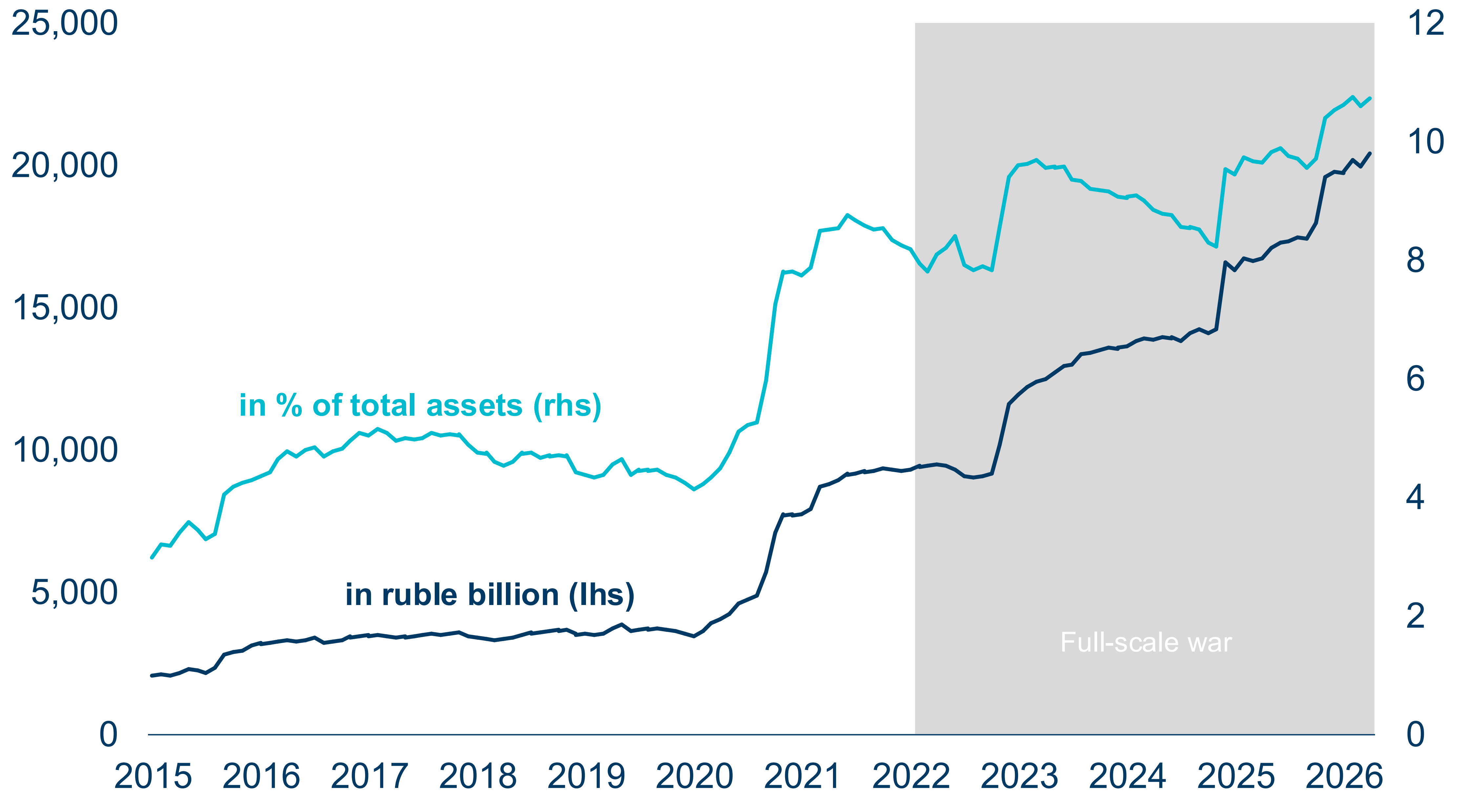
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 1.9 trillion rubles (or 63%) since January 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the 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

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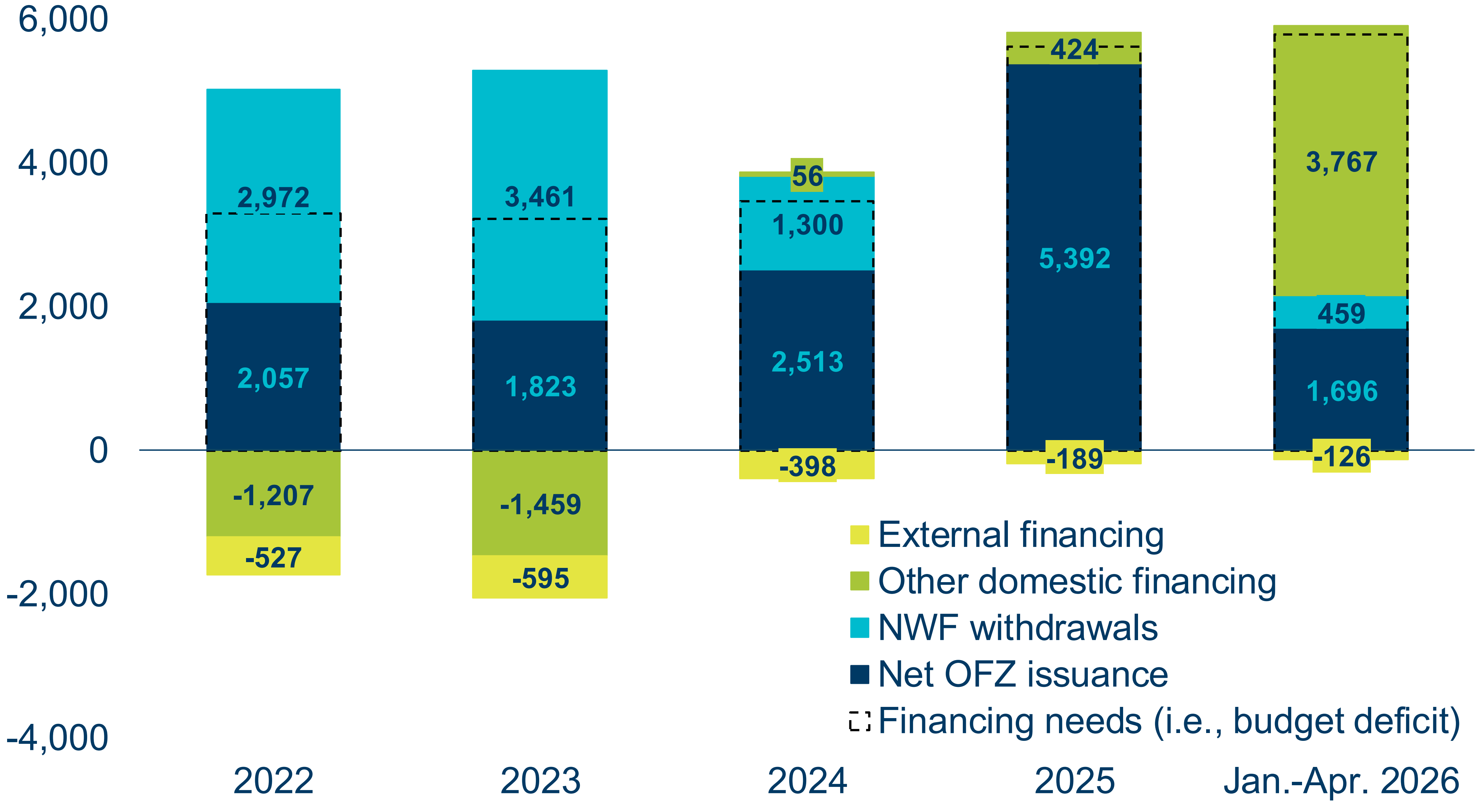
Budget underfinancing puts pressure on the Treasury’s cash balance.

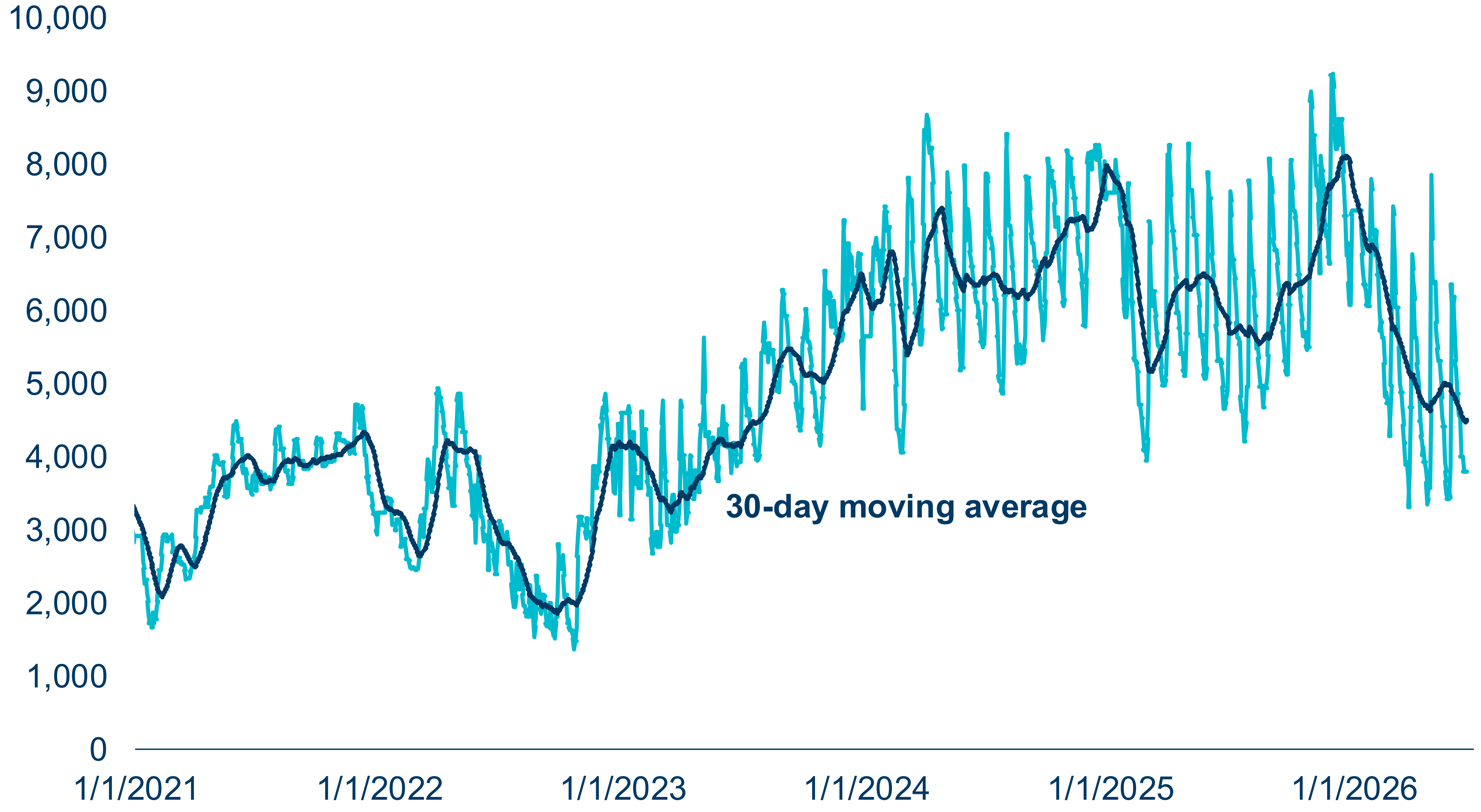
- Net OFZ issuance and NWF withdrawals were 3.6 trillion rubles ($47 billion) smaller than the deficit in Jan.-Apr.
- Russia relied on its Treasury’s account, which declined by 2.9 trillion rubles from December to May (monthly avg.).
- In the absence of meaningful fiscal improvements, higher domestic borrowing and NWF utilization will be required.

Budget financing needs vs. sources, in ruble billion



Source: Ministry of Finance, KSE Institute

Treasury deposits at commercial banks, in ruble billion



Source: Bank of Russia, Russian Treasury, KSE Institute

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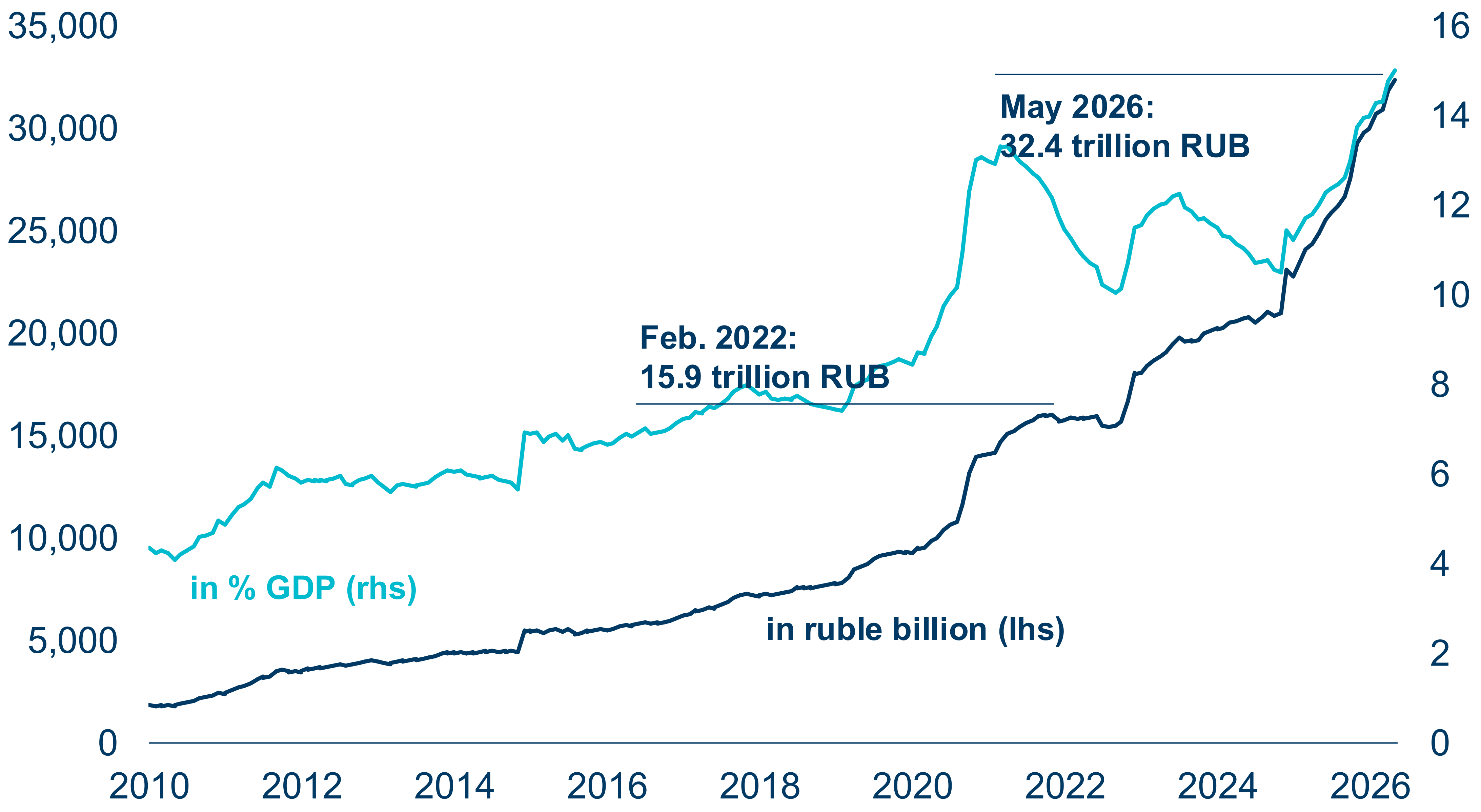
Domestic debt soars, budget exposed to rising servicing costs.

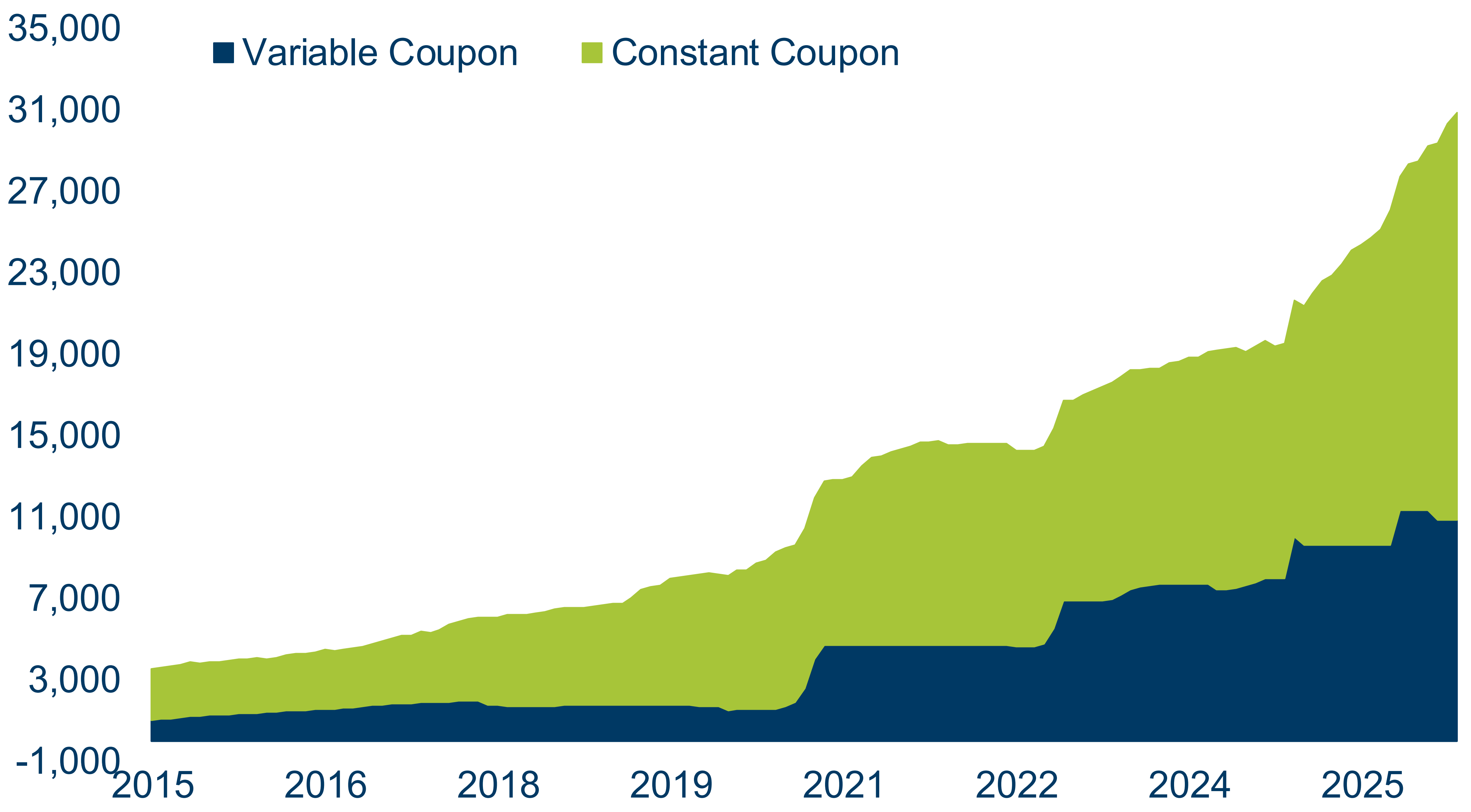
- Federal domestic debt has doubled since Feb. 2022 to 32.4 trillion rubles (~15% of GDP) in May 2026.
- MinFin is further shifting to constant-coupon OFZs, while reducing issuance of variable-rate bonds.
- This reflects dropping investor demand for floating yields as the CBR continues to cut interest rates.

Federal government domestic debt



Source: Ministry of Finance, KSE Institute

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

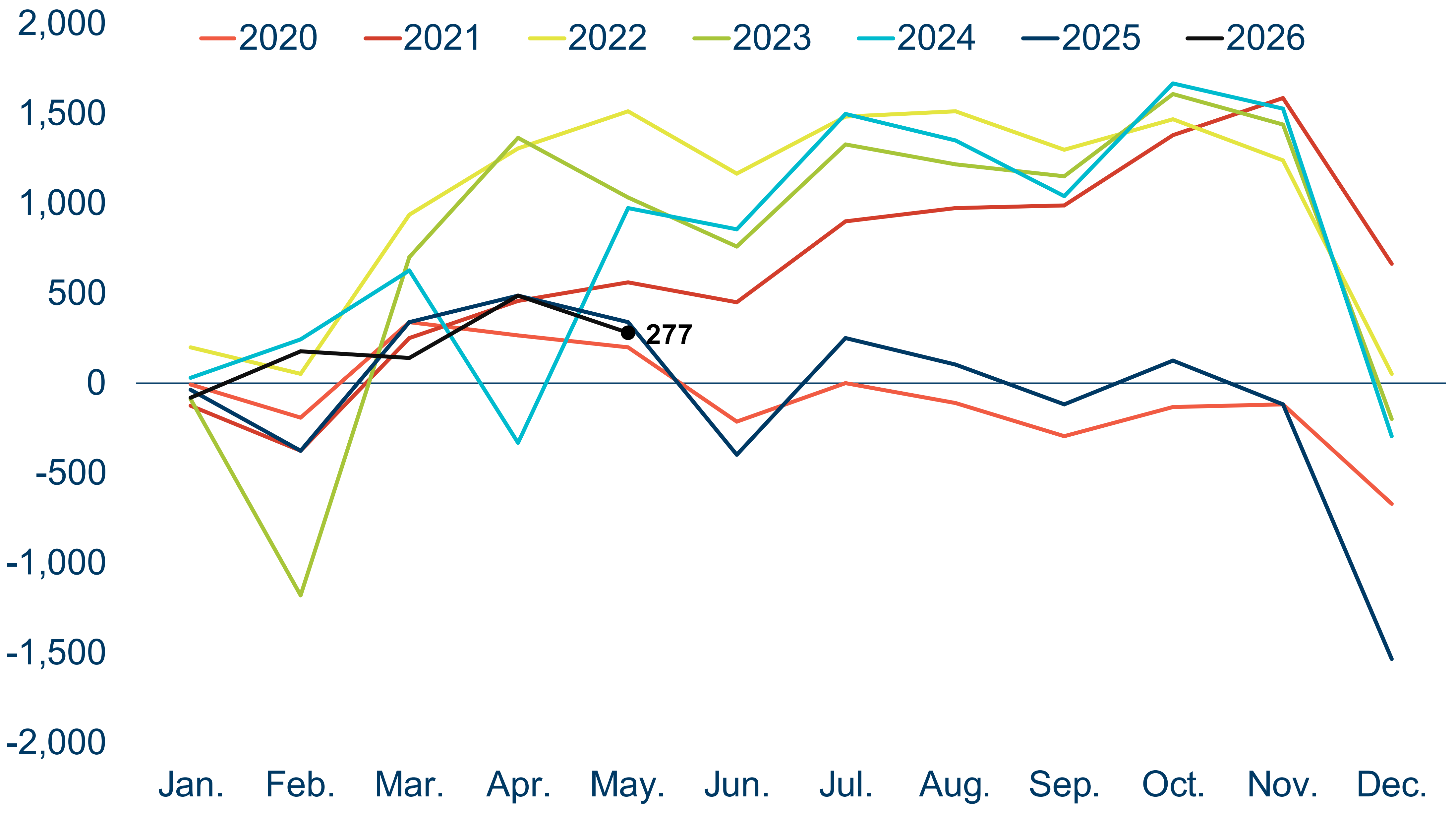


Source: Ministry of Finance, KSE Institute

Regional budgets in line with last year; debt increased moderately.

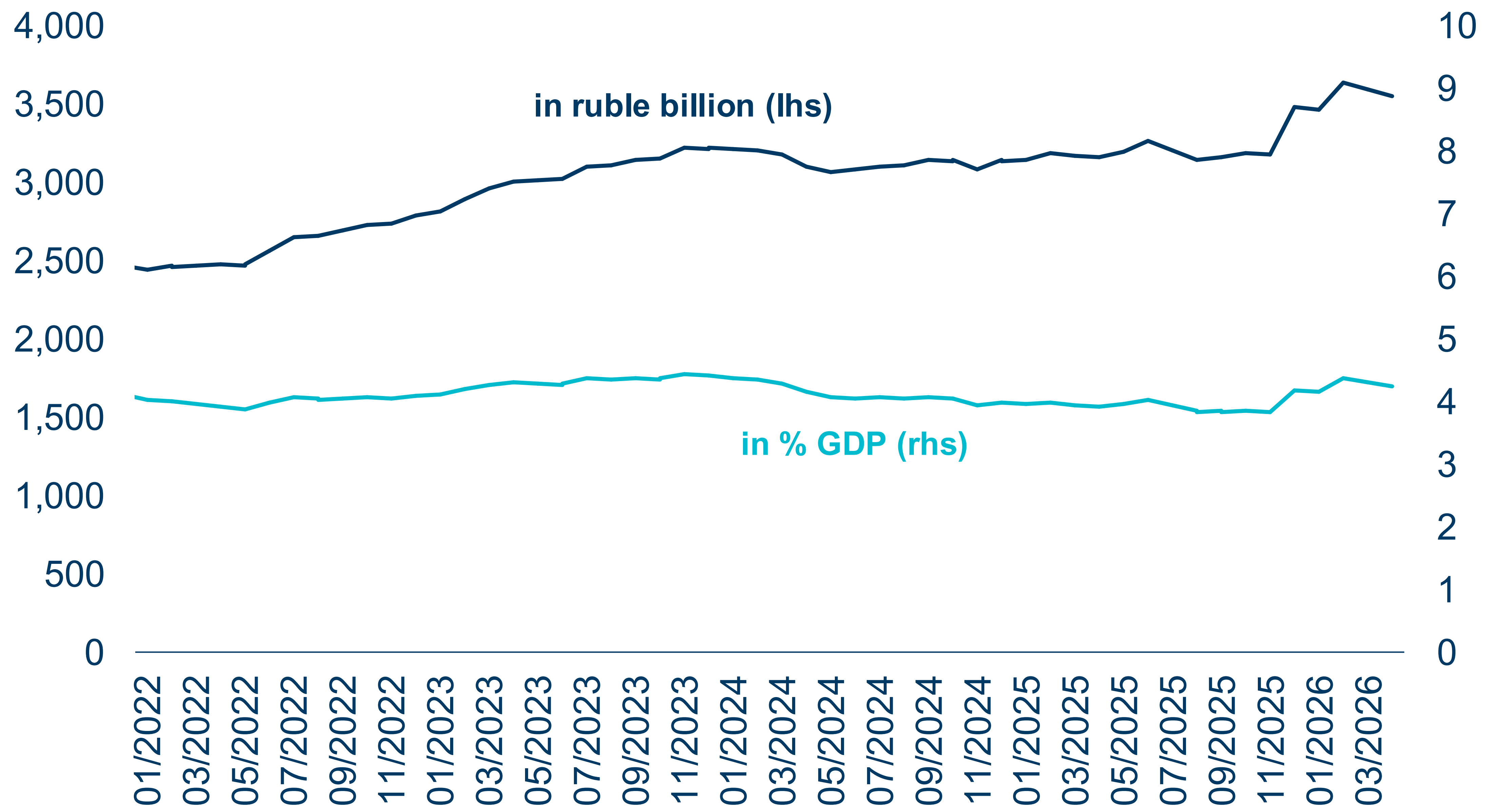
- Russia shifted spending to the regions in Dec. 2025 to keep the federal deficit on target, leading to a gap of 1.5 trillion rubles.
- Over Jan.-May 2026, the cumulative budget of the regions was in line with the 2025 path, reaching a surplus of 277 billion.
- To ease the debt burden, 2/3 of regional loans were written off by the government, with the rest being postponed to 2030.

Cumulative consolidated regional budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Regional government debt

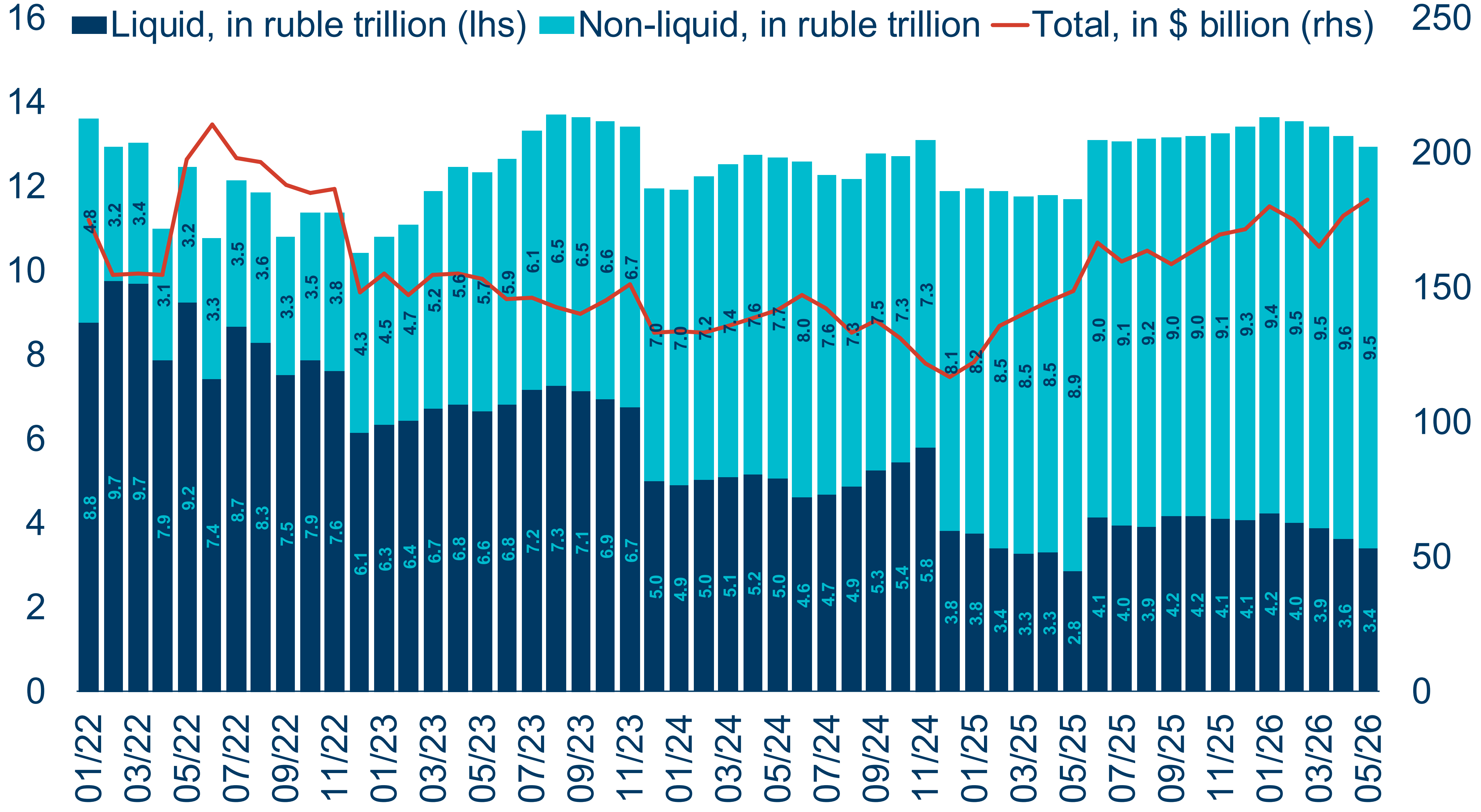


Source: Ministry of Finance, KSE Institute

Liquid NWF assets gradually decline due to budget troubles.

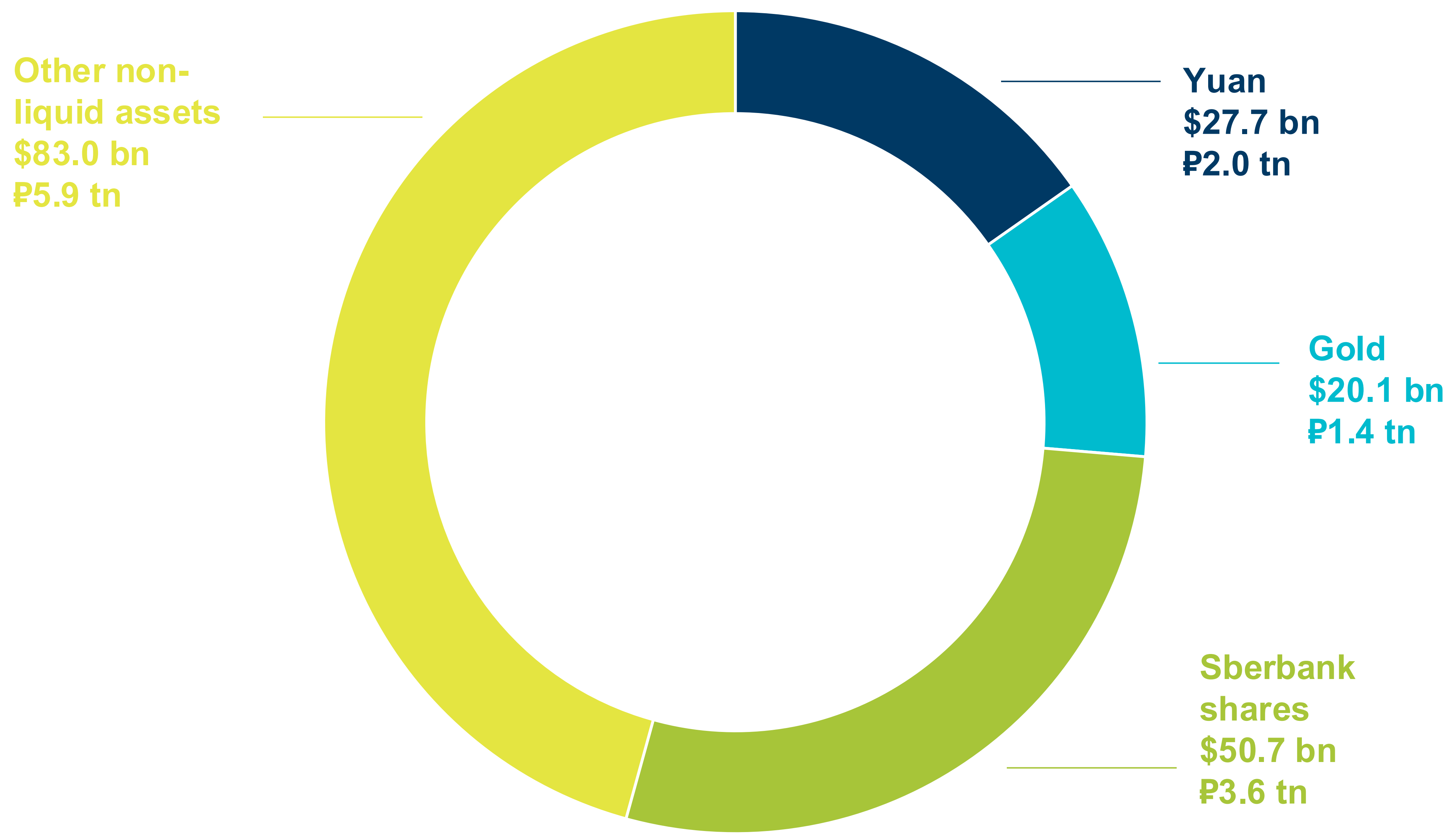
- Total assets of the National Welfare Fund stood at 13.0 trillion rubles ($182.4 billion, 5.5% of GDP) in May 2026.
- Liquid assets have shrunk by 65% since early 2022 and only accounted for 26% of the total in May (vs. 75%).
- Recent dynamics are driven by sales of gold and yuan assets, volatile gold prices, and exchange rate fluctuations.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of June 1, 2026*



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

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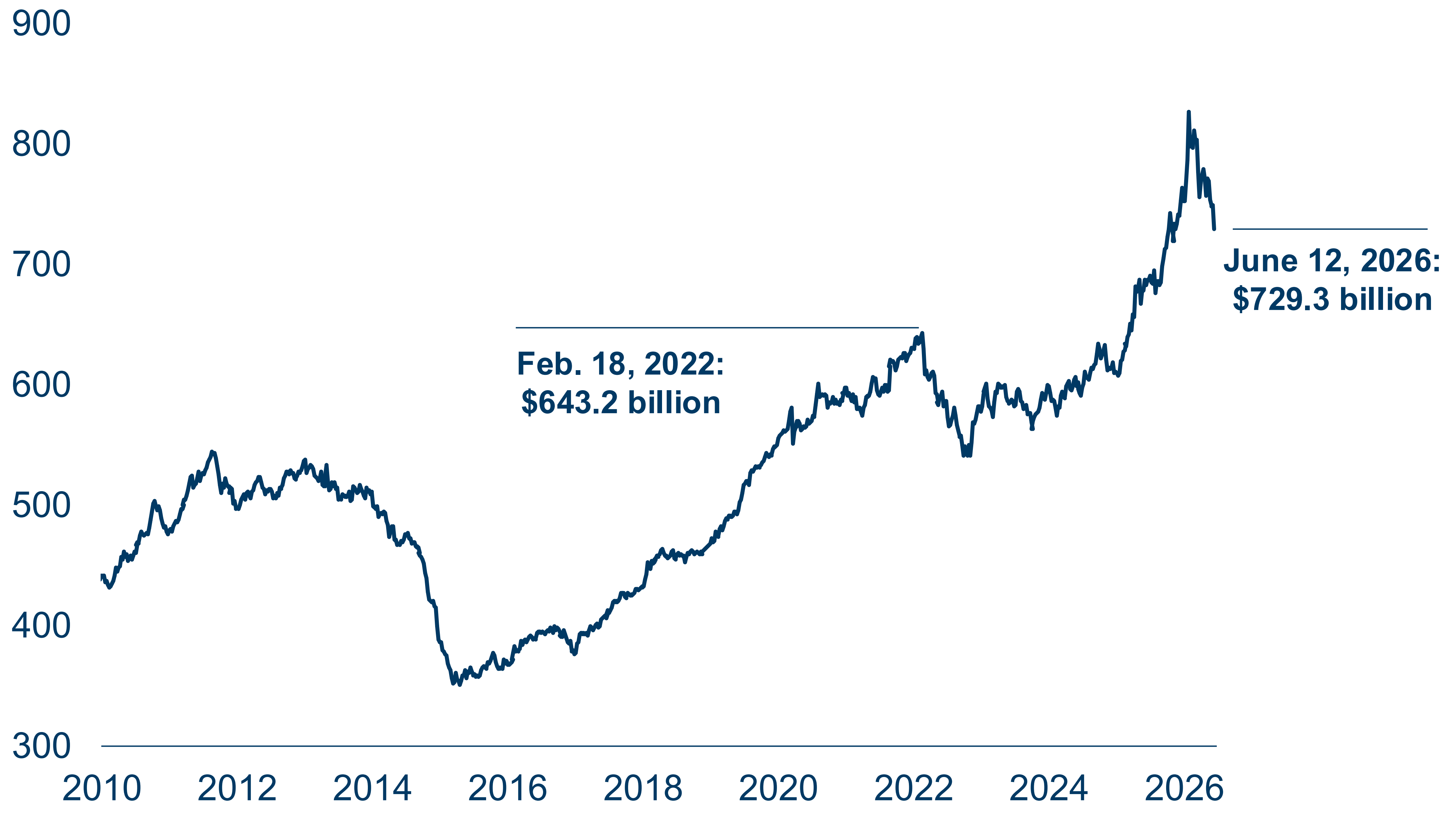
Reserves decline as gold prices fall; FX reserves are broadly stable.

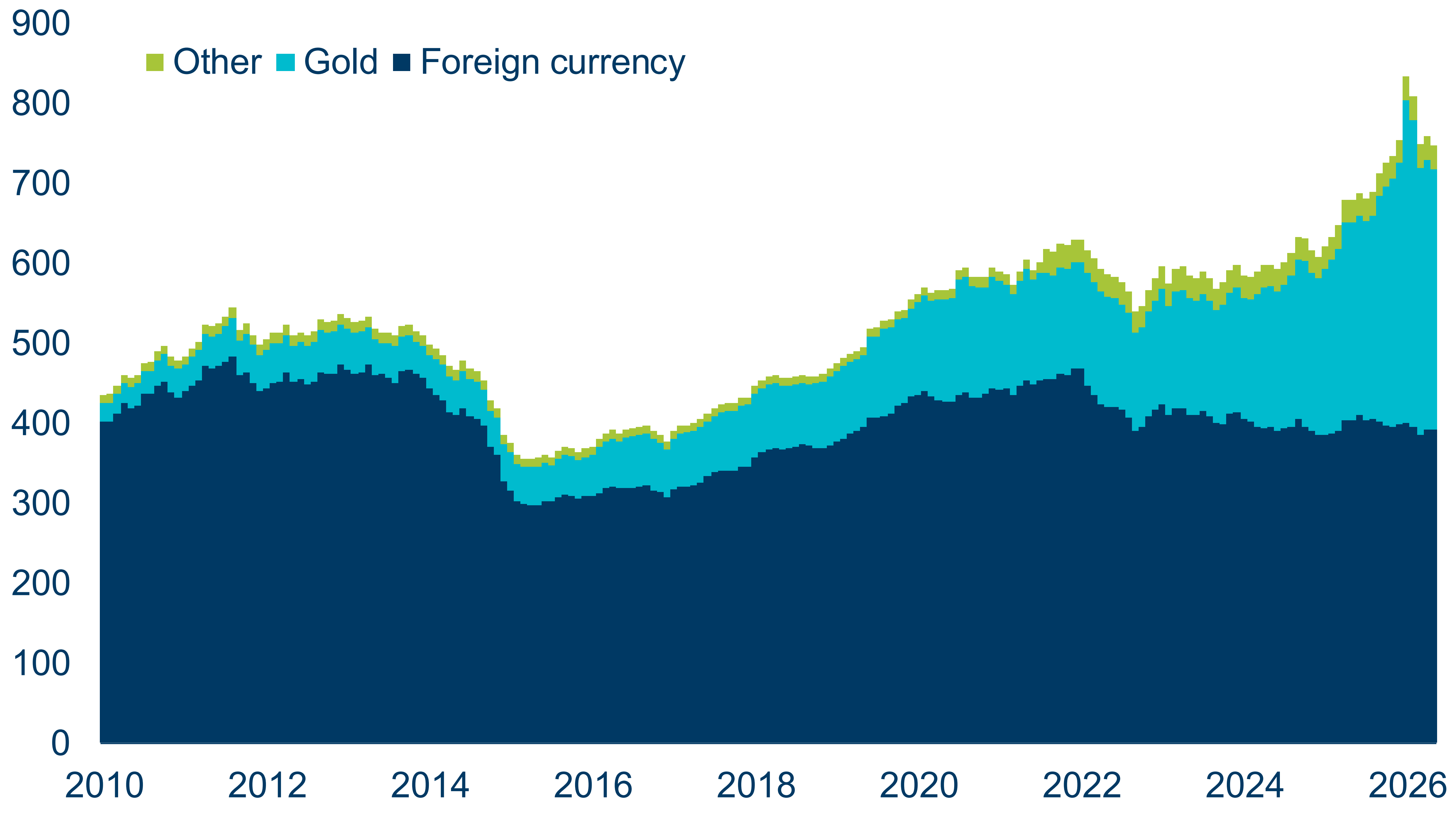
- Russia's total international reserves stand at $729 billion vs. $643 billion before the start of the full-scale war.
- Foreign currency reserves have been broadly stable for 4+ years as a large share is immobilized due to sanctions.
- Changes in the total value of Russian reserves are largely driven by significant fluctuations in the price of gold.

Total reserves (weekly), in U.S. dollar billion



Source: Bank of Russia, KSE Institute

Composition of reserves (monthly), in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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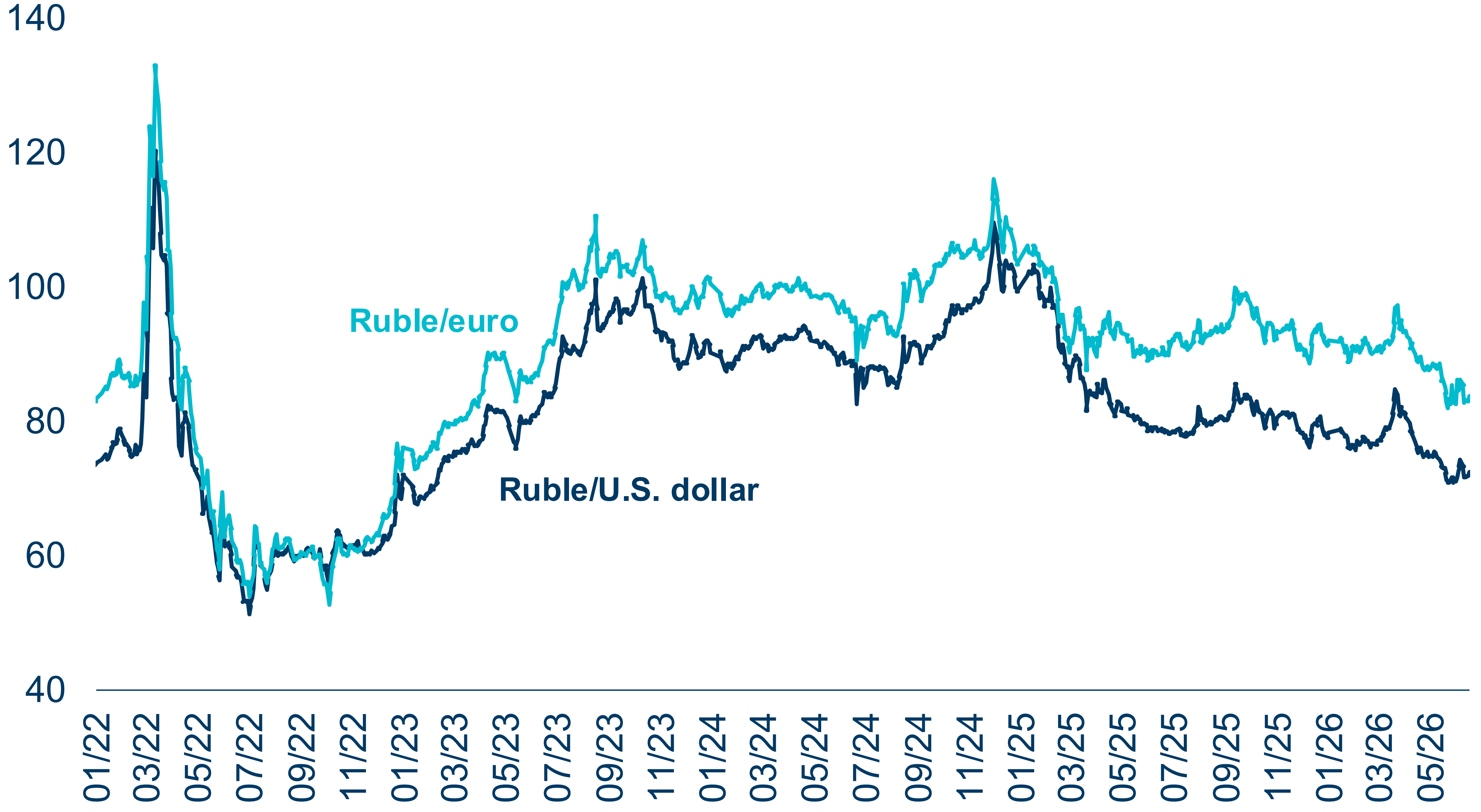
Inflation slows and ruble strengthens; CBR eases policy carefully.

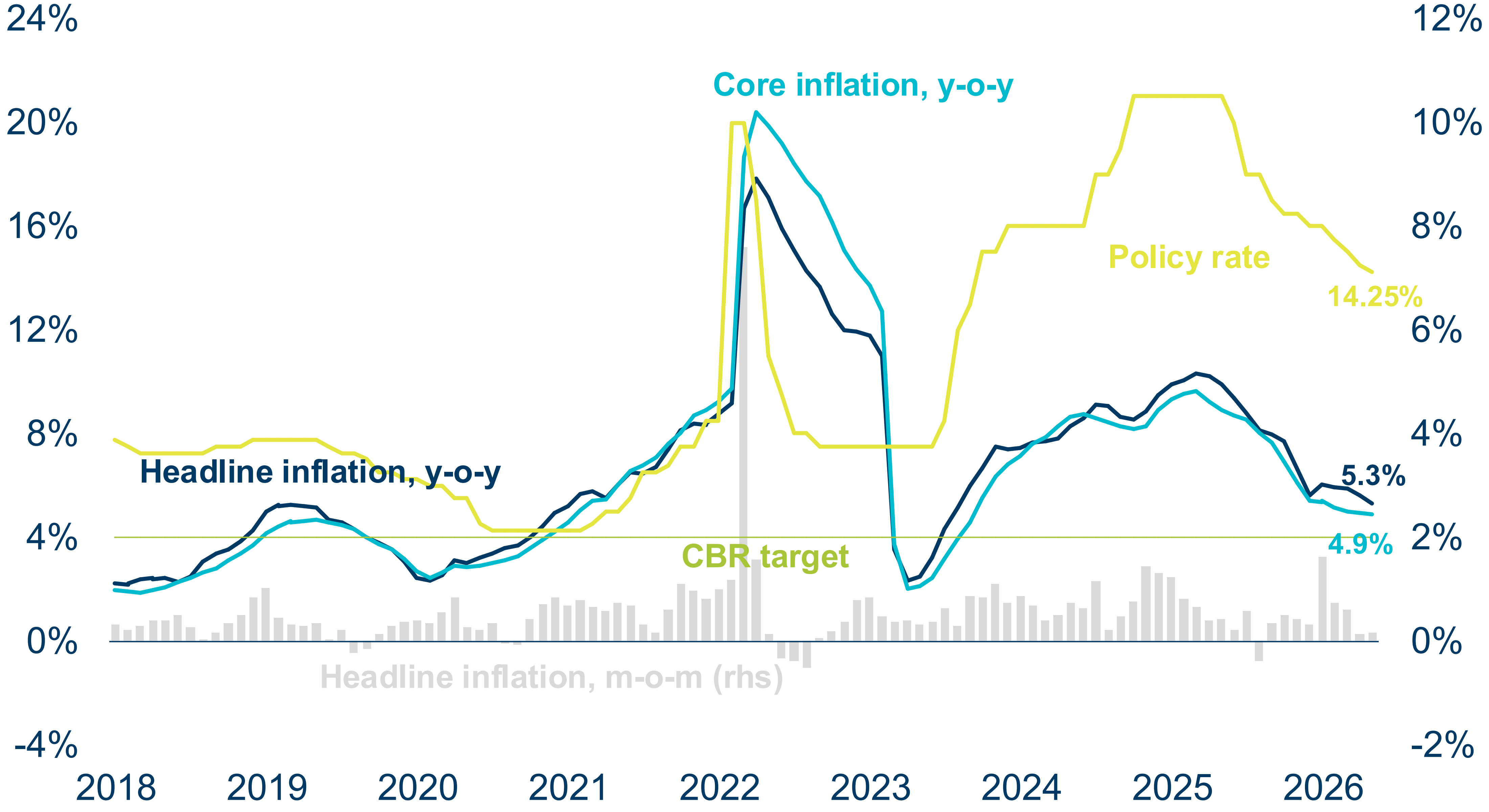
- The ruble has strengthened significantly, with the exchange rate dropping at the lowest level in three years.
- Headline inflation eased to 5.3% y-o-y (from 5.6% in Apr. and 5.9% in Mar.), but remains above the CBR's 4% target.
- The CBR cut the policy rate by only 25 bps, balancing recession fears against pro-inflationary risks from the budget.

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



Source: Bank of Russia, KSE Institute

Inflation and CBR policy rate, in %

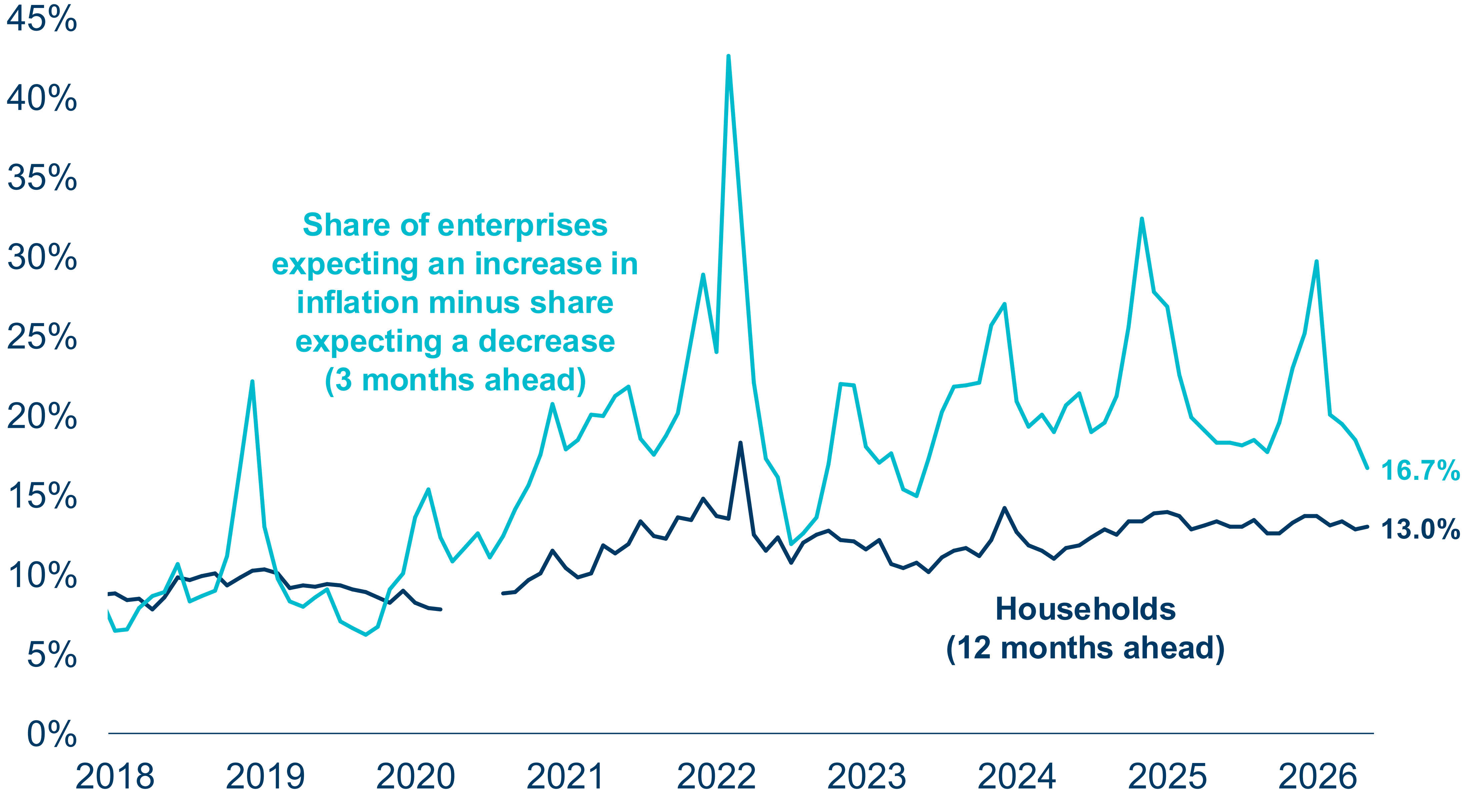


Source: Bank of Russia, KSE Institute

Inflation expectations moderate as price dynamics normalize.

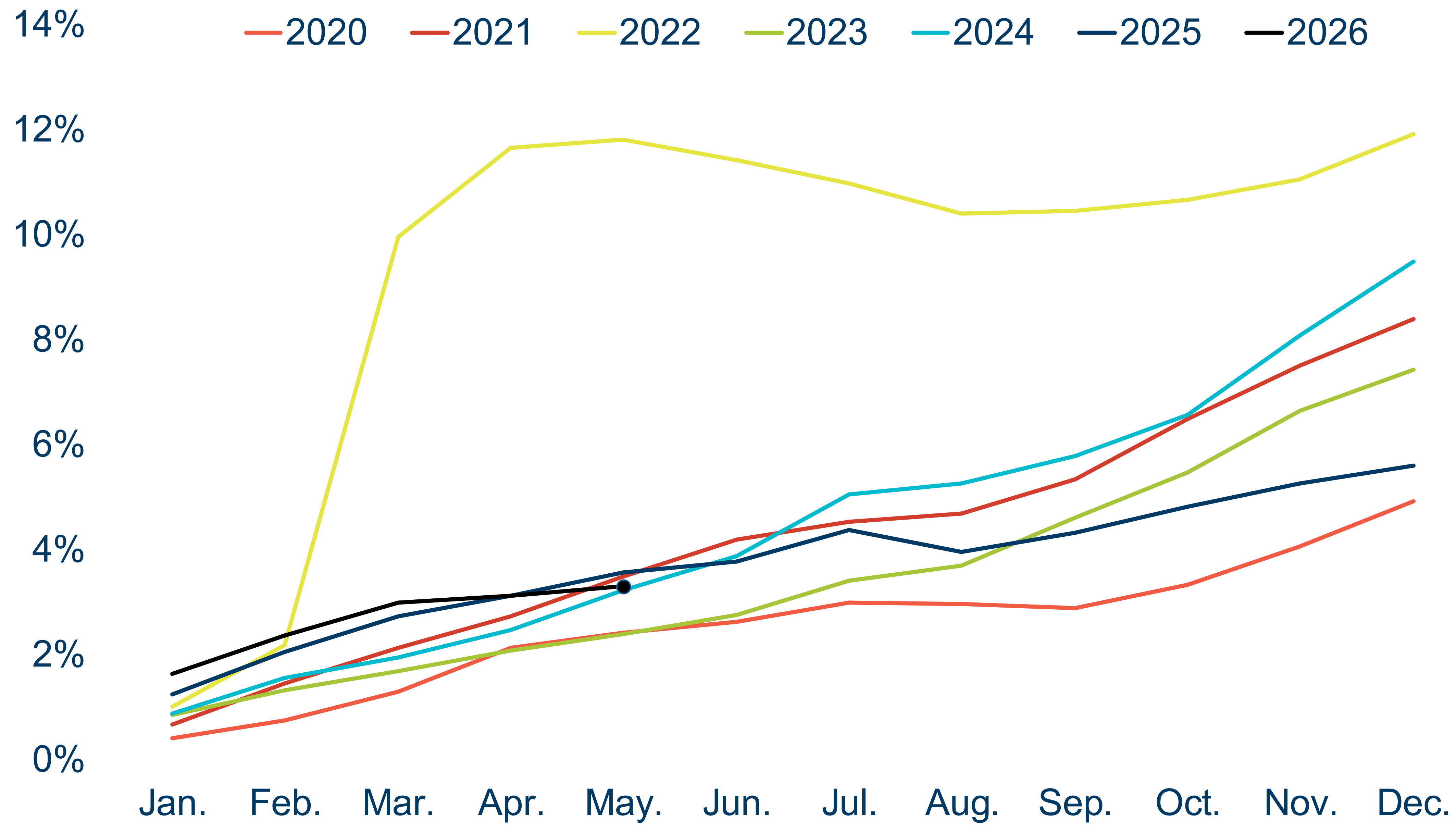
- Household inflation expectations remained unchanged (at 13.0%), while those of businesses continue to decline (to 16.7%).
- Cumulative inflation has seen a slight slowdown and is now tracking below 2021-2022 and 2025 levels.
- Looking ahead, monthly inflation may accelerate further as fuel prices surge following Ukrainian strikes on oil refineries.

Inflation expectations, %



Source: Bank of Russia, KSE Institute

Cumulative inflation, in %

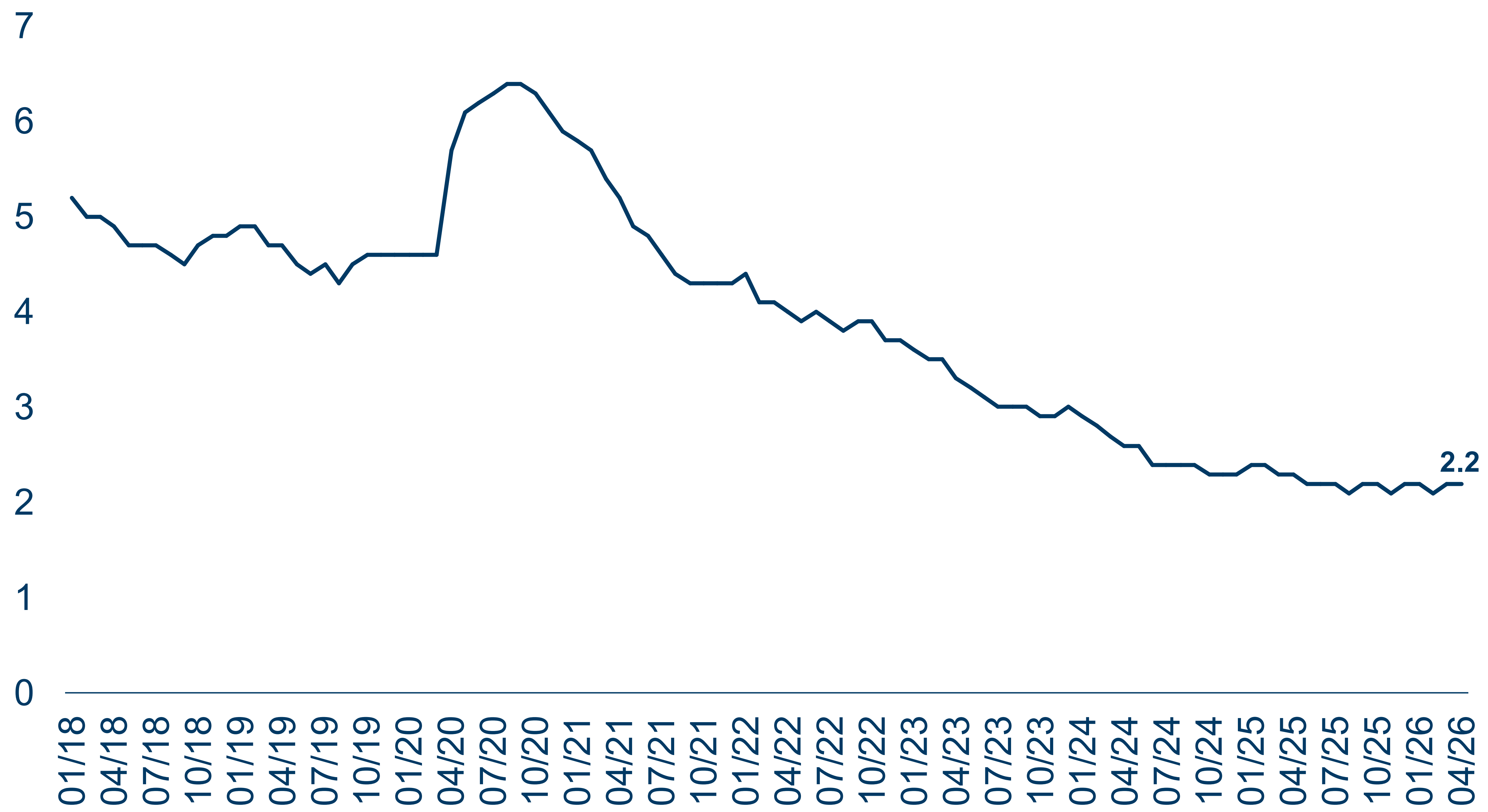


Source: Bank of Russia, KSE Institute

Labor shortages cap economic growth potential; wage growth robust.

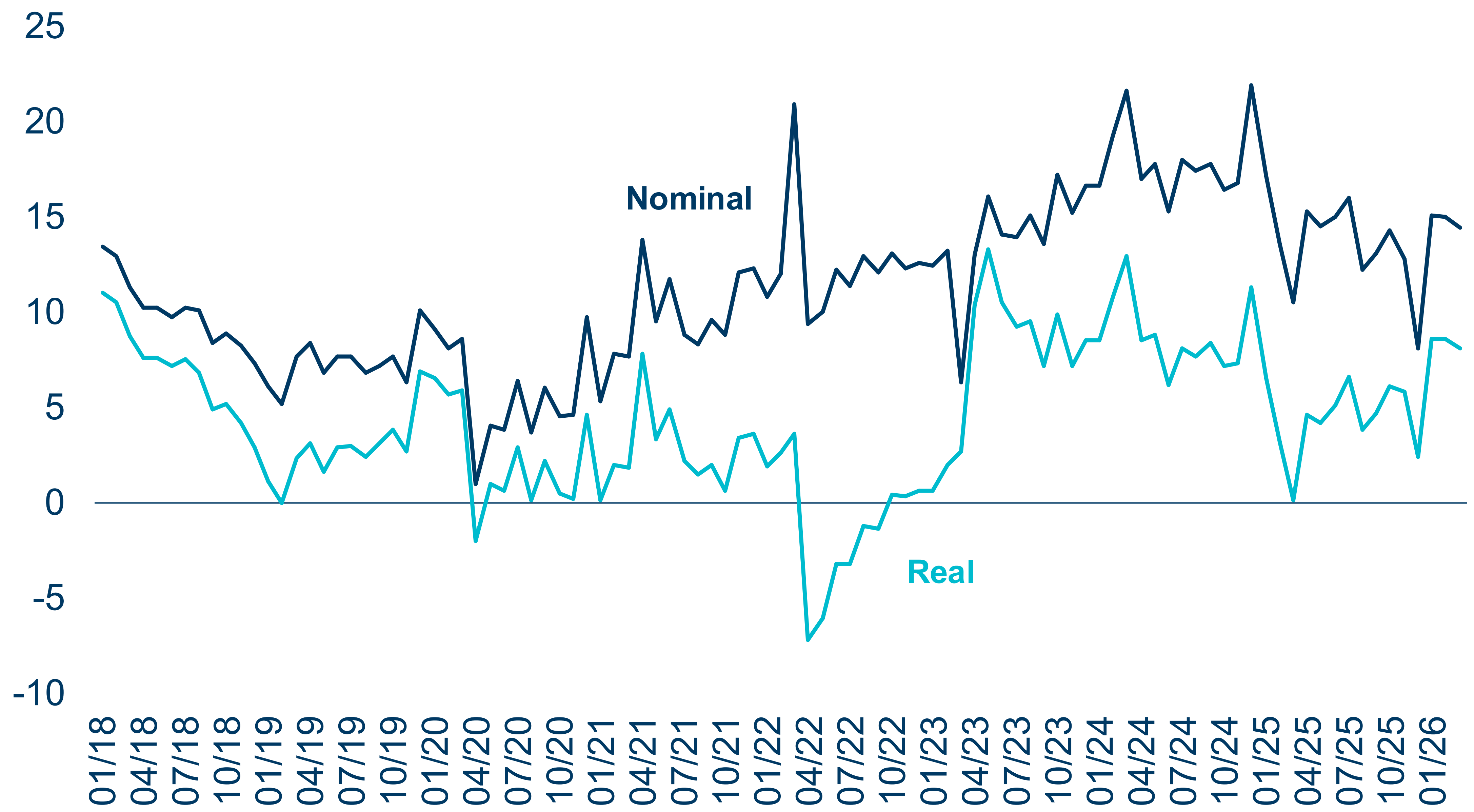
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- Anecdotal evidence regarding furloughs by large struggling enterprises points to increasing labor mismatches.
- Nominal wage growth remained high in Mar. (14.4% y-o-y) and real wages (+8.1%) benefit from lower inflation.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

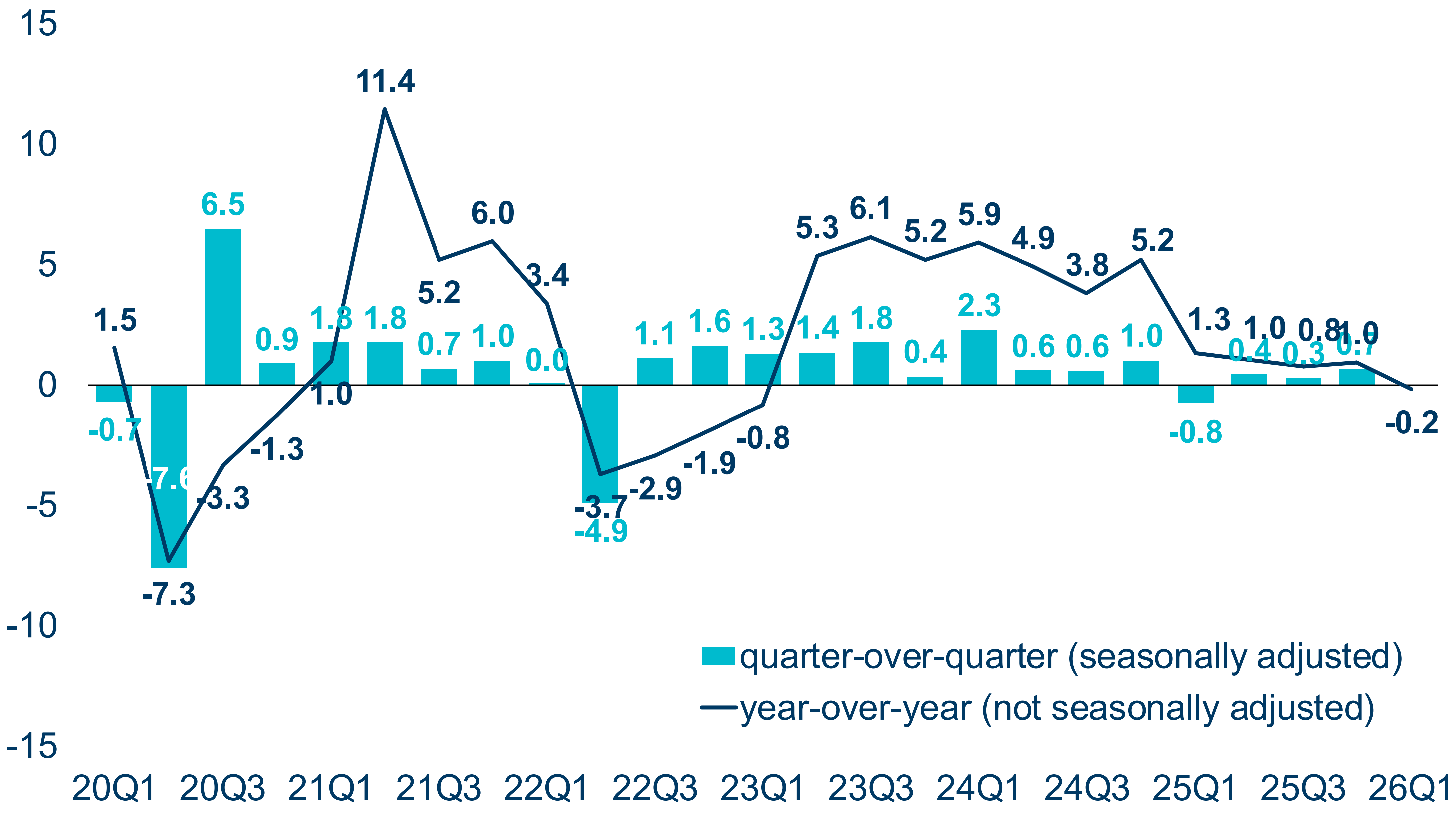


Source: Rosstat

GDP shrunk in Q1 2026; bleak outlook for 2026–27.

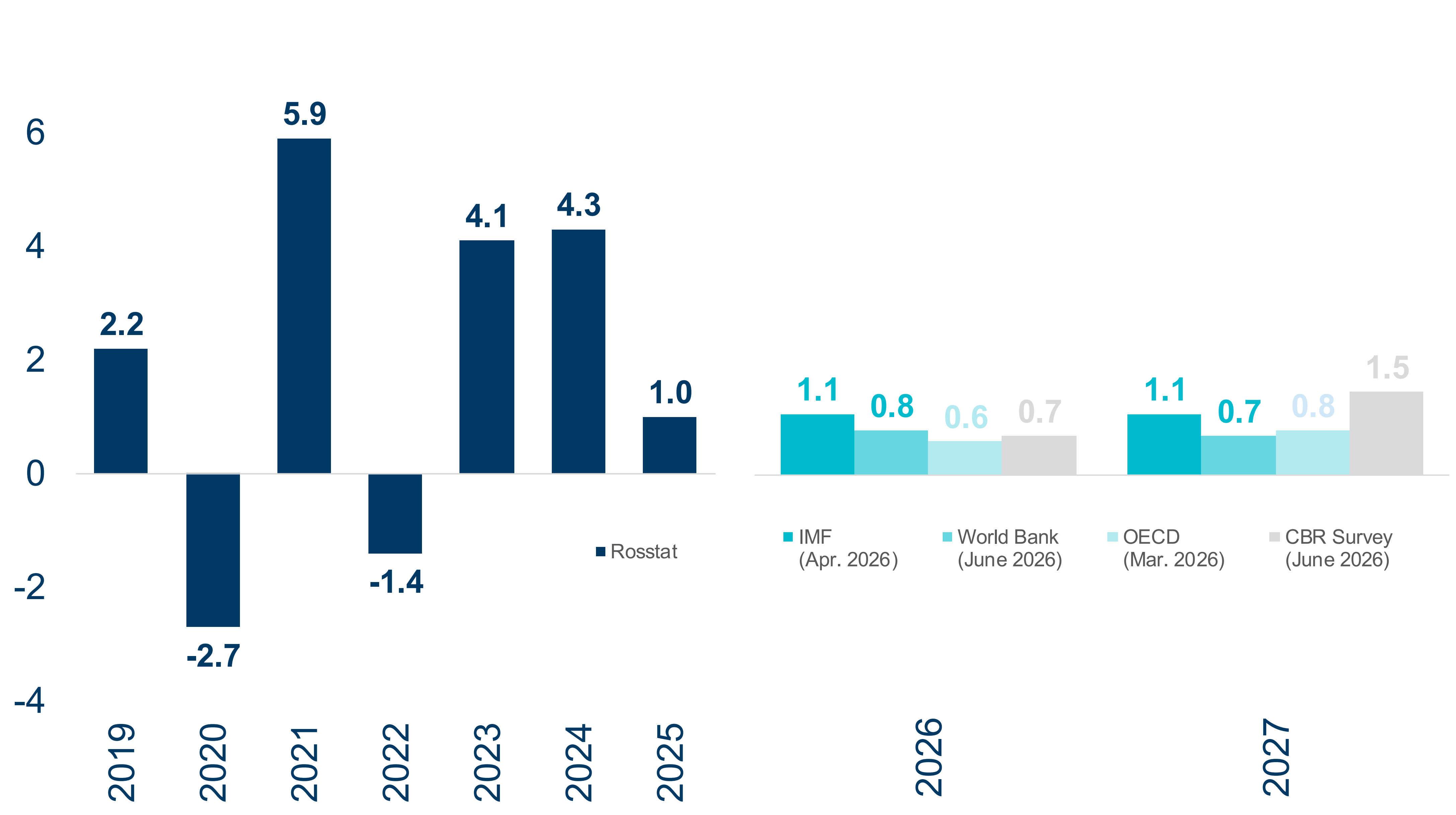
- Growth dropped sharply in 2025 (at 1% vs. >4% in 2023–24), and the economy shrunk y-o-y in Q1 2026.
- Importantly, this is a decline relative to the worst quarter of 2025 and, thus, indicates a sizeable drop q-o-q.
- International institutions expect weak growth of ~1% or even below in 2026–27 despite the energy windfall.

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute

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

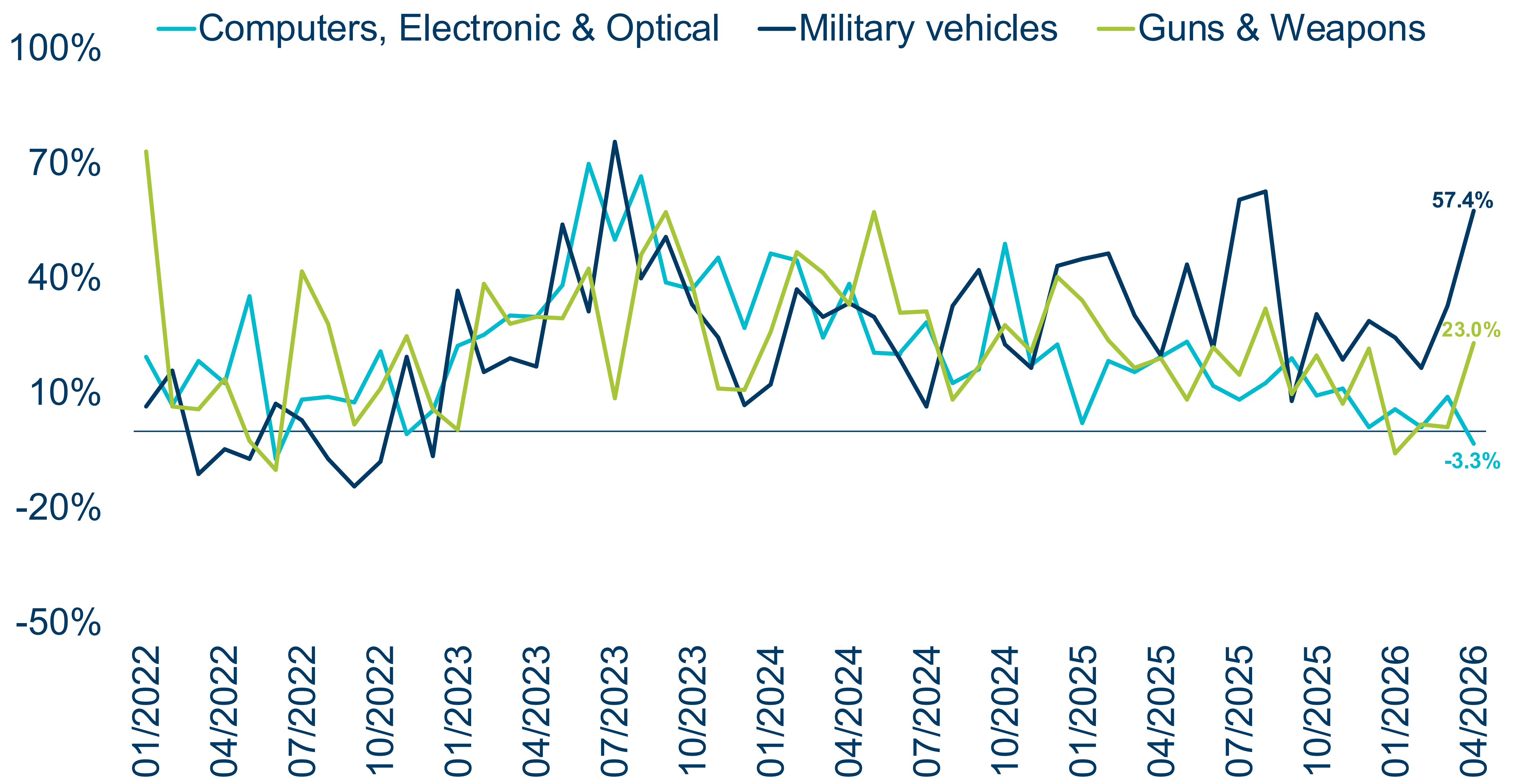


Source: Rosstat, Bank of Russia, IMF, OECD, World Bank

War-related production remains robust, while civilian sectors contract.

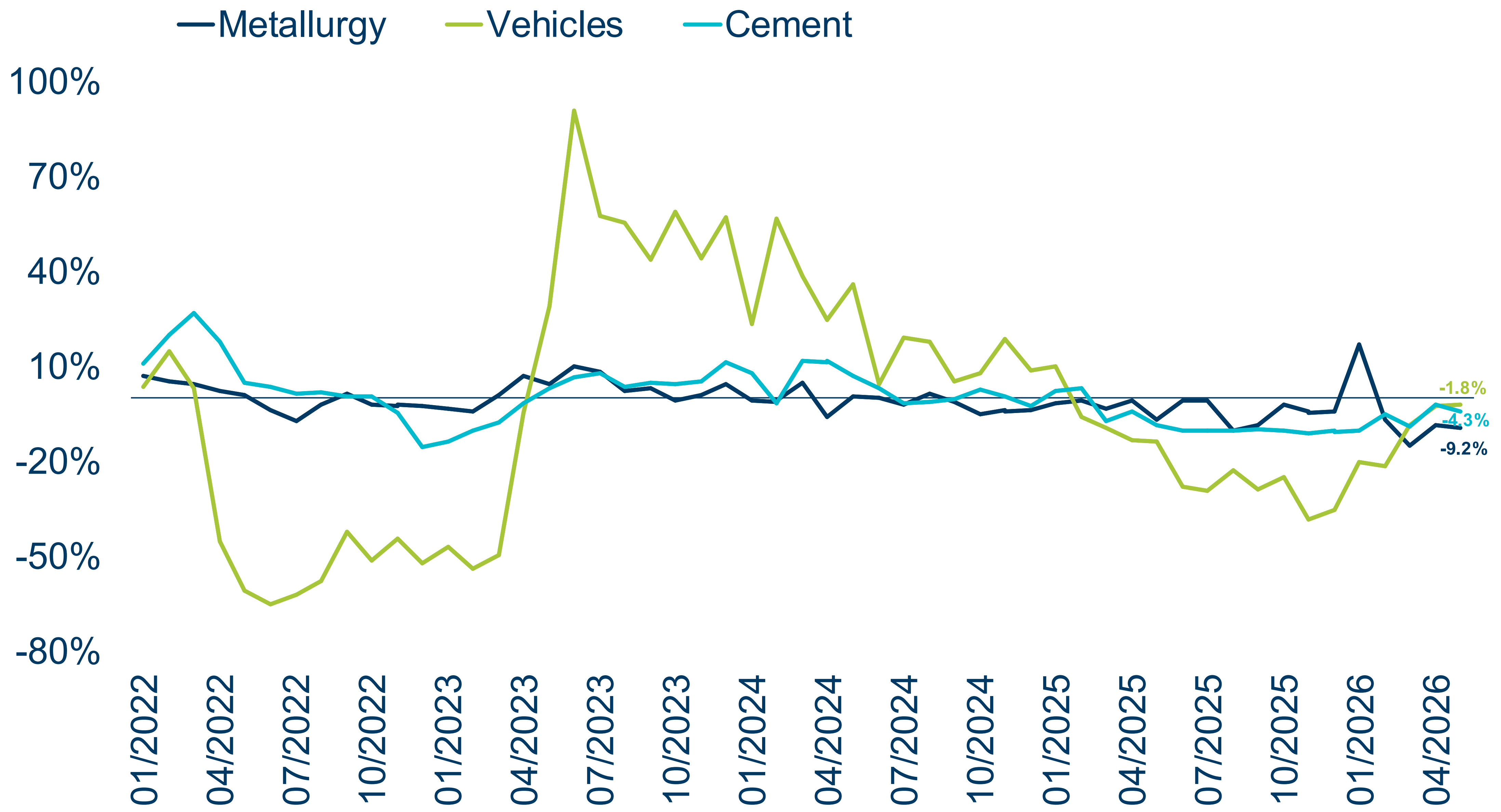
- Russia’s industrial sector is propped up by defense spending, with war-related production maintaining robust growth.
- Key sectors of the civilian economy are contracting, driven by steep drops in transport, construction, and metallurgy.
- This divergence exposes a deeply unbalanced economy, effectively 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 %

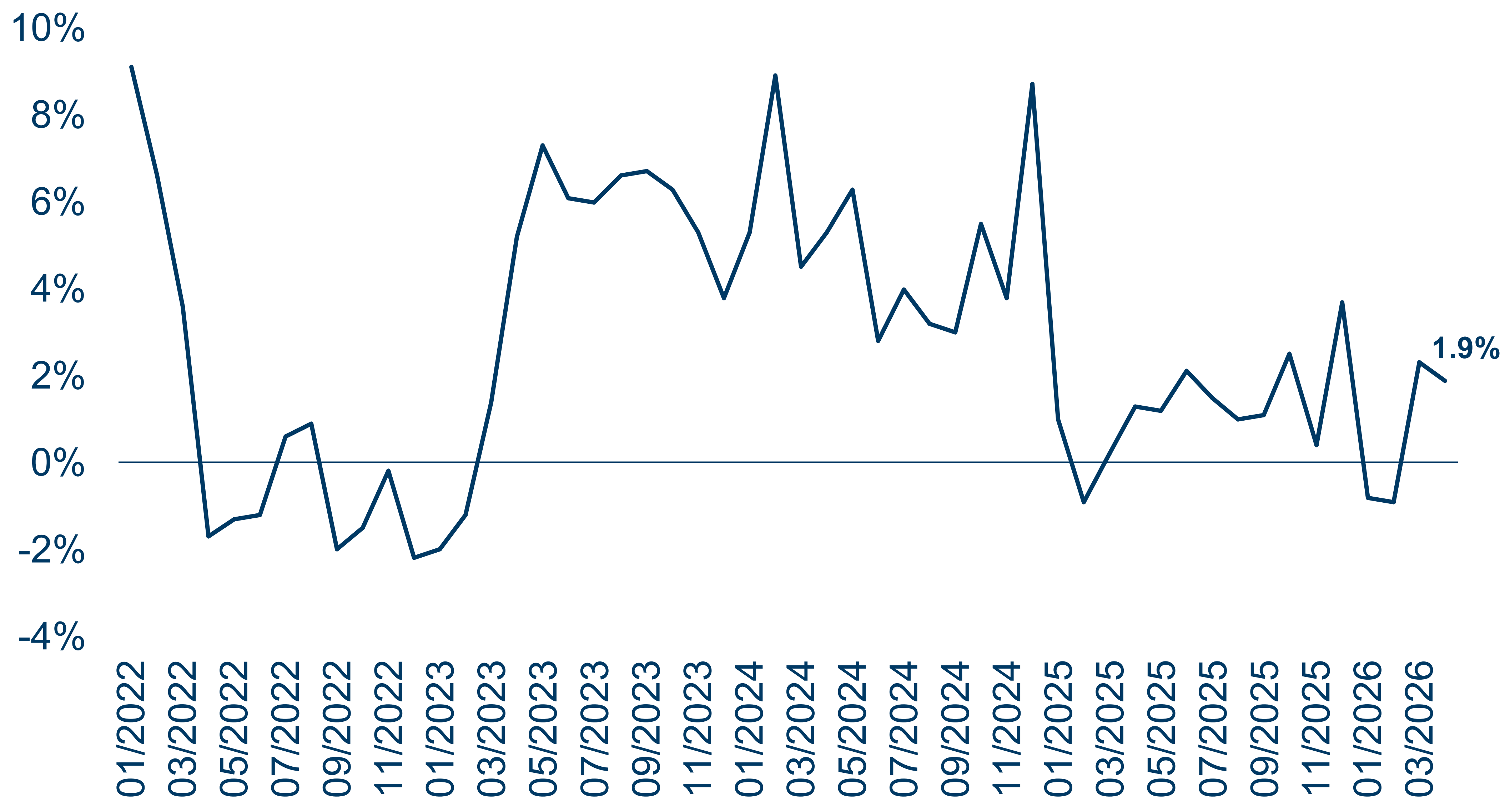


Source: Rosstat, KSE Institute

Falling capacity utilization illustrates growth constraints.

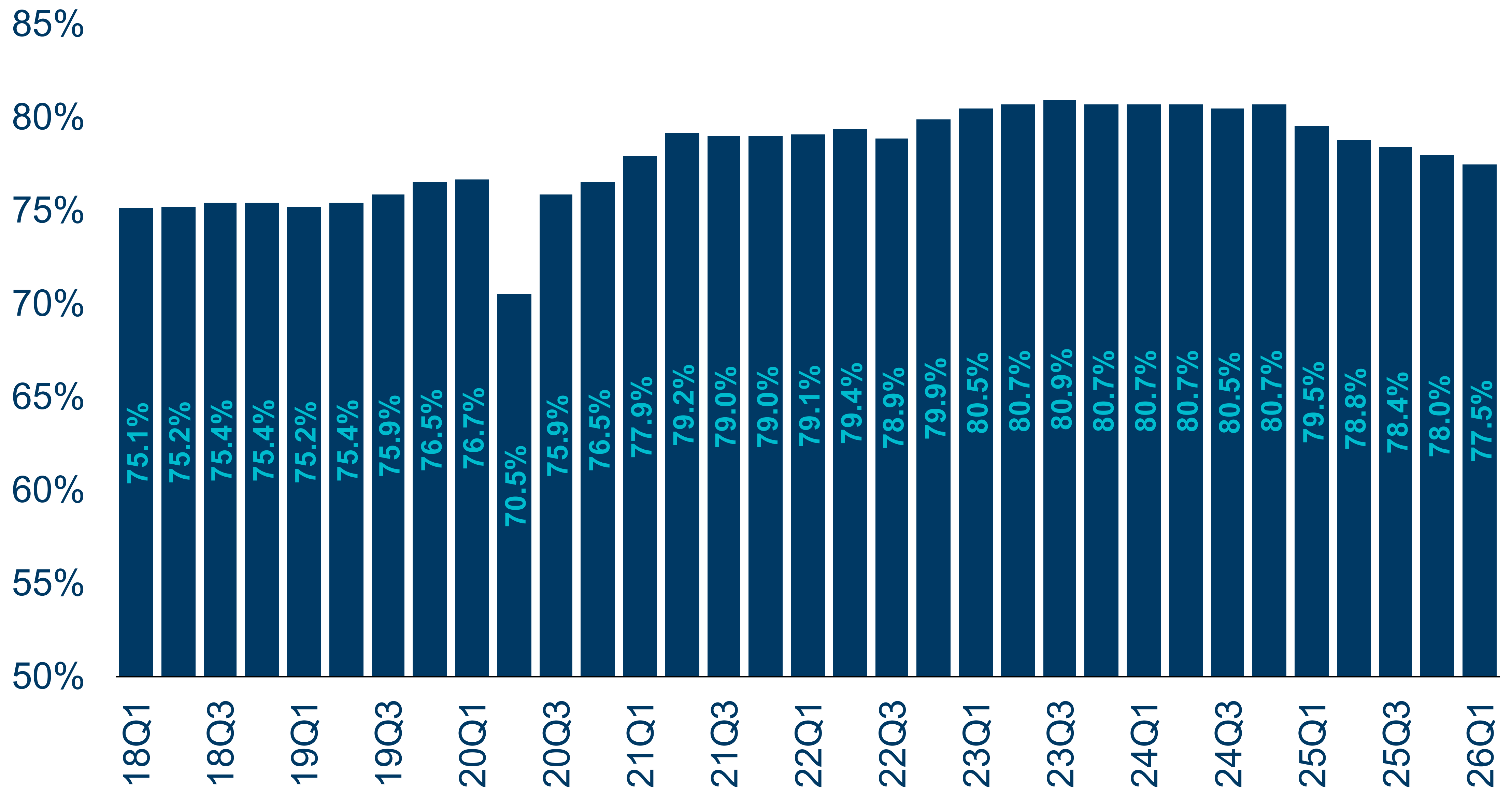
- Industrial production grew by 1.9% y-o-y in Apr. 2026—a slight dip from 2.3% in Mar.—with volatility tied to base effects.
- At the same time, capacity utilization is falling from its historic highs, dropping to 77.5% in Q1 2026.
- This signals that fundamentals (e.g., tight labor market, high borrowing costs) are weighing on the economy.

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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