

# KSE INSTITUTE RUSSIA CHARTBOOK

**STRUCTURAL PROBLEMS TOO BIG TO  
BE OVERCOME VIA ENERGY WINDFALL;  
BUDGET DEFICIT CONTINUES TO RISE**

**MAY 2026**



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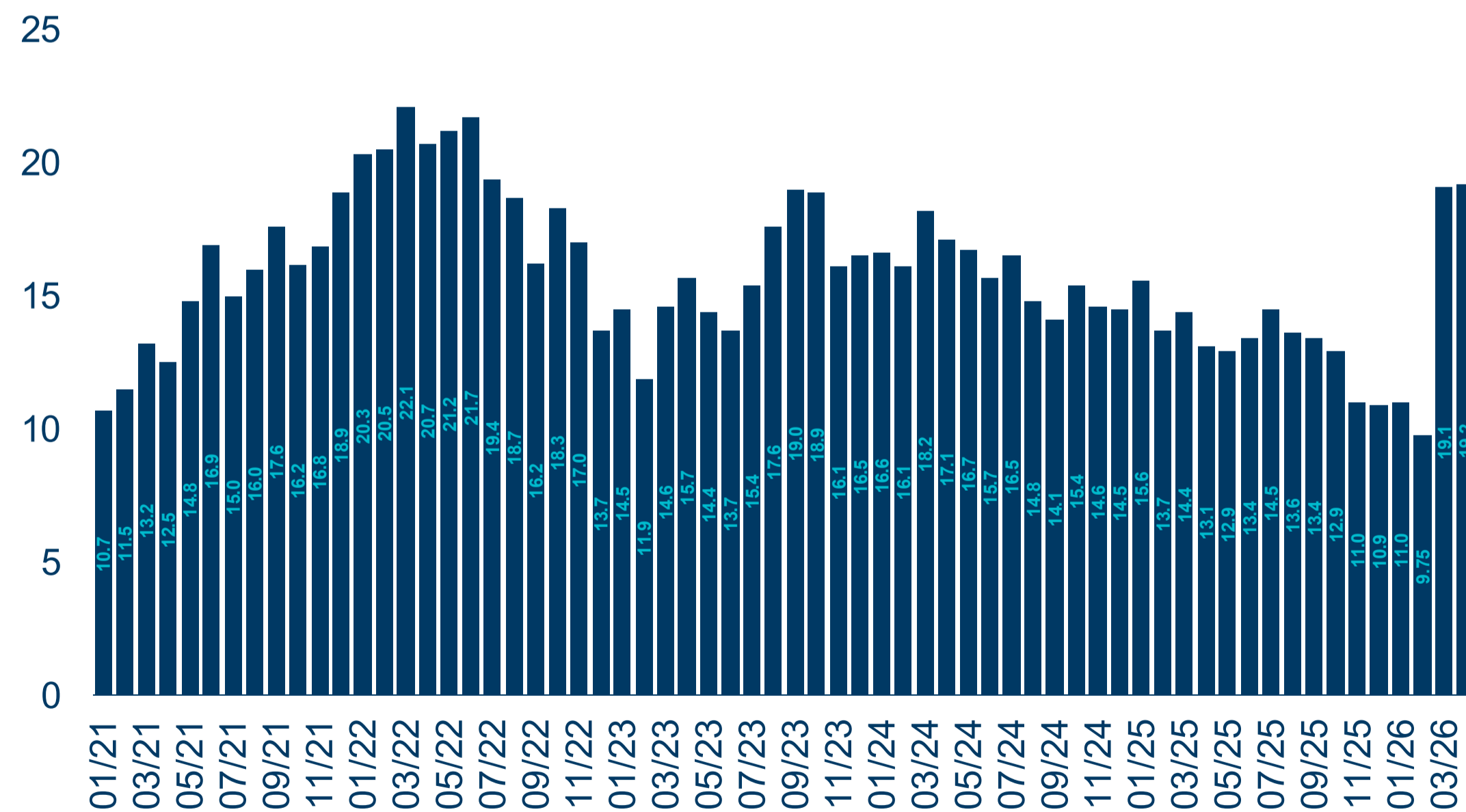
## Executive Summary

- 1. The Iran war's impact on Russia is increasingly materializing.** Along with global prices, Russian oil export prices have risen sharply—from \$43.7/bbl in Jan. and \$47.4/bbl in Feb. to \$78.3/bbl in Mar. and \$95.1/bbl in Apr. This has had a direct effect on oil export earnings, which rose from an average of \$10.4 bn in Jan.–Feb. to \$19.1–19.2 bn in Mar.–Apr. Due to the Russian taxation system, which determines oil extraction taxes based on the previous month's price, oil and gas budget revenues rose with a one-month lag, i.e., in April, with base revenues doubling vs. Mar. Rising export earnings have also led to ruble appreciation—to ~71 vs. the dollar, the lowest since early 2023. This, however, limits the positive effect of higher prices on the budget as energy revenues grow less in local currency terms. Importantly, Russia has not been able to benefit more from high prices as production expansion is hindered by sanctions. Nonetheless, until energy markets normalize after the end of the Iran war, Russia will receive significant extra export earnings and budget revenues.
- 2. Russia's fundamental issues are too big to be fixed by the energy windfall.** While budget revenues from oil and gas rose sharply, non-O&G revenues remain weak due to the economy's stagnation. At the same time, expenditures continue to grow as the cost of the war is increasingly born by the official budget. In addition, high energy prices also cost the Russian state money in the form of subsidies that keep domestic fuel prices under control. Last month, the federal budget registered a 1.3 trillion rubles deficit, bringing the cumulative number for Jan.–Apr. to 5.9 trillion (~\$75 bn)—double the corresponding number in 2025 and already 55% above the full-year target. Due to rising fiscal needs, MinFin continues to increase OFZ issuance and relied on NWF funds in Q1. However, these two channels financed only part of deficit in Q1, with \$41 billion taken from other sources, including the Treasury's accounts. As these decline and there is no end in sight for Russia's budget challenges, domestic borrowing and/or NWF utilization will need to increase in the coming months.
- 3. The economy is grinding to a halt.** After a significant growth slowdown in 2025—with real GDP expanding only 1% compared to >4% in 2023–24—Rosstat's preliminary estimate for Q1 2026 shows a contraction of 0.2% y-o-y. As this occurred relative to the weakest quarter of last year, the q-o-q decline was likely much stronger. While war-related sectors still perform well, the civilian economy has entered a recession as the cost of capital remains high and businesses compete with the military for labor. Inflation risks stemming from Russia's increasingly difficult fiscal position may keep the CBR from loosening monetary policy further, meaning that elevated interest rates will constrain private sector activity. However, the central bank's policy stance has effectively brought inflation under control.

## Oil exports held steady in April even though prices continued to rise.

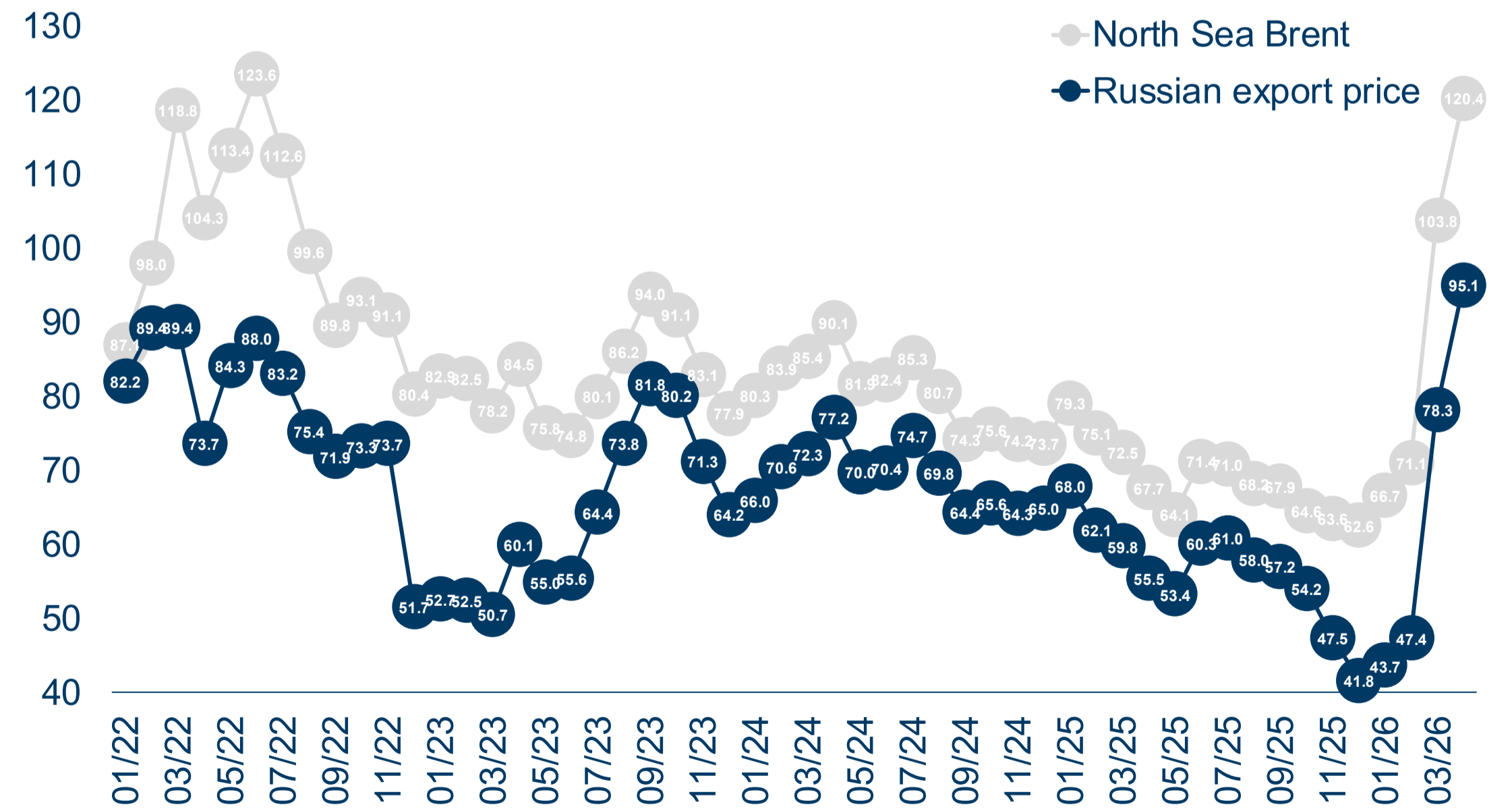
- Oil export earnings remained largely unchanged in Apr. at \$19.2 billion (vs. \$19.1 billion in Mar.).
- Russian export prices continued to rise, reaching \$95.1/barrel in Apr., up from \$78.3/barrel in Mar.
- Meanwhile, the discount on Russian oil stayed elevated and practically unchanged at \$25.2/barrel.

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

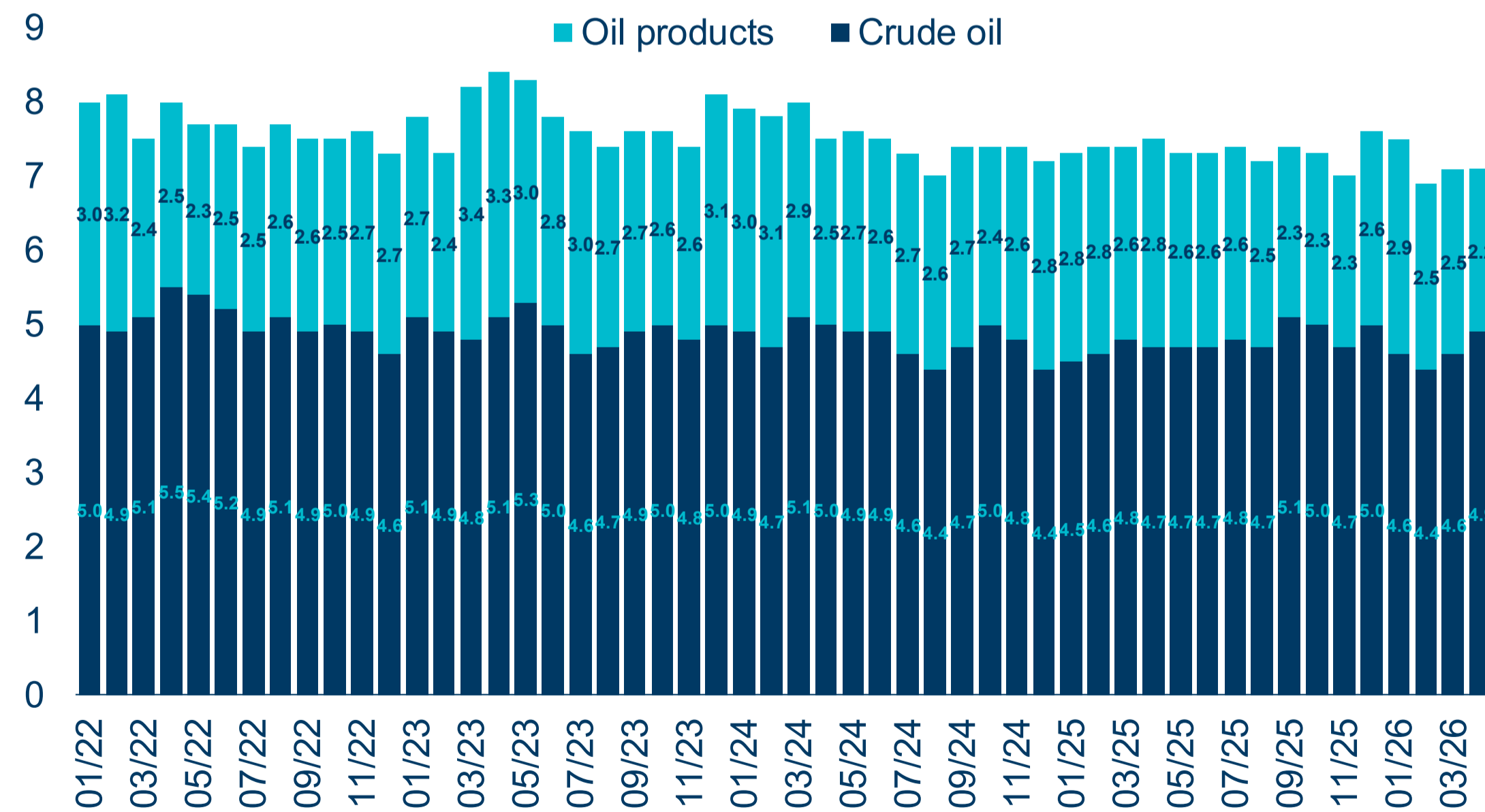


Source: International Energy Agency, KSE Institute

## Export volumes hold steady; US extends sanctions waiver.

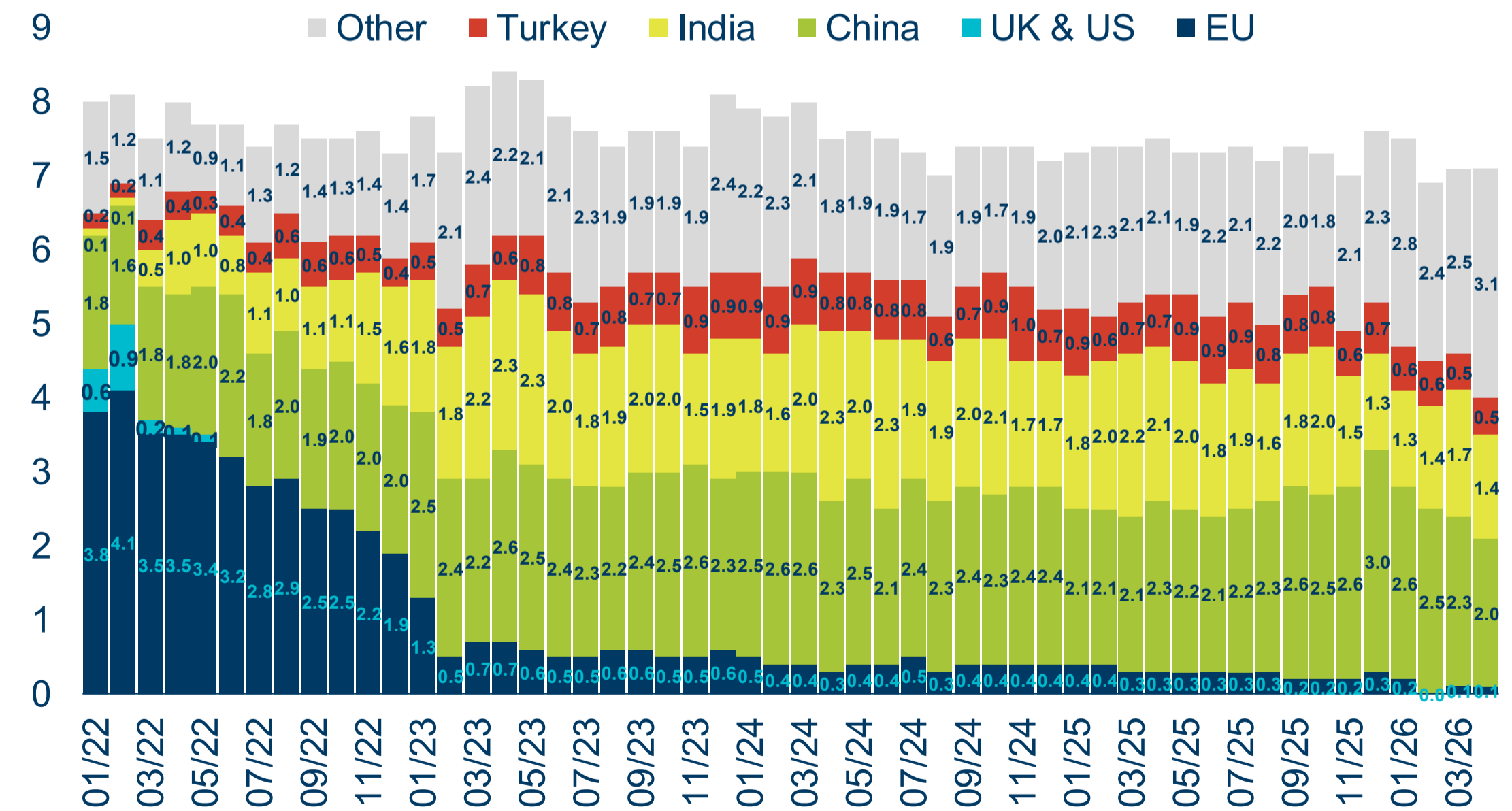
- Total Russian oil export volumes held at ~7.1 mb/d, as rising crude oil (4.9 mb/d) offset falling oil products (2.2 mb/d).
- KSE's tracking of seaborne exports shows that India increased its purchases, enabled by easing of US sanctions.
- This is also visible in the IEA's Mar. data, while Apr. numbers show—as usual—a large share with unknown destination.

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

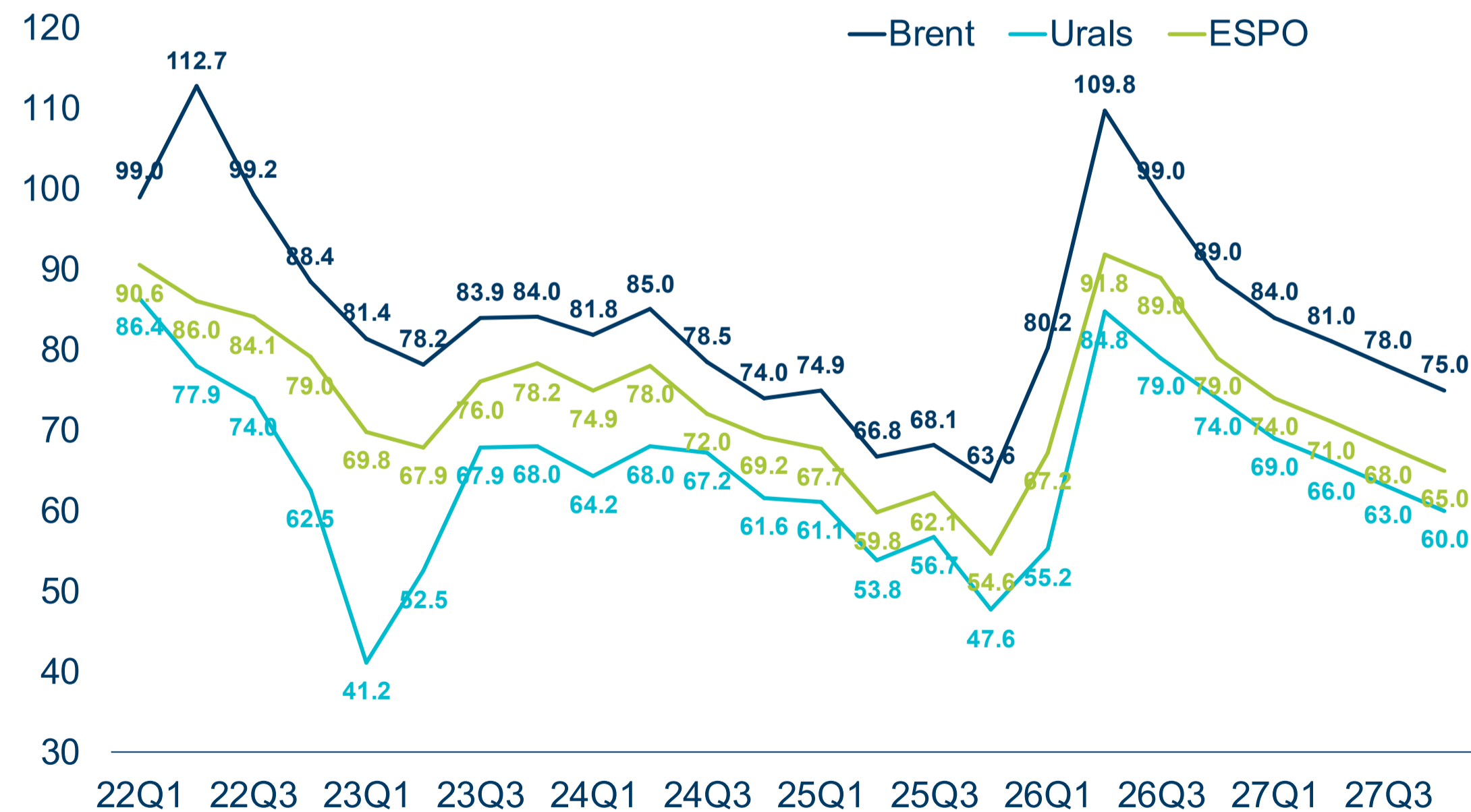


Source: International Energy Agency, KSE Institute

## Iran war will keep prices high for longer and benefit Russia.

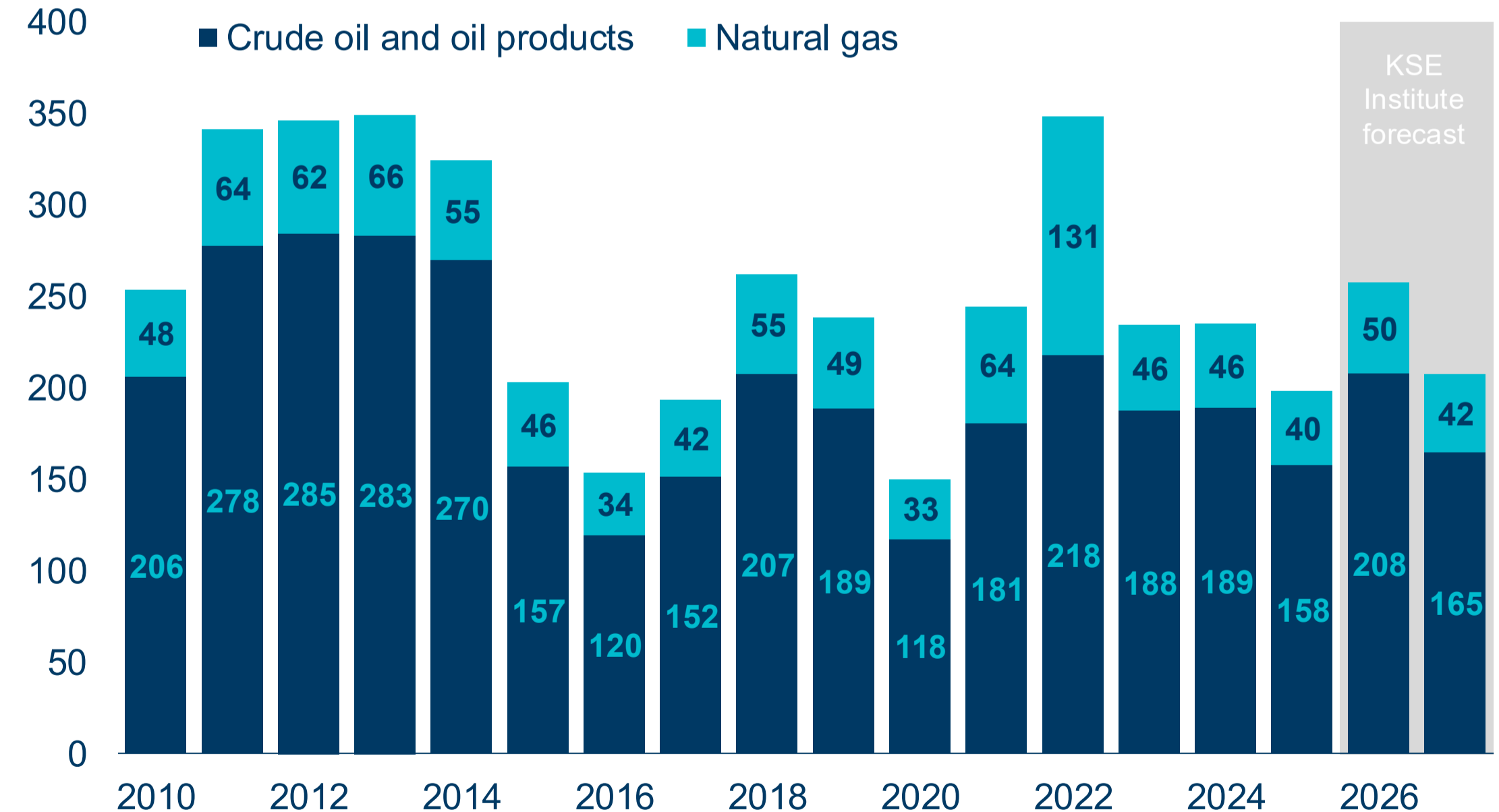
- Due to the Iran war, Brent is expected to average ~\$94/barrel in 2026, followed by a decline to ~\$79.5/barrel in 2027.
- Under the assumption of a stable discount, Russian oil prices will therefore be elevated for an extended period of time.
- Oil export earnings are projected to increase to \$208 bn in 2026 (+\$50 billion vs. 2025) but drop to \$165 billion in 2027.

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

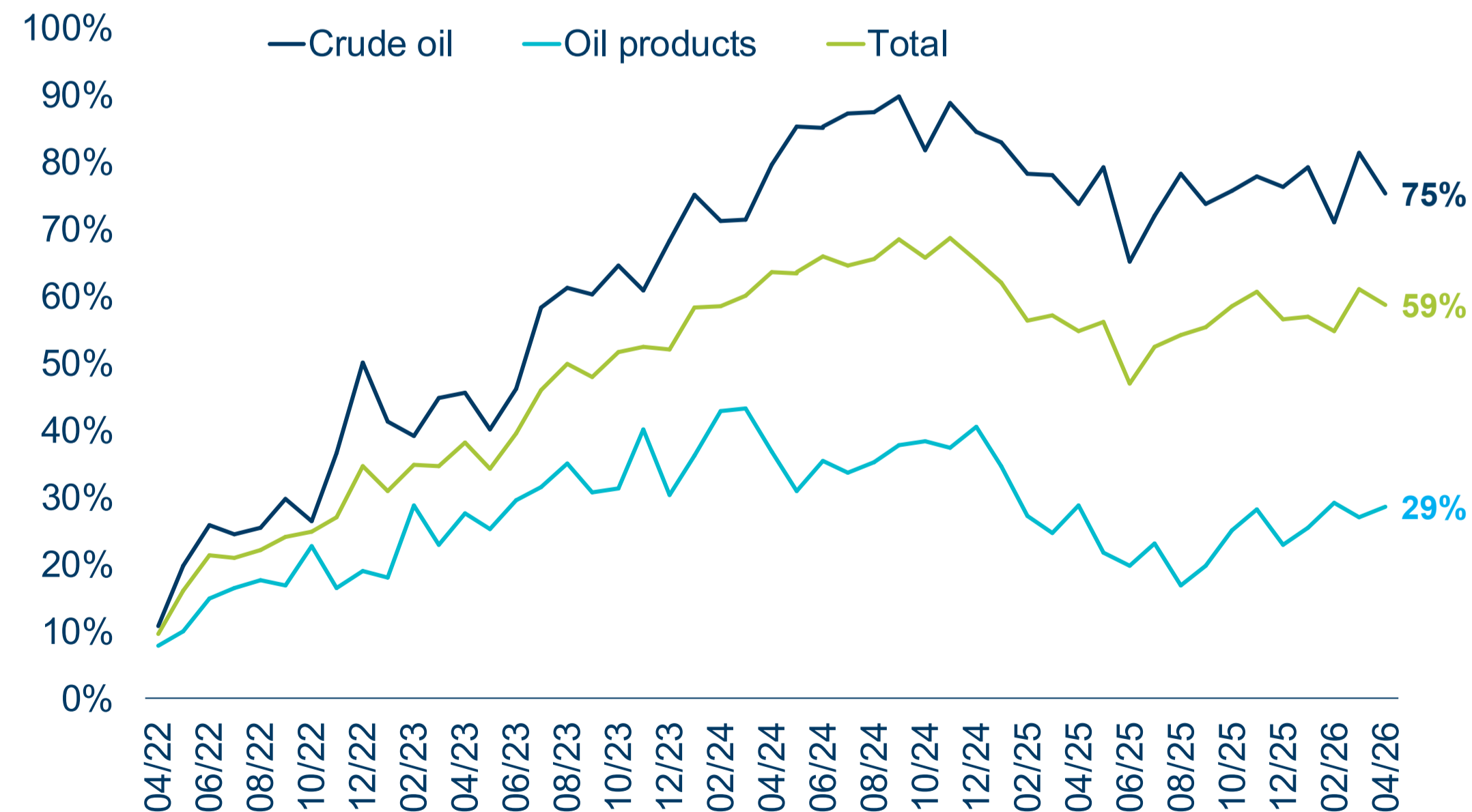


Source: Bank of Russia, KSE Institute  
 Note: Scenario of a relatively short active Iran war and quick subsequent restoration of flows.

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

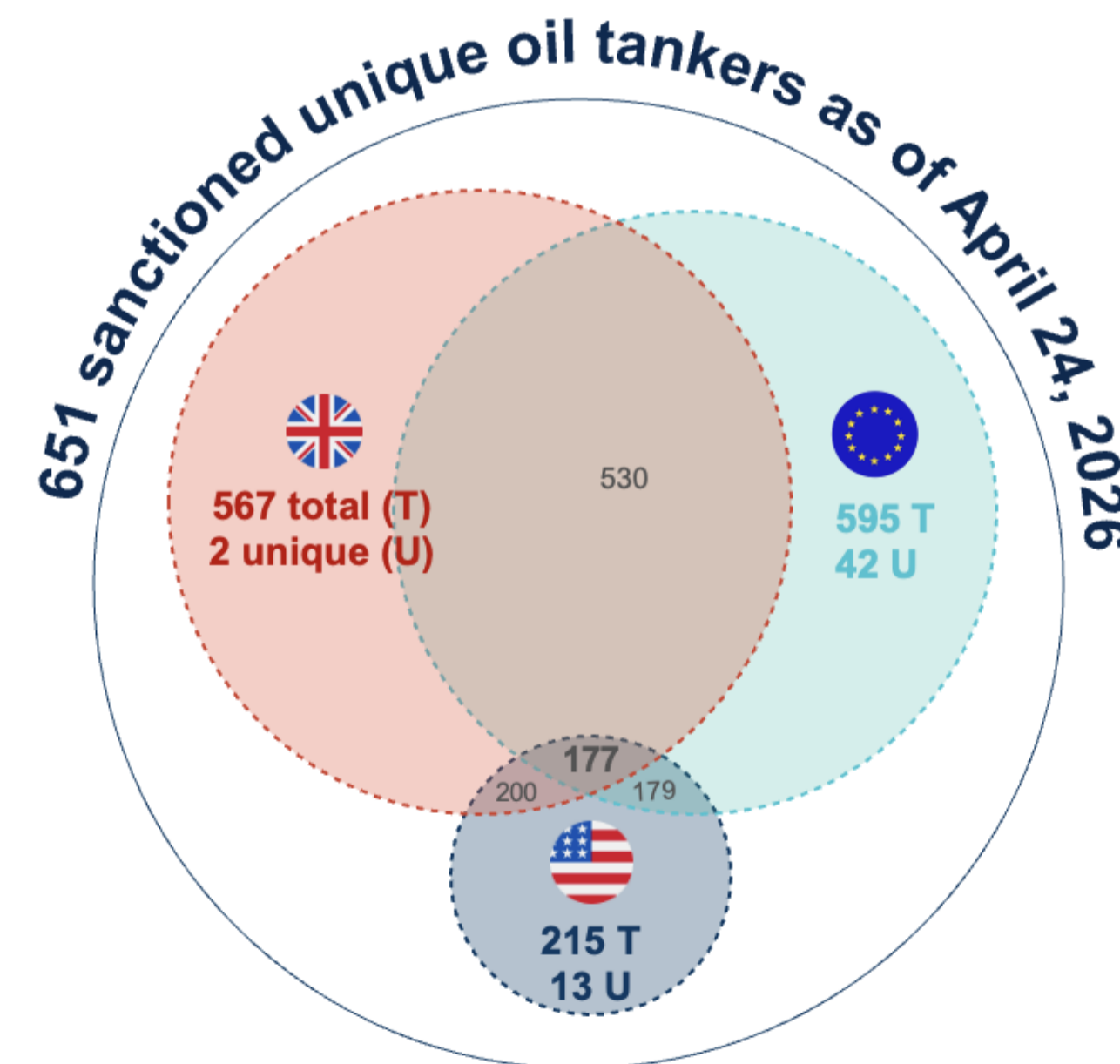
- The shadow fleet's share in Russian oil exports decreased slightly to 59% in Apr. compared to 61% in Mar.
- The share of crude oil dropped to 75% in Apr. (from 82% in Mar.), while oil products saw a slight increase.
- Despite the considerable impact of vessel designations, stepped-up targeting of the ecosystem is needed.

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction



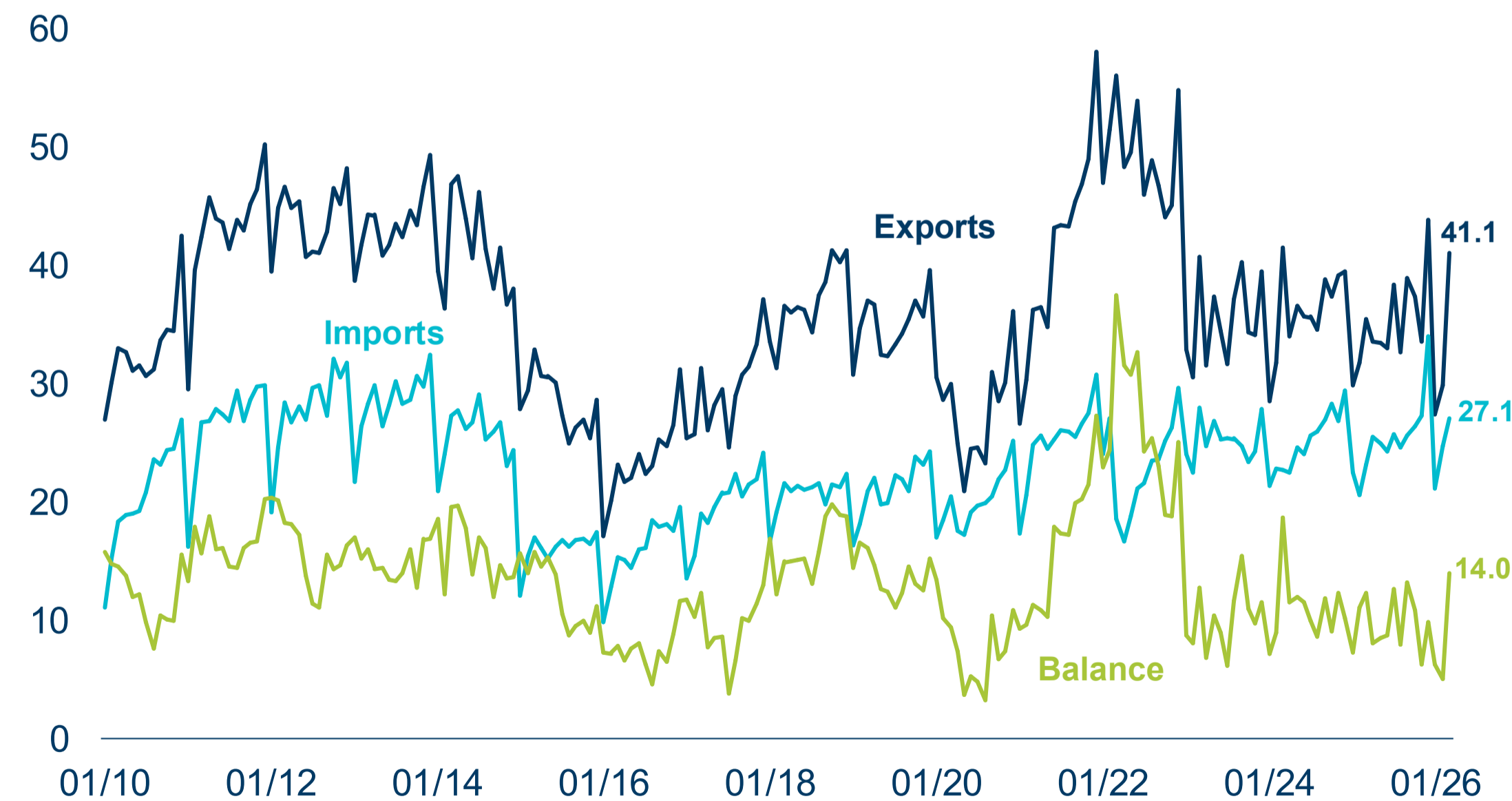
Source: European Commission, OFAC, OFSI, KSE Institute.

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 surplus widened due to surging oil exports.

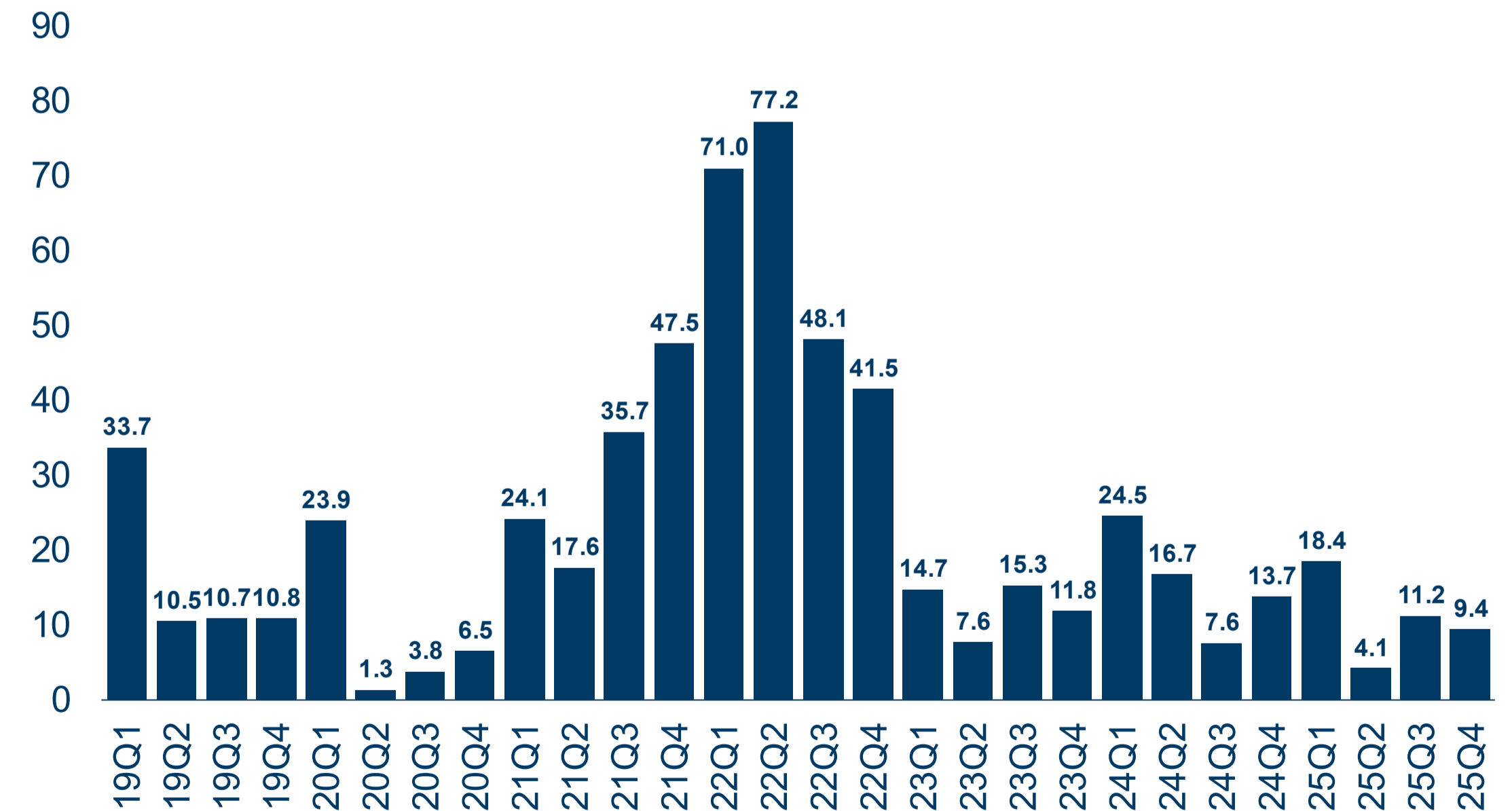
- Exports surged in Mar., while imports recovered modestly, widening the trade surplus to \$13.9 billion.
- The growth in exports earnings (+\$11.2 billion) was largely driven by surging oil exports (+\$9.4 billion).
- As a result of high energy prices, Russia’s current account likely improved in Q1 vs. Q4 (\$9.4 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

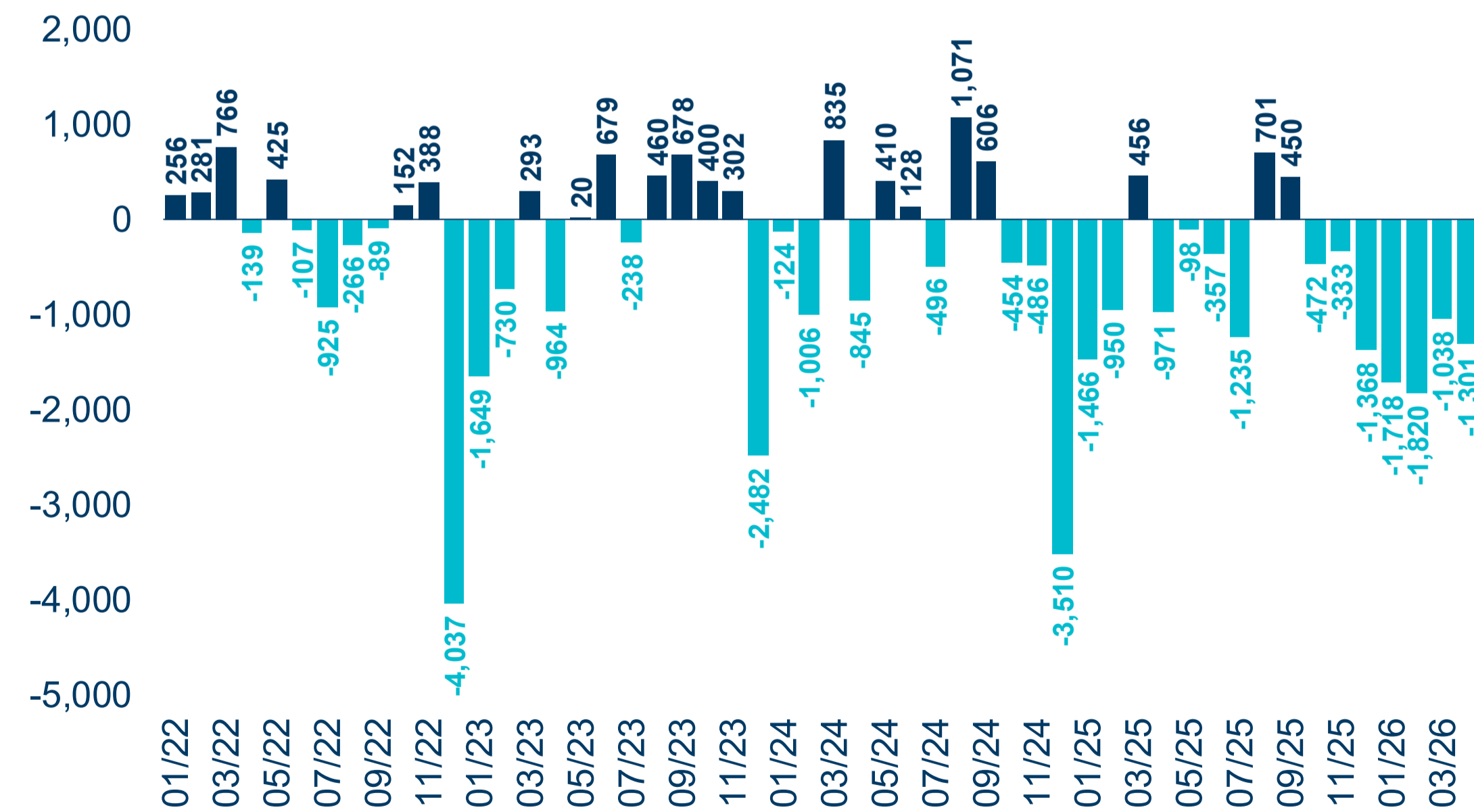


Source: Bank of Russia, KSE Institute

## Budget deficit continued to rise in April despite energy windfall.

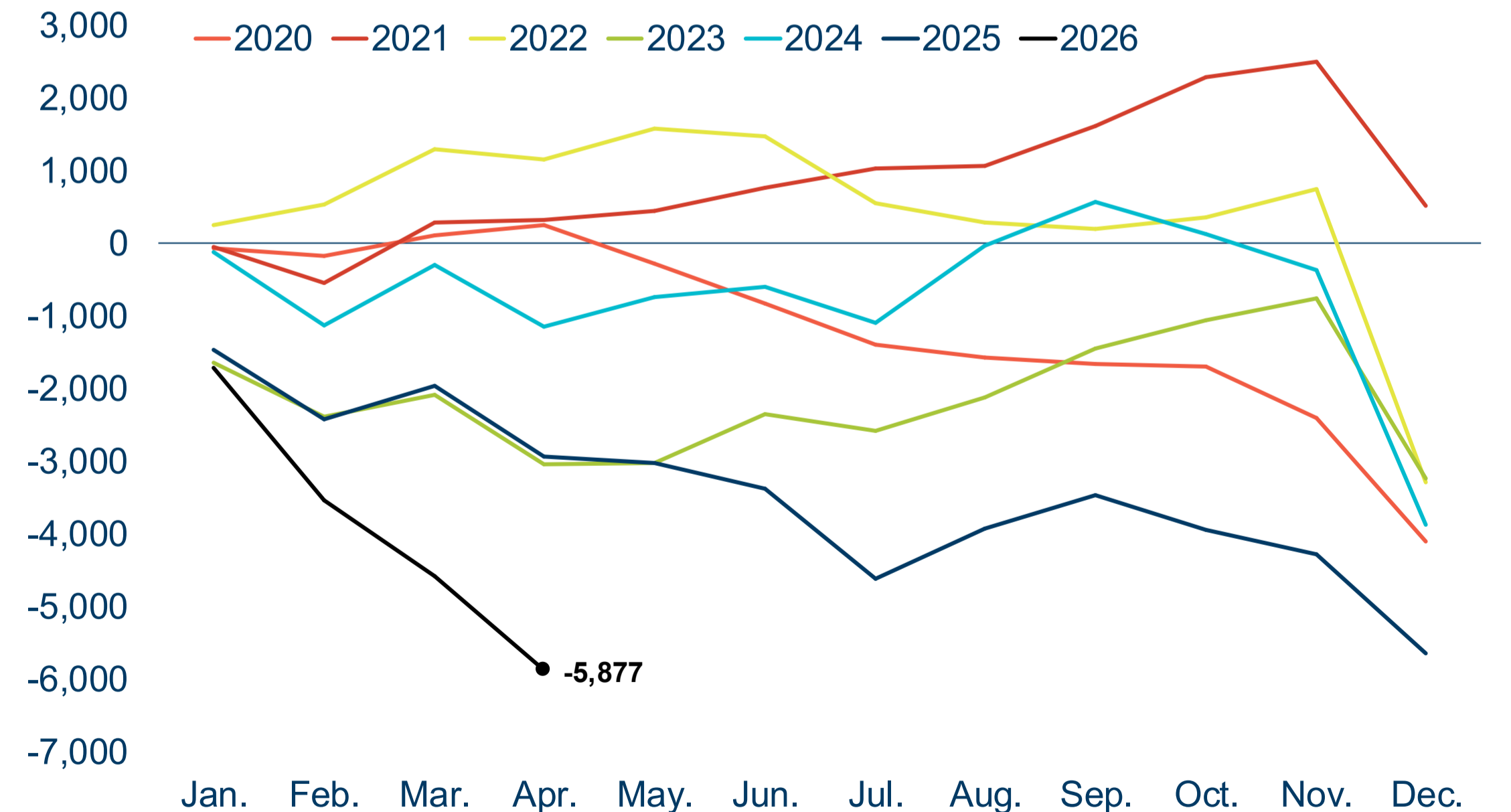
- Russia’s federal budget deficit reached 1.3 trillion rubles in April following large gaps in January through March.
- As a result, the cumulative deficit continued to rise to 5.9 trillion—the largest level (in nominal terms) on record.
- Persistently high expenditures are offsetting additional oil and gas revenues, while non-O&G revenues are weak.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

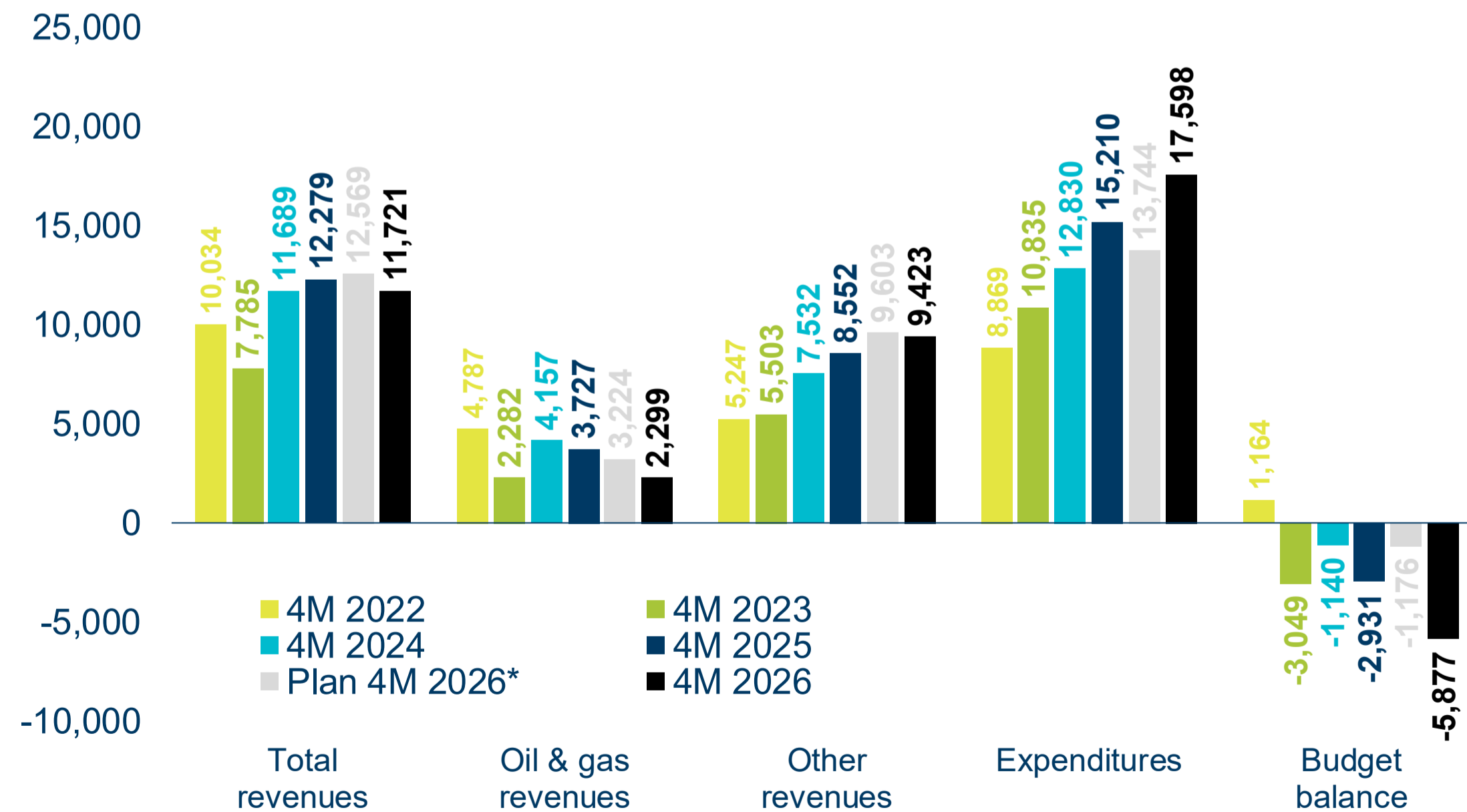


Source: Ministry of Finance, KSE Institute

## Rising spending and weak non-oil and gas revenues are key challenges.

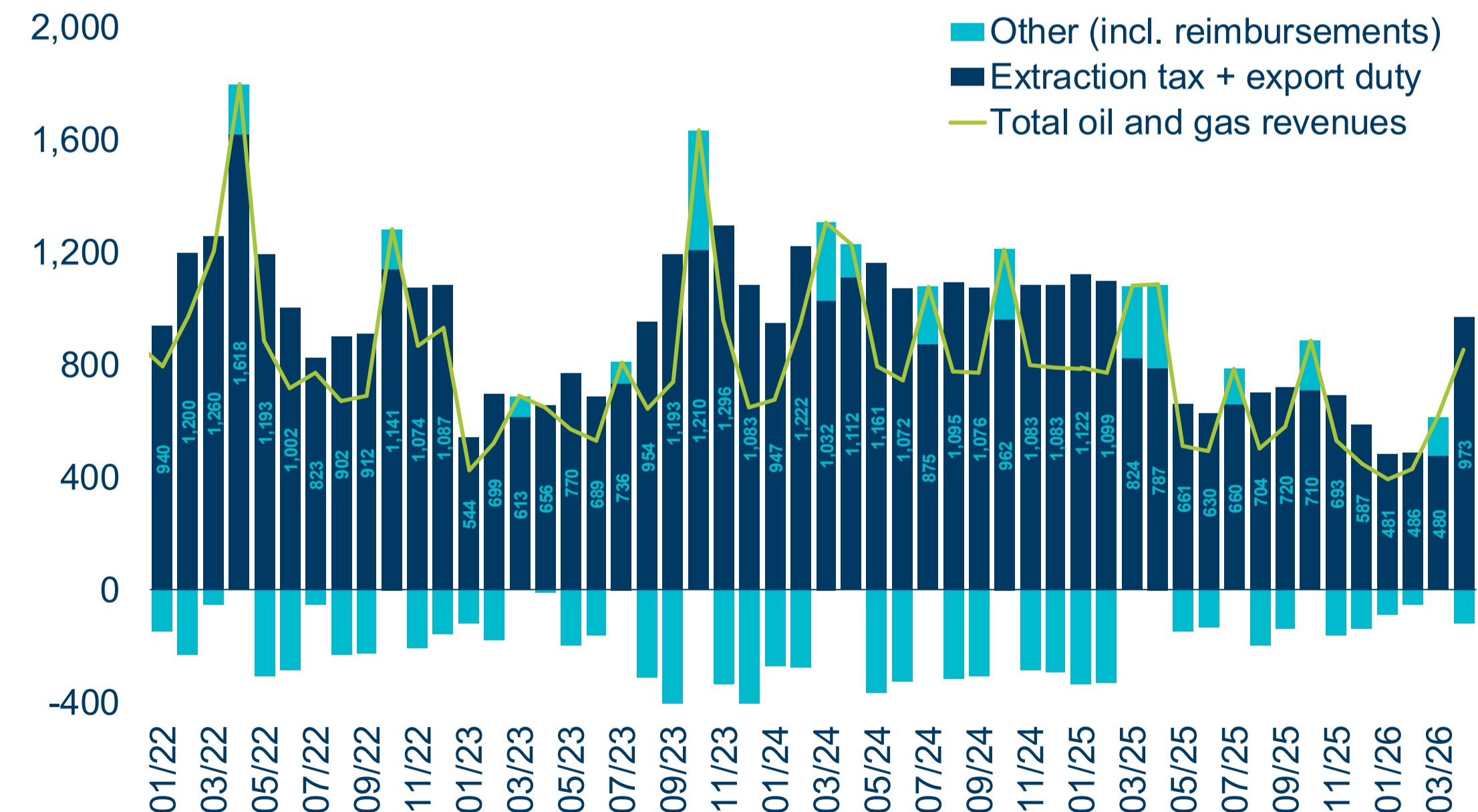
- In Jan.–Apr., O&G revenues were 38% weaker y-o-y, non-O&G revenues 10% stronger, and expenditures 16% higher.
- While base O&G revenues doubled on the back of higher prices in Apr., total O&G revenues were still down 21% y-o-y.
- In addition, higher energy prices also drove up damper payments (to 208 billion in Apr.) to keep domestic fuel prices low.

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

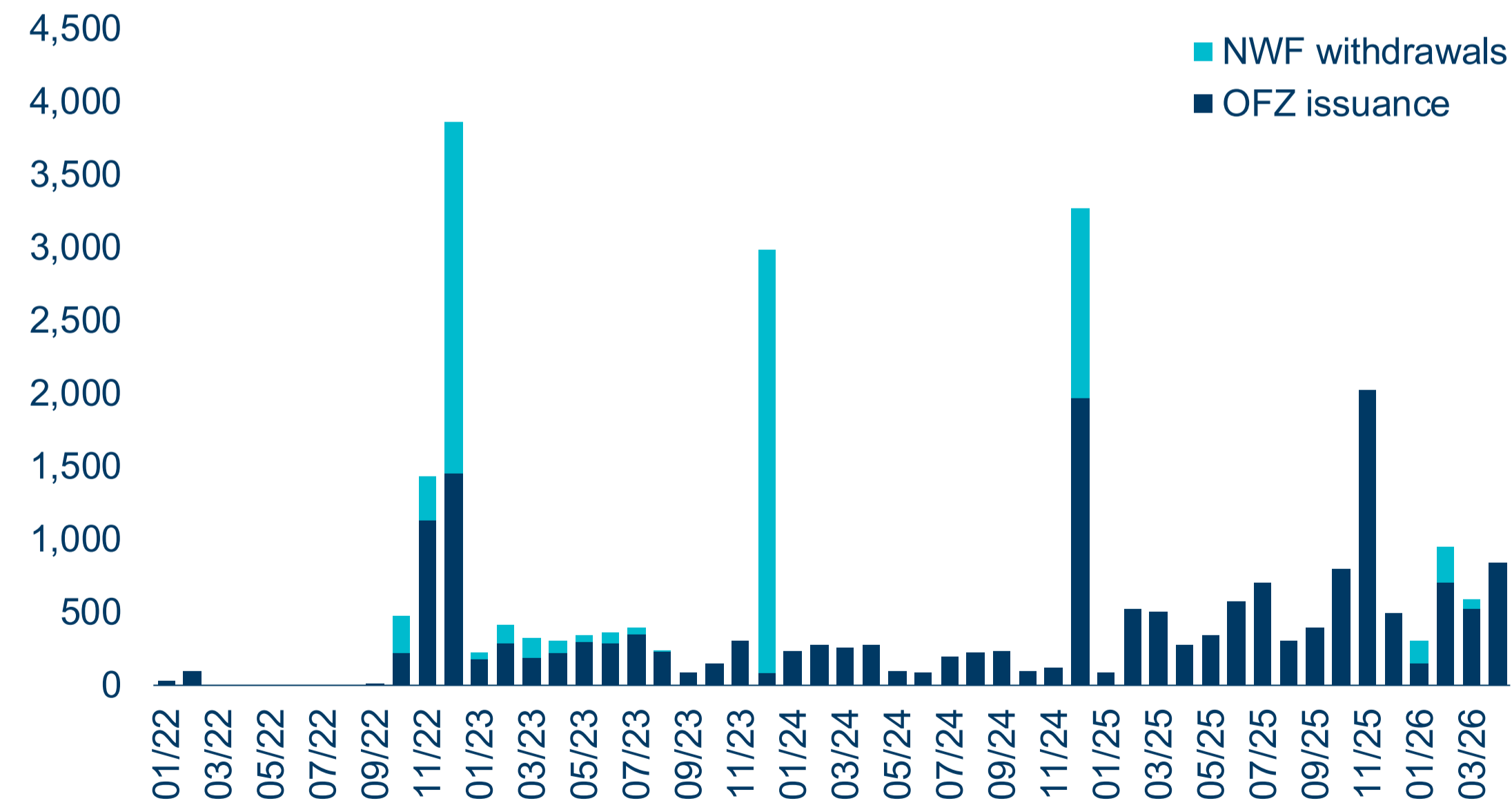


Source: Ministry of Finance, KSE Institute

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

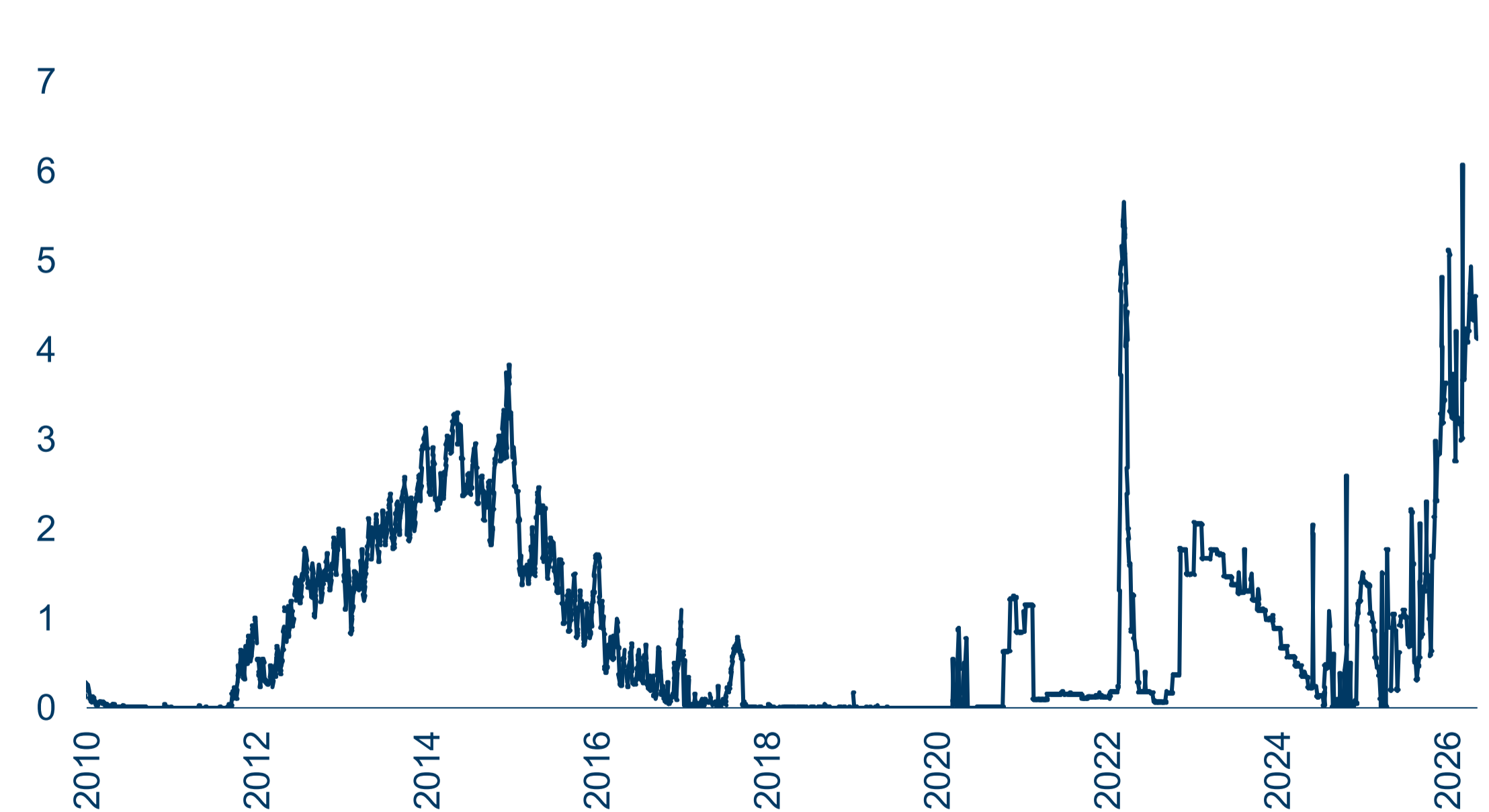
- Domestic debt (OFZ) issuance in Q1 reached 1.4 trillion rubles, exceeding the initial quarterly target by 200 billion.
- In Apr., Russia’s MinFin issued an additional 840 billion, marking the highest single-month OFZ issuance in 2026.
- The CBR continued to provide significant amounts of liquidity 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

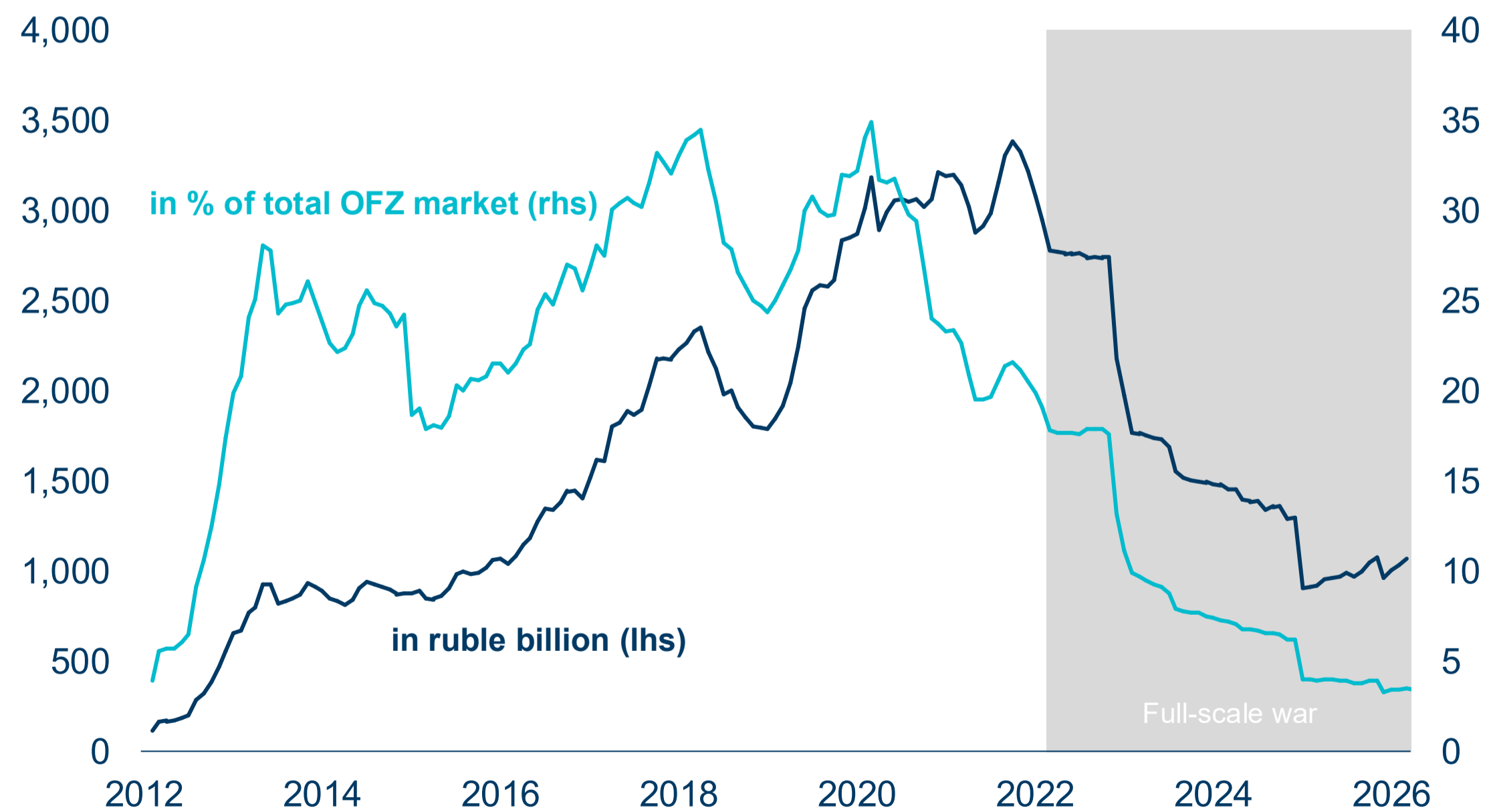


Source: Bank of Russia, KSE Institute

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

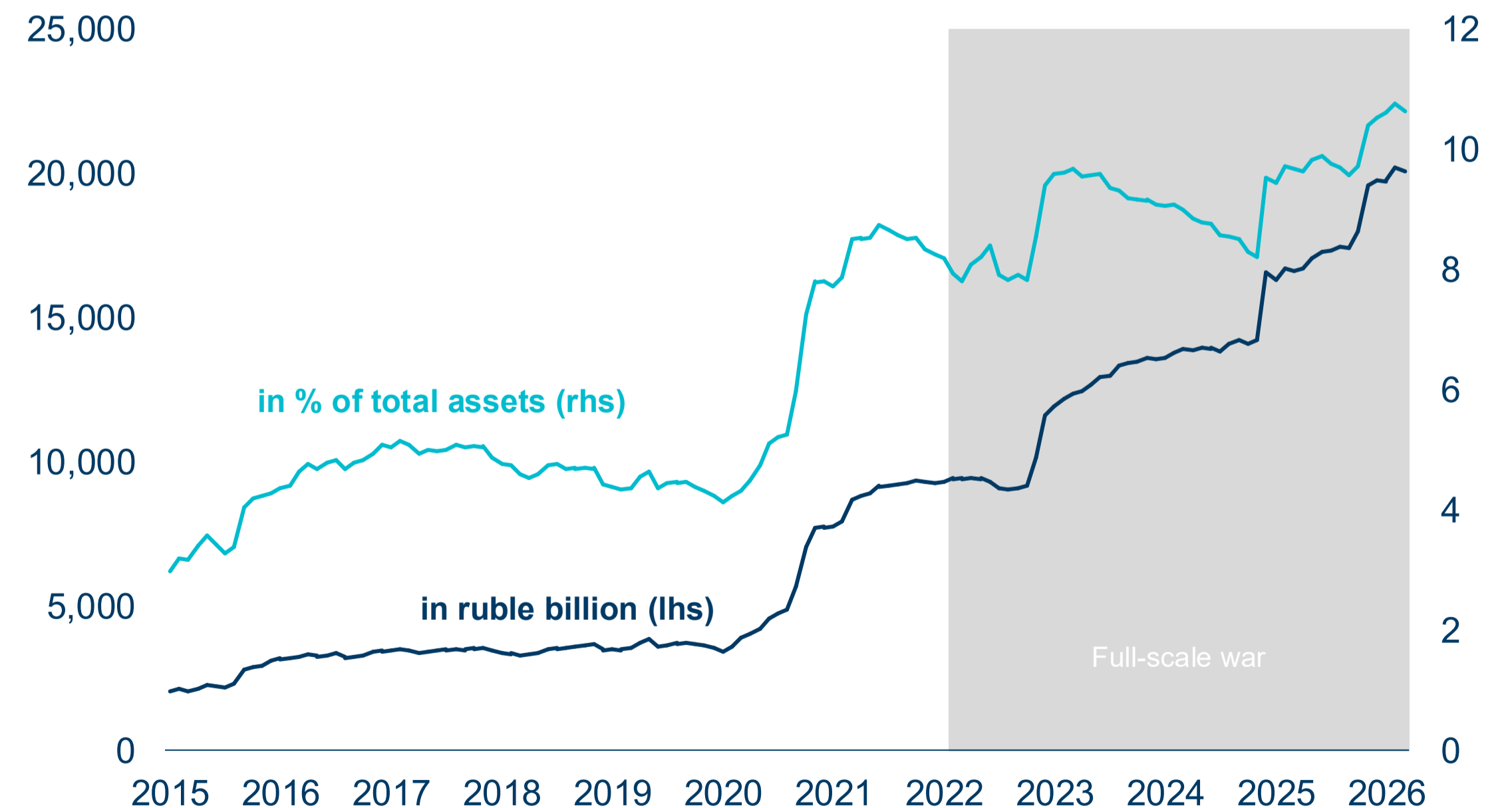
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2 trillion rubles (or 66%) since January 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same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

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings\*

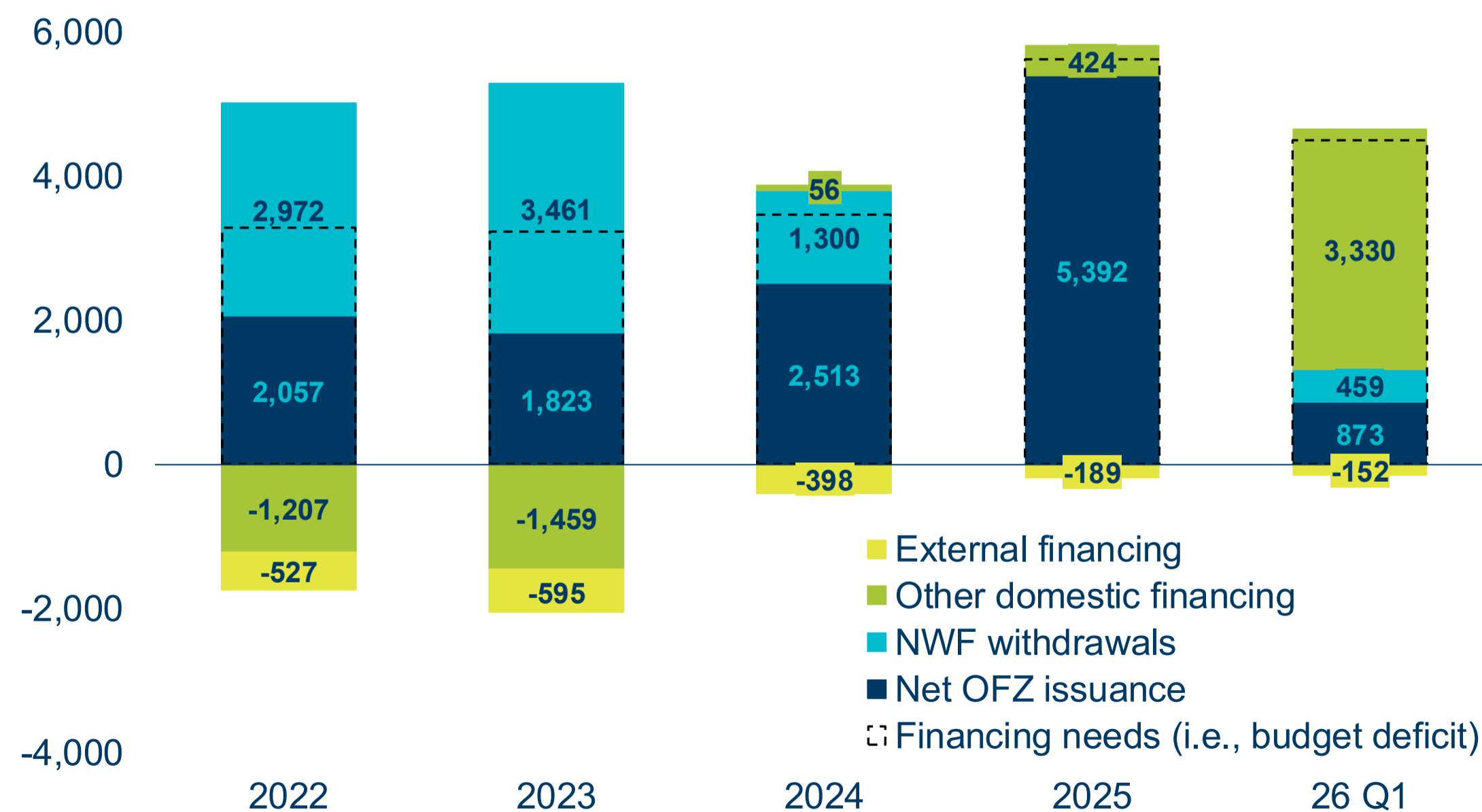


Source: Bank of Russia, KSE Institute \*excluding Bank of Russia

## Budget underfinancing puts pressure on the Treasury's cash balance.

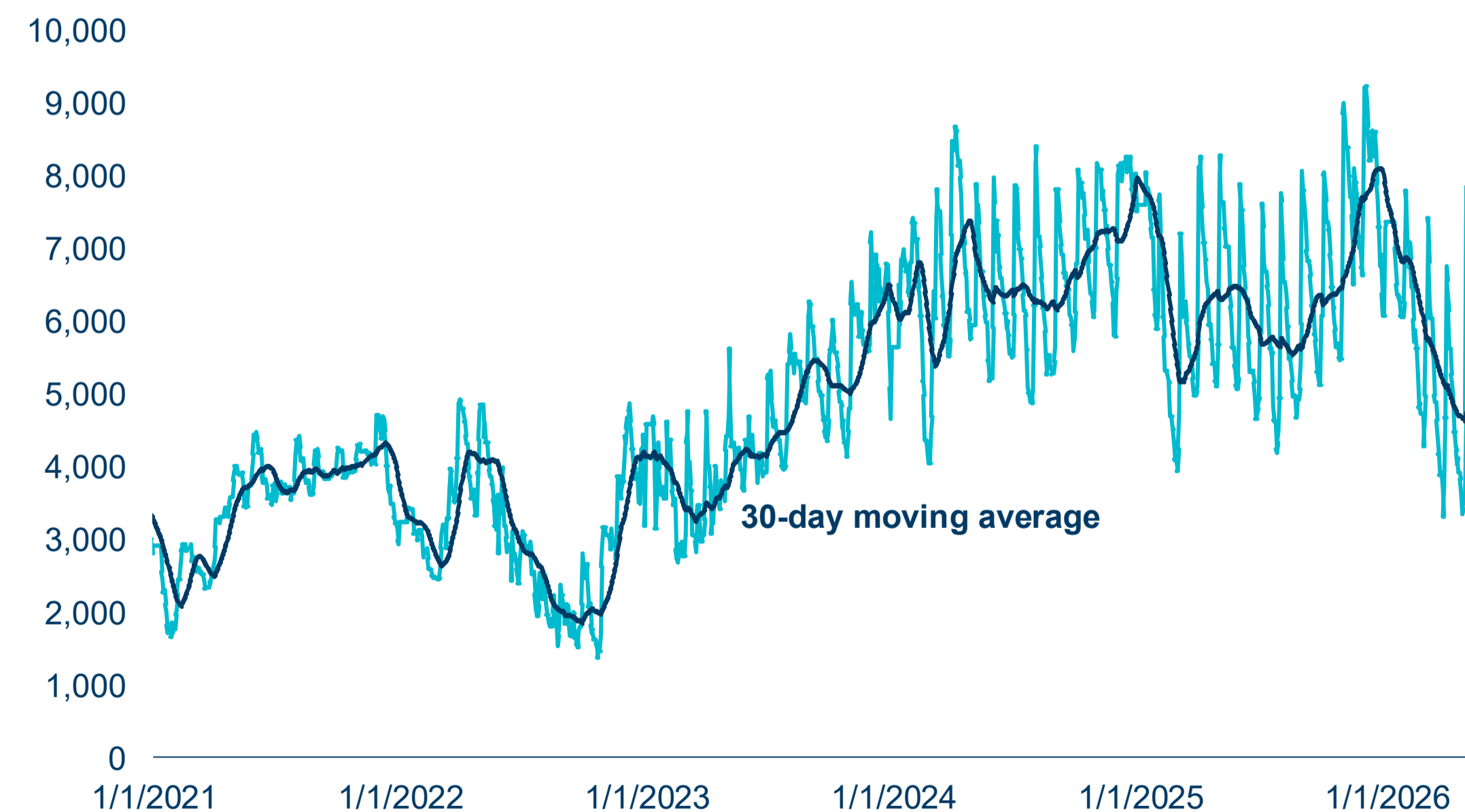
- Net OFZ issuance and NWF withdrawals were 3.2 trillion rubles (\$41 billion) smaller than the budget deficit in Q1.
- Russia relied on its Treasury's account, which declined by 3.0 trillion rubles from December to April (monthly avg.).
- In the absence of meaningful fiscal improvements, higher domestic 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

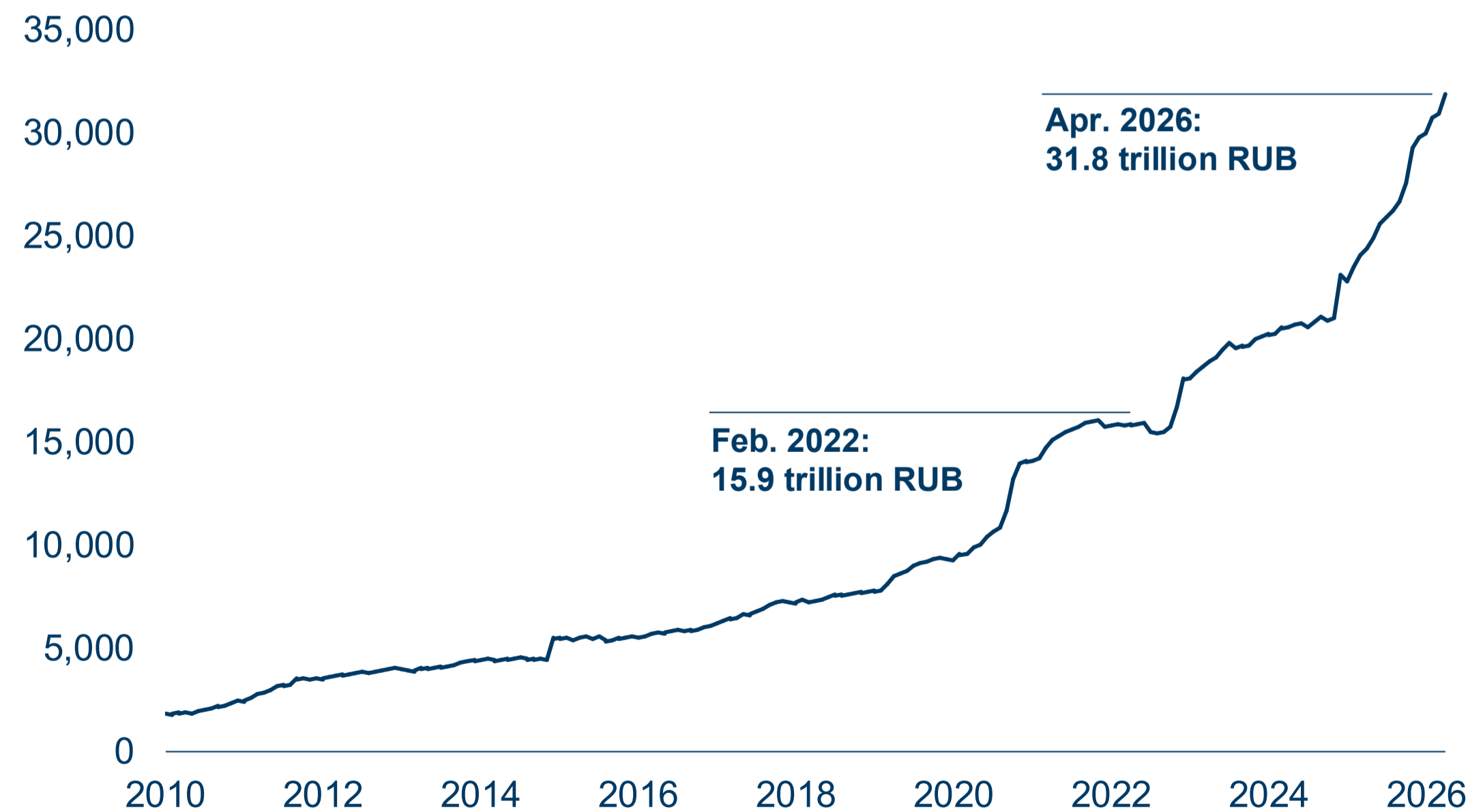


Source: Bank of Russia, Russian Treasury, KSE Institute

## Domestic debt soars, budget exposed to rising servicing costs.

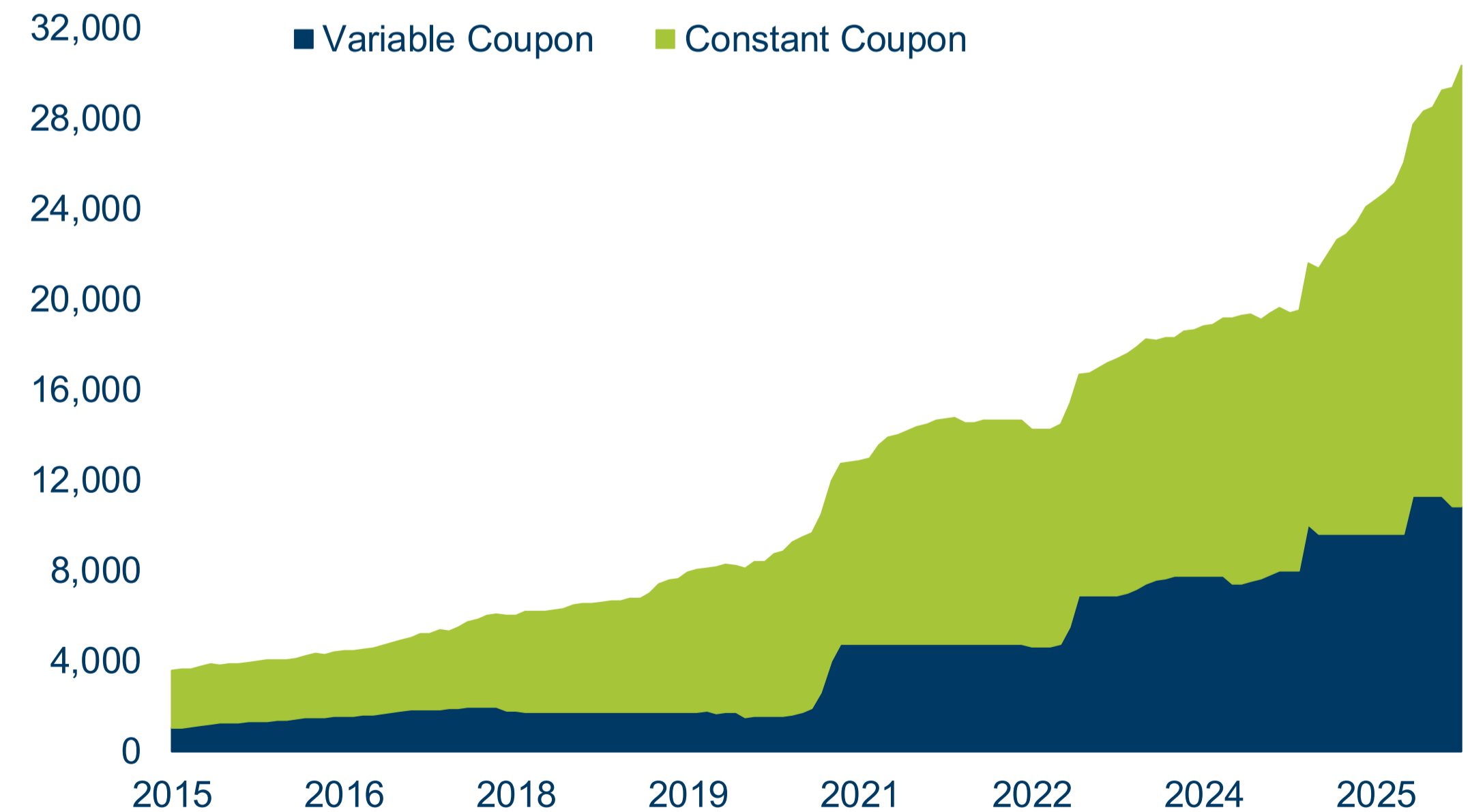
- Federal domestic debt has doubled since Feb. 2022, reaching 31.8 trillion rubles by Apr. 2026.
- MinFin is further shifting to constant-coupon OFZs, while reducing issuance of variable-rate bonds.
- This reflects dropping investor demand for floating yields as the CBR continues to cut interest rates.

Federal government domestic debt, in ruble billion



Source: Ministry of Finance, KSE Institute

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

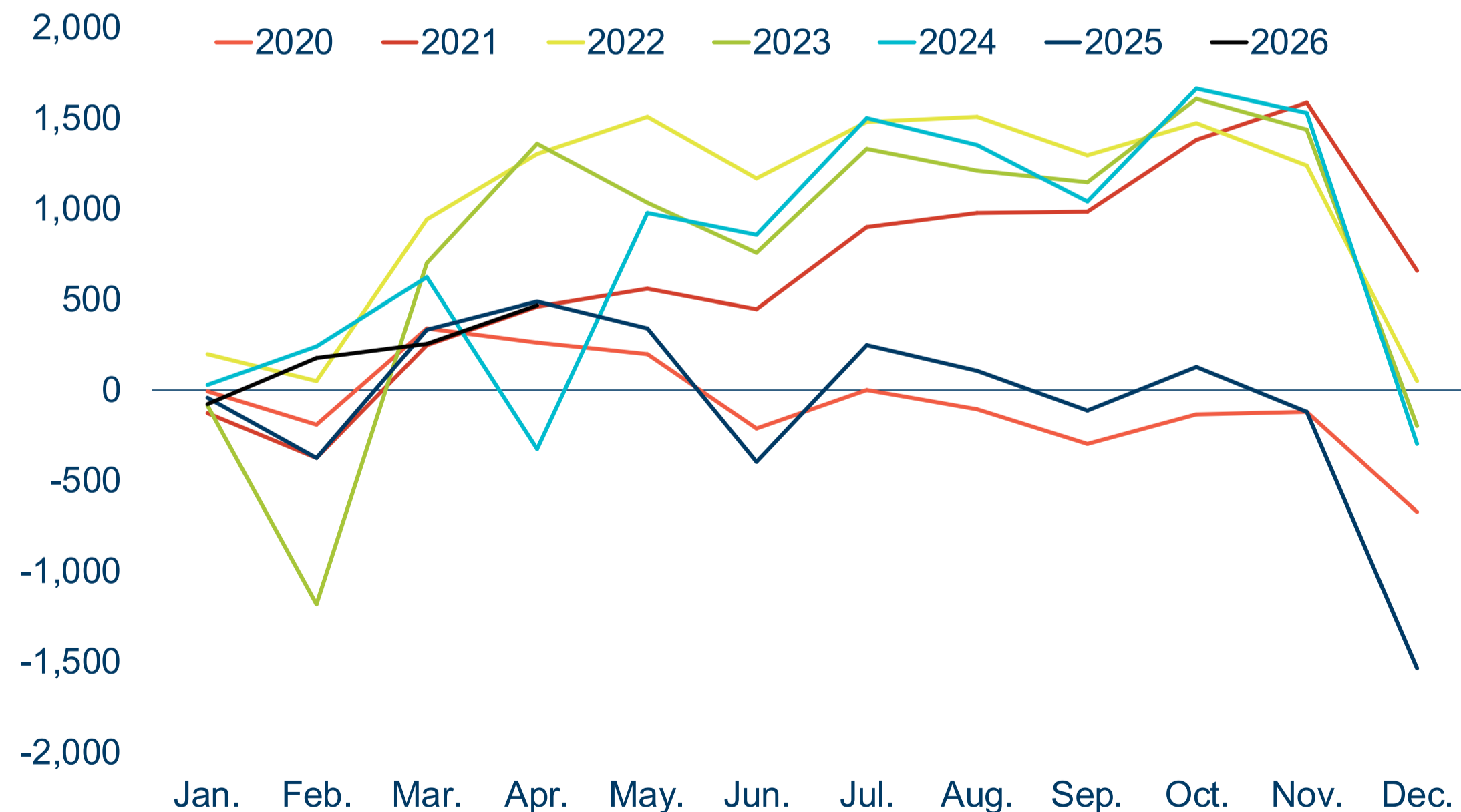


Source: Ministry of Finance, KSE Institute

## Financial burden of the war was partially shifted to regions in 2025.

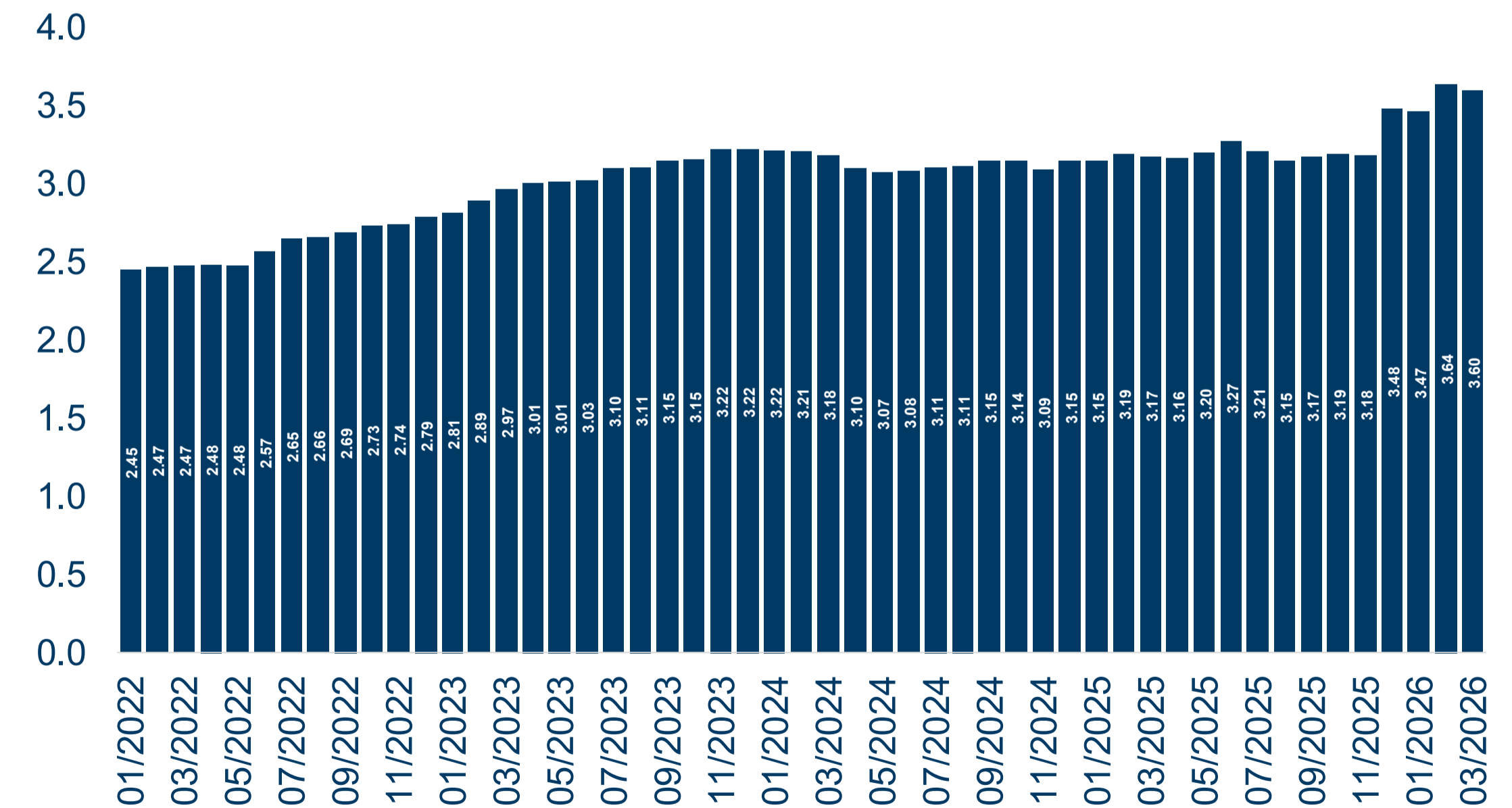
- Regional finances deteriorated in 2025, with the consolidated regional deficit reaching a record 1.5 trillion rubles.
- This indicates that the financial burden of the war was pushed down to the regional level, leading to higher debt.
- The cumulative balance of Russia's regions in Jan.–Apr. 2026 (+470 billion rubles) is broadly in line with last year.

Cumulative consolidated regional budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Regional government debt, in ruble trillion

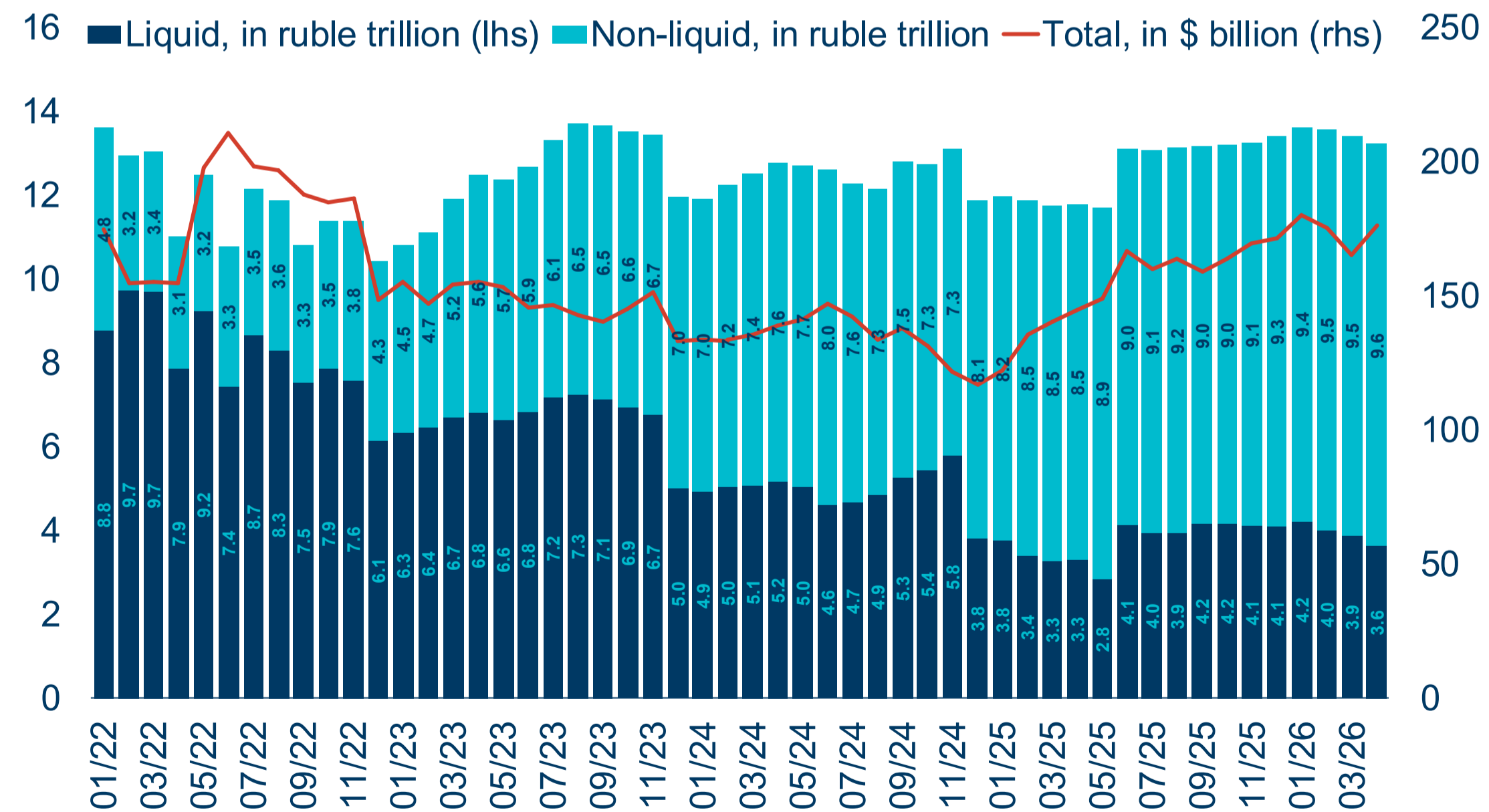


Source: Ministry of Finance, KSE Institute

## Liquid NWF assets gradually decline due to budget troubles.

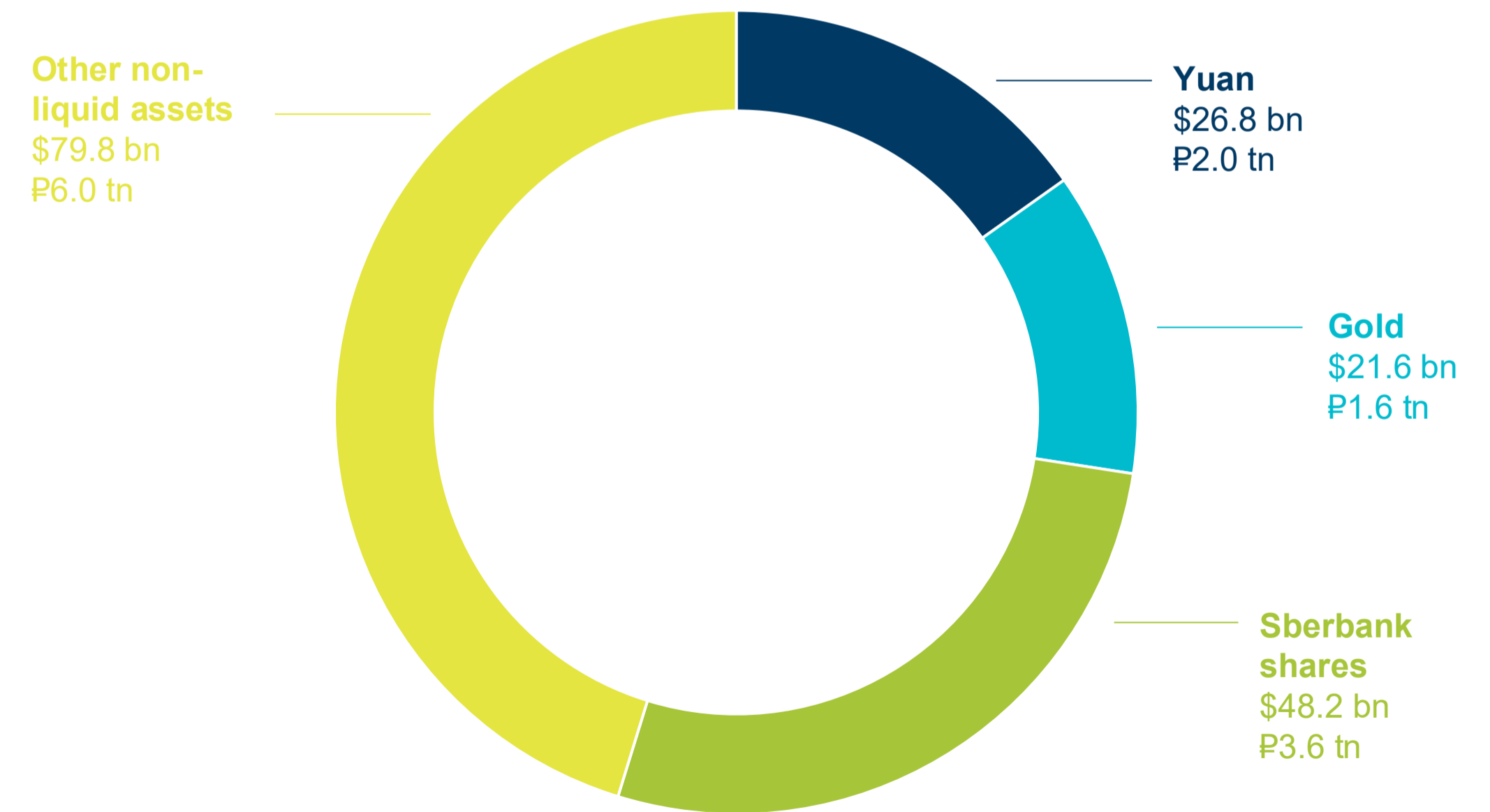
- Total assets of the National Welfare Fund stood at 13.2 trillion rubles (\$176.5 billion, 5.6% of GDP) in Apr. 2026.
- Liquid assets have shrunk by more than 60% since early 2022 and only account for 27% of the total (vs. 75%).
- Dynamics in recent months are driven by sales of gold and yuan-denominated assets as well as volatile gold prices.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of May 1, 2026\*

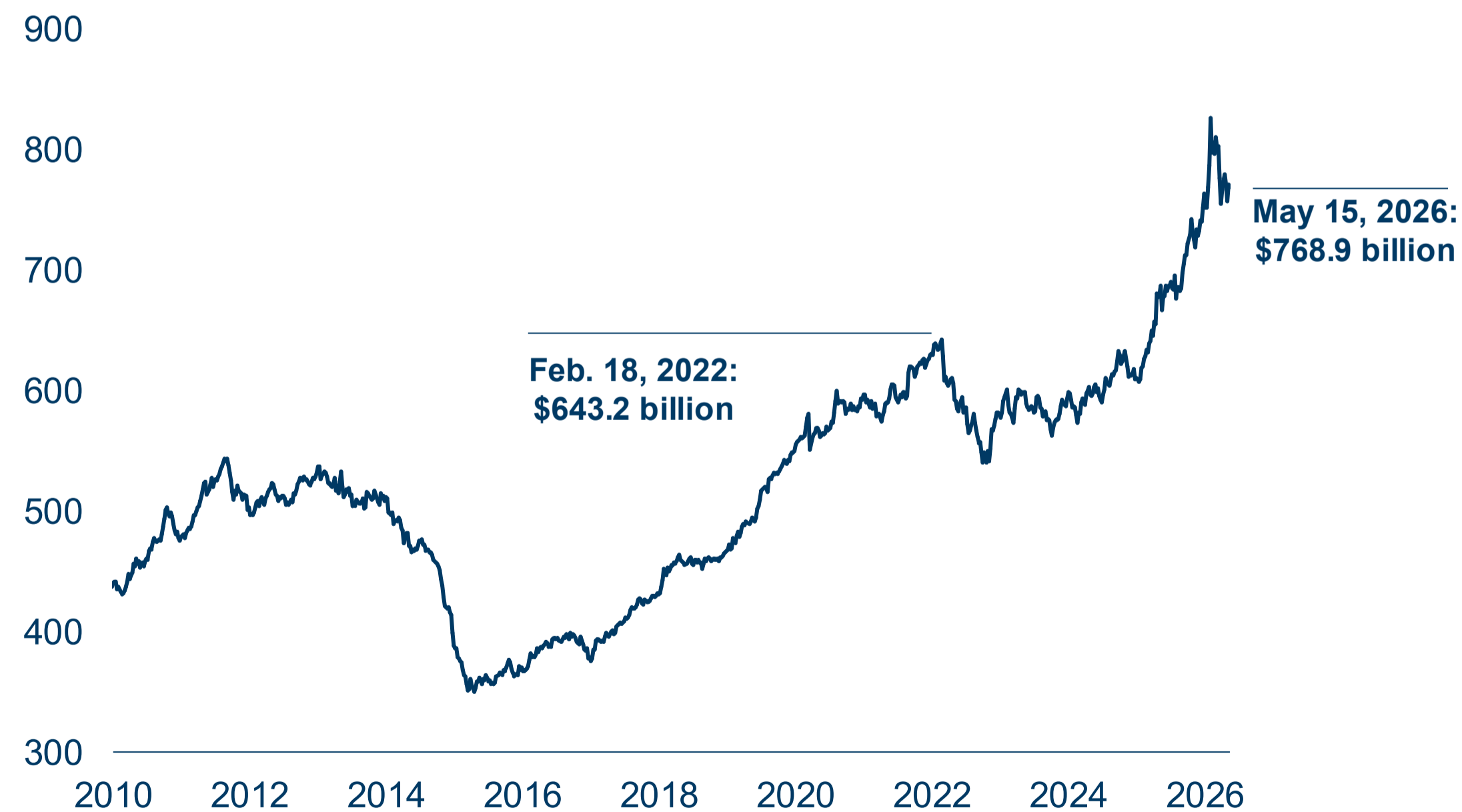


Source: Ministry of Finance, KSE Institute \*based on market exchange rates/prices

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

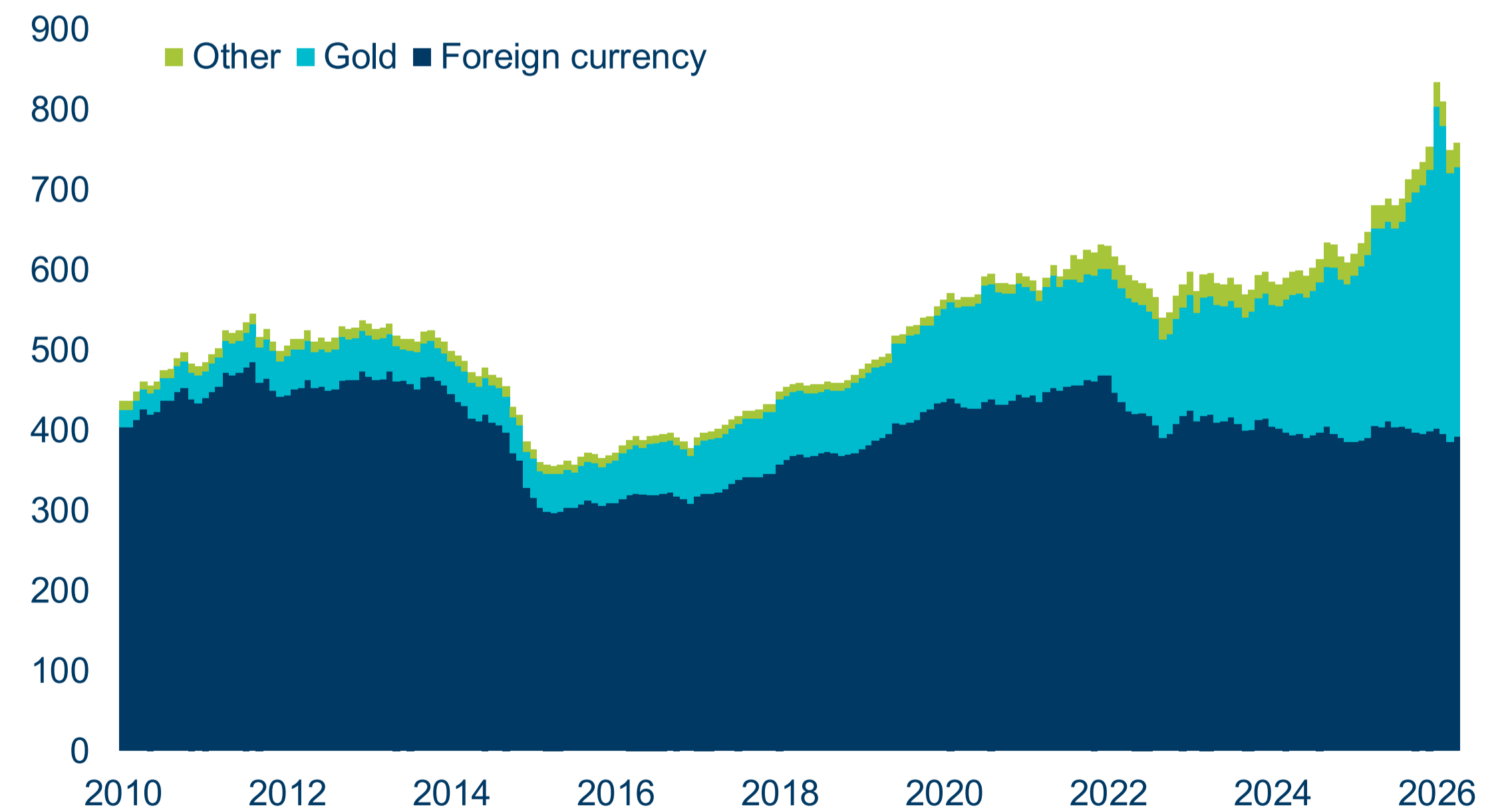
- Russia’s total international reserves stand at \$769 billion vs. \$643 billion before the start of the full-scale war.
- Foreign currency reserves have been broadly stable for 4+ years as a large share is immobilized due to sanctions.
- Changes in the total value of Russian reserves are largely driven 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

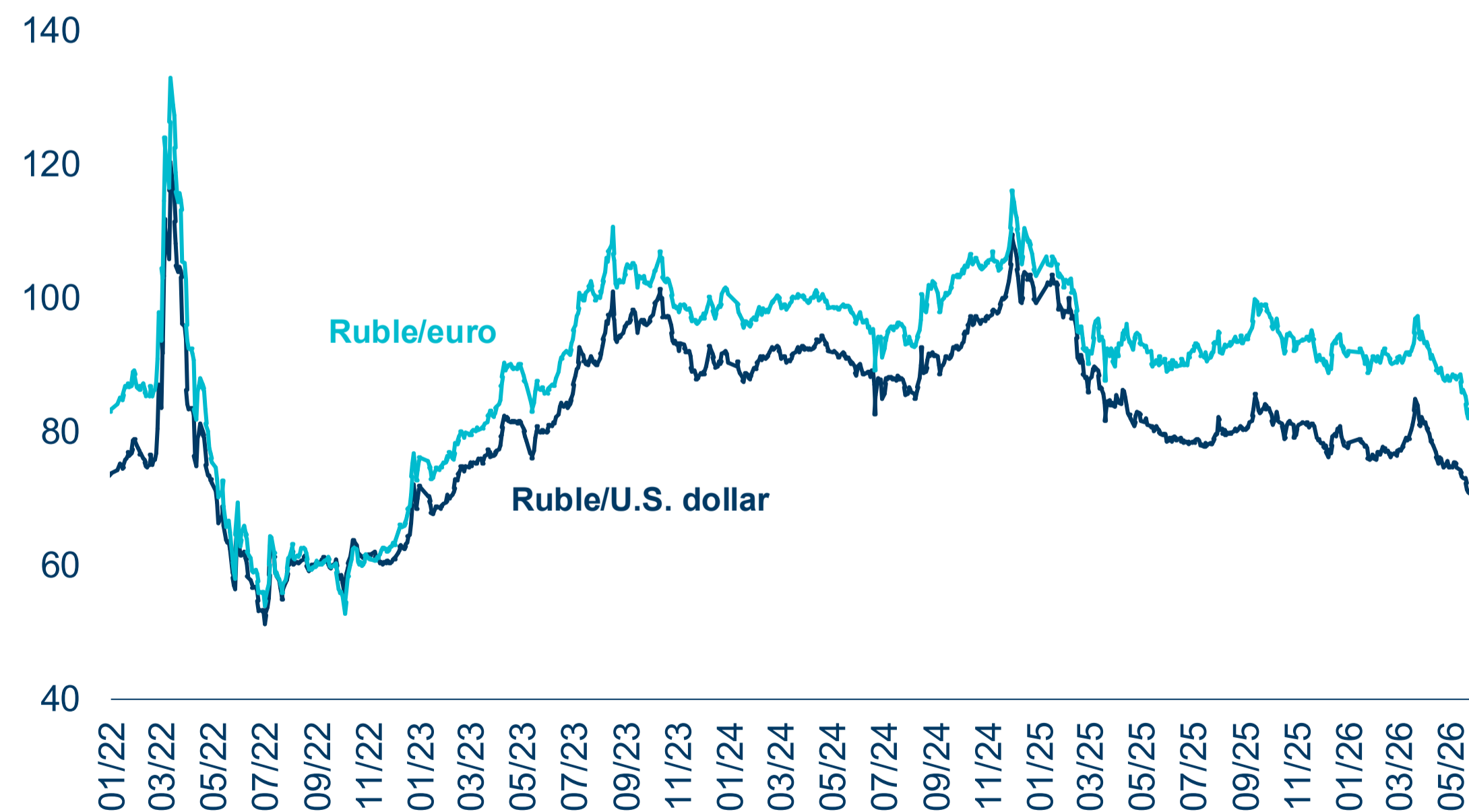


Source: Bank of Russia, KSE Institute

## Inflation eases and ruble strengthens; further rate cuts uncertain.

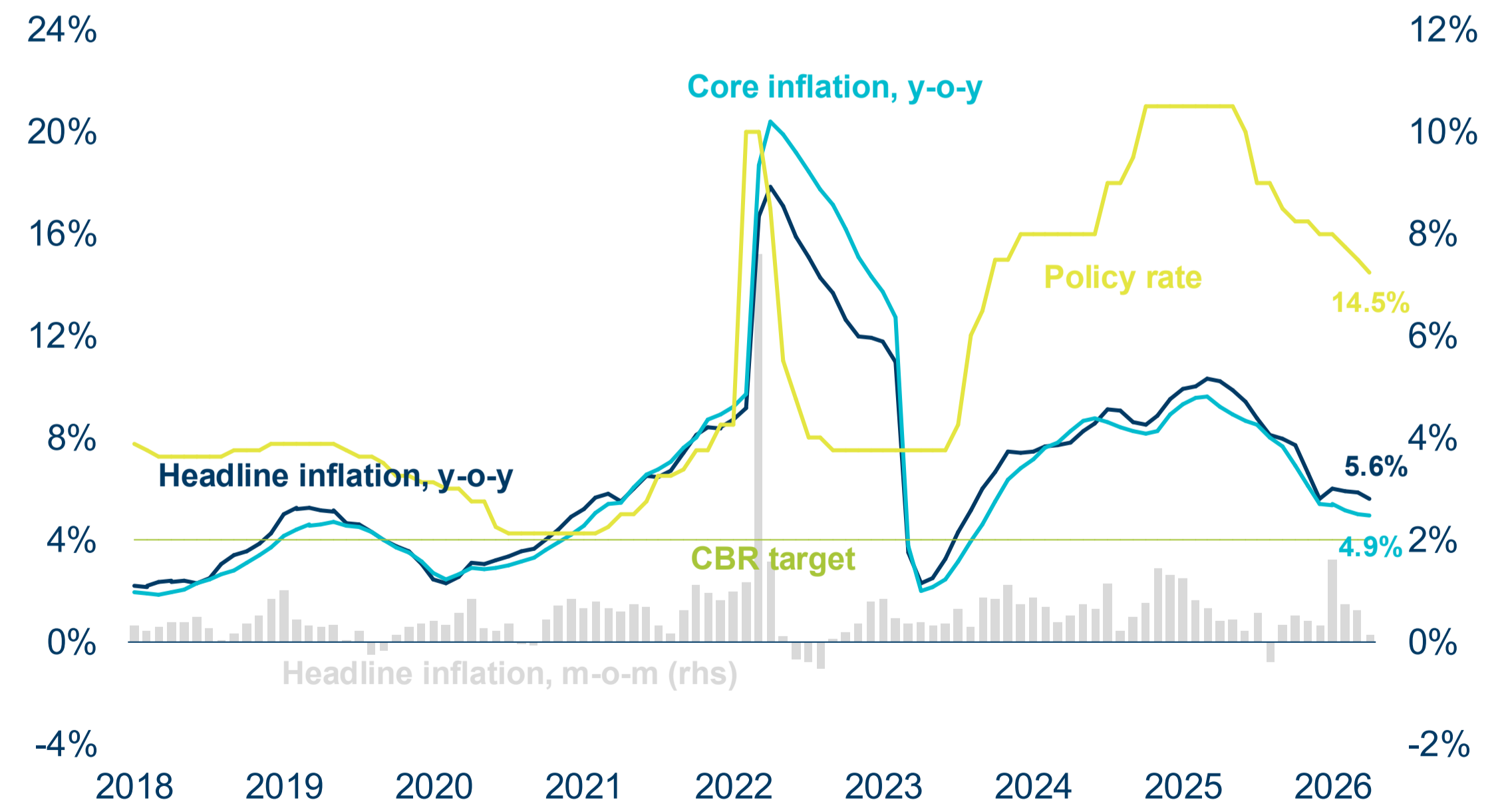
- The ruble has strengthened significantly, with the exchange rate dropping to its lowest levels since Feb. 2023.
- Headline inflation eased to 5.6% (down from 5.9% in Feb. and Mar.), but it remains above the CBR's 4% target.
- Further rate cuts are uncertain: CBR balances recession fears against pro-inflationary risks from the budget deficit.

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



Source: Bank of Russia, KSE Institute

Inflation and CBR policy rate, in %

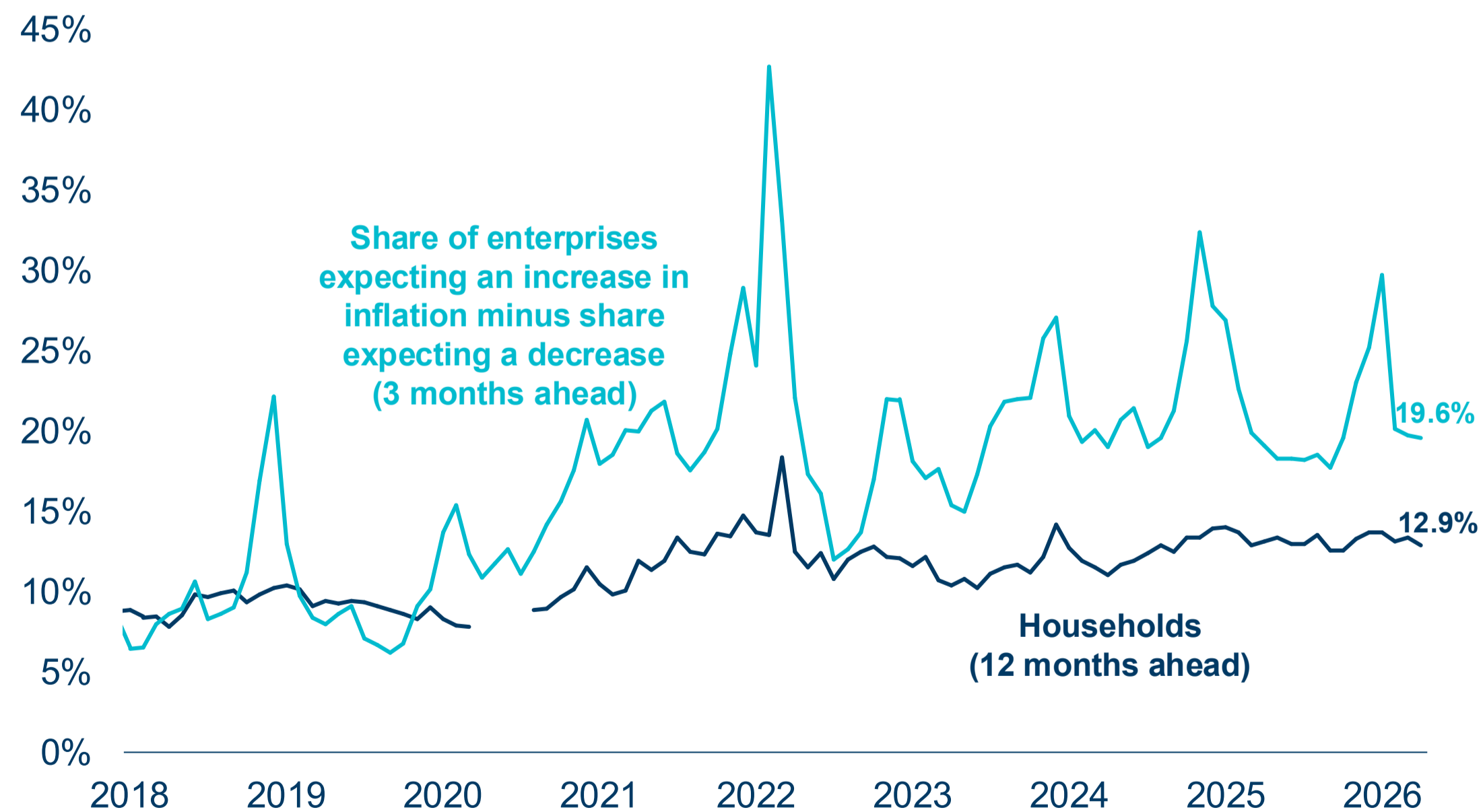


Source: Bank of Russia, KSE Institute

## Inflation expectations moderate as price dynamics normalize.

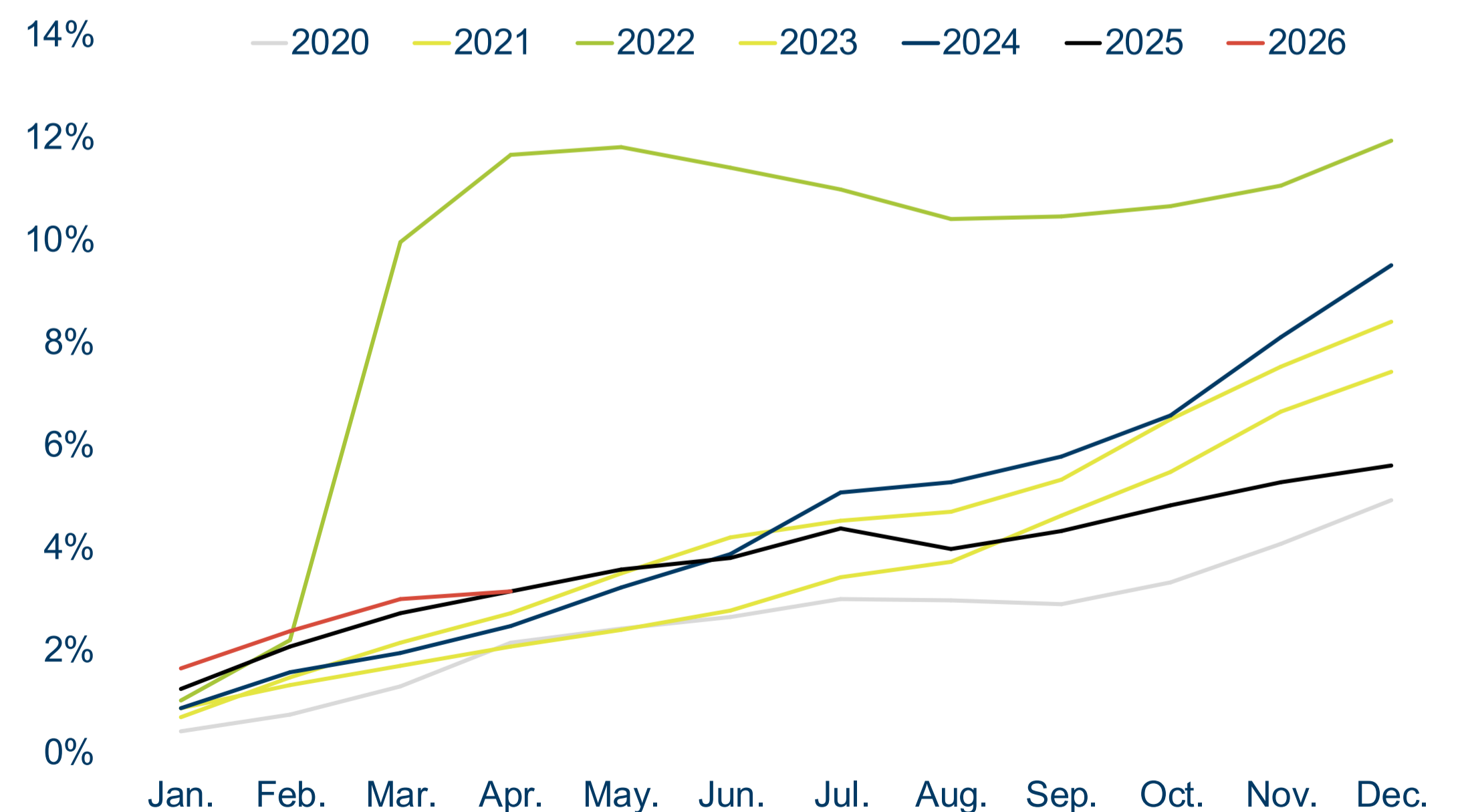
- Household inflation expectations remained stable, while those of businesses have dropped since the Jan. peak.
- Cumulative inflation has seen a slight slowdown and is now tracking at 2025 levels, though it remains relatively high.
- An upcoming 10% utility tariff hike in 2026 and growing global inflation risks could significantly affect future levels.

**Inflation expectations, %**



Source: Bank of Russia, KSE Institute

**Cumulative inflation, in %**

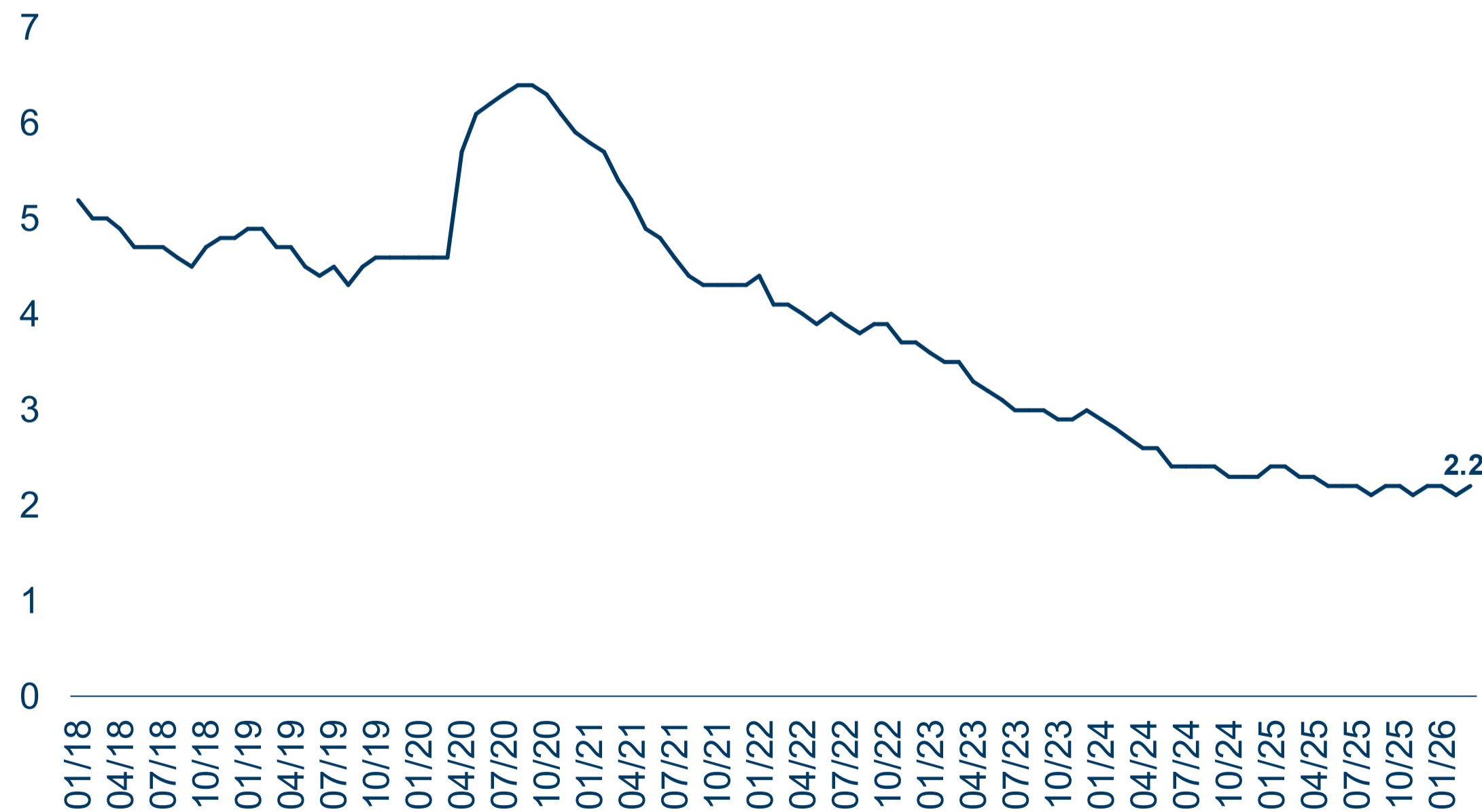


Source: Bank of Russia, KSE Institute

## Labor shortages continue to cap economic growth potential.

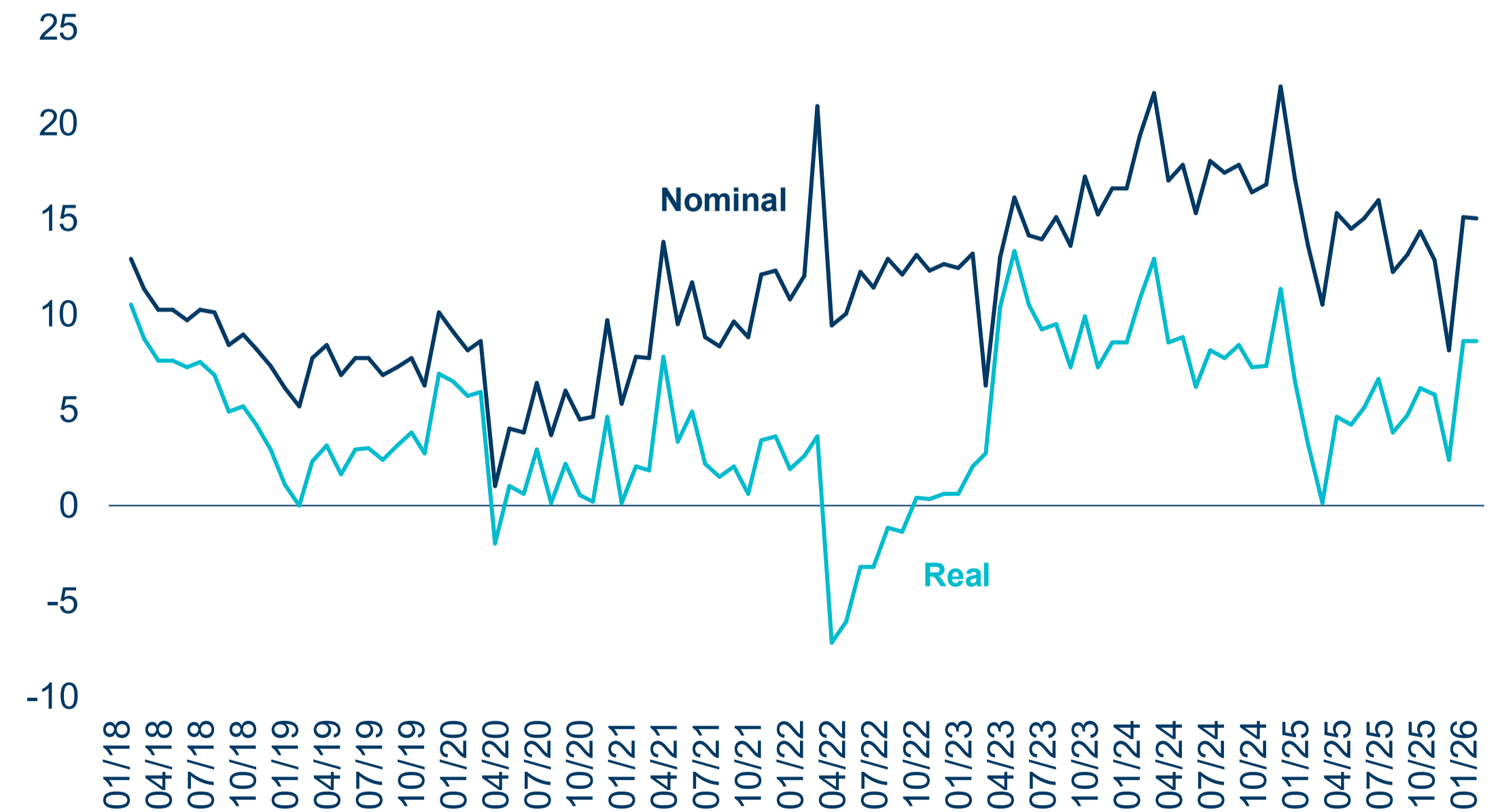
- The unemployment rate increased marginally to 2.2%, essentially indicating full employment in the economy.
- Anecdotal evidence regarding furloughs by large struggling enterprises points to increasing labor mismatches.
- Nominal and real wage growth remained high in Feb. (15.0% and 8.6%, respectively)—roughly at the Jan. level.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

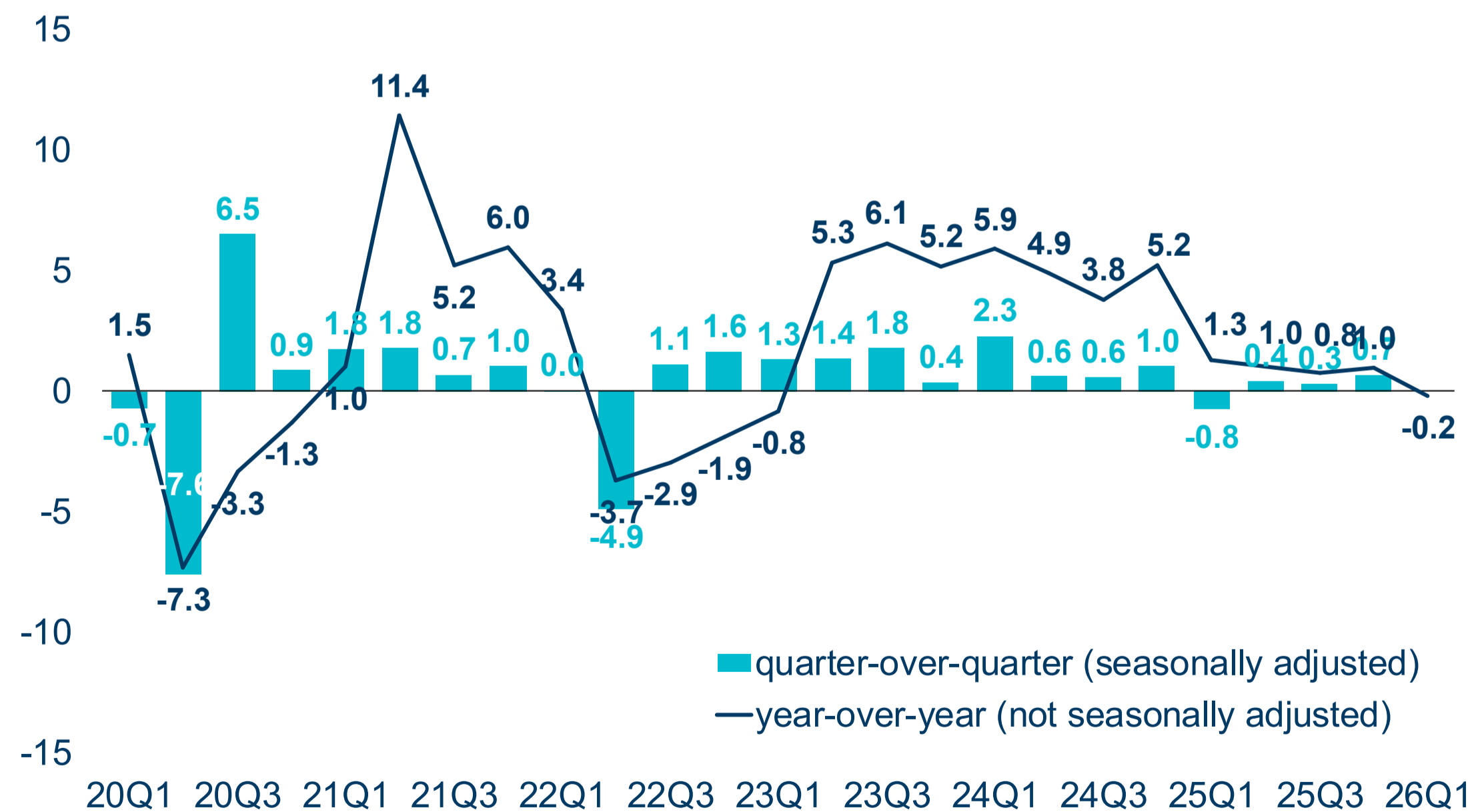


Source: Rosstat

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

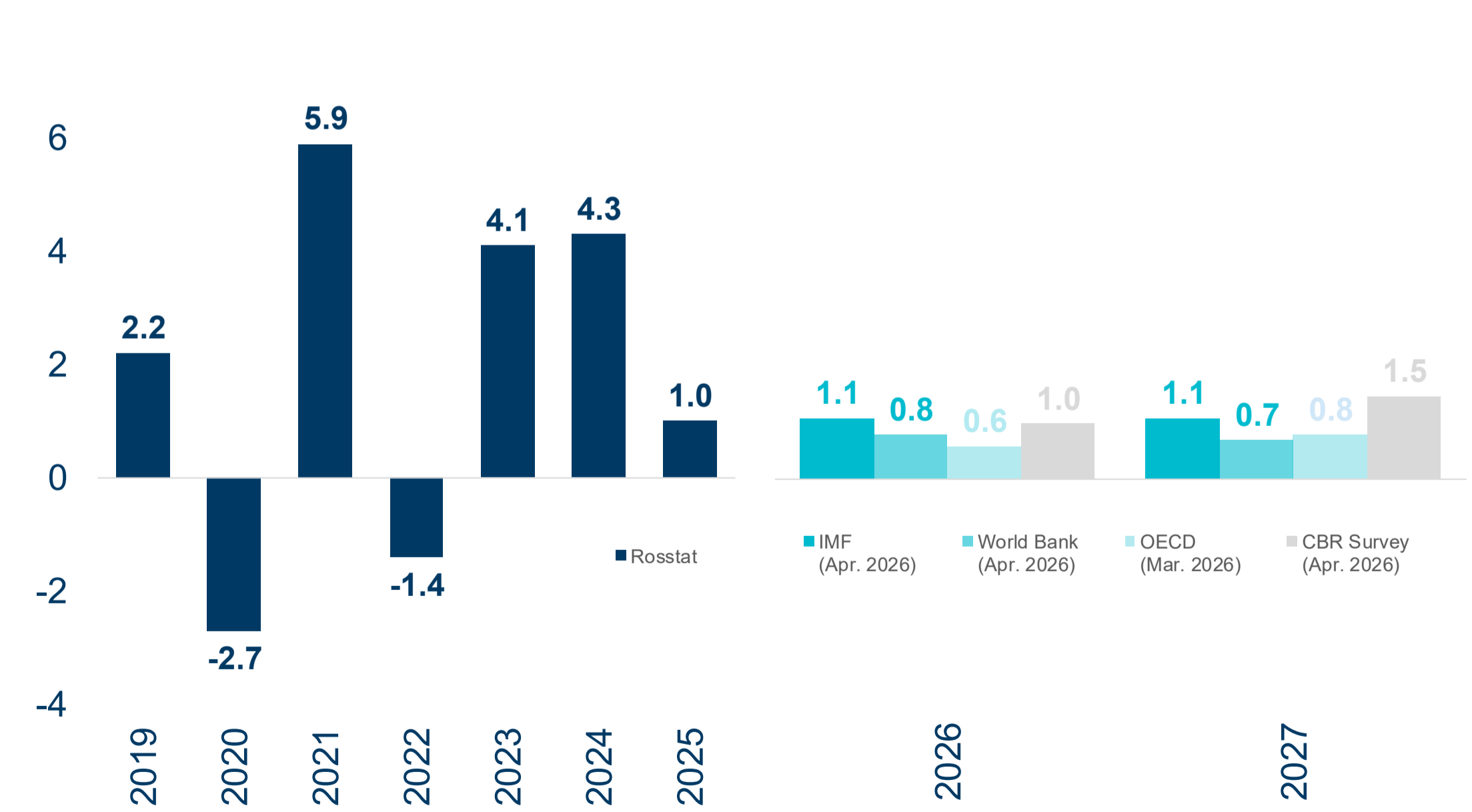
- Growth dropped sharply in 2025 (at 1% vs. >4% in 2023–24), and the economy shrunk y-o-y in Q1 2026.
- Importantly, this is a decline relative to the worst quarter of 2025 and, thus, indicates a sizeable drop q-o-y.
- International institutions expect weak growth of ~1% or even below in 2026–27 despite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

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute

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



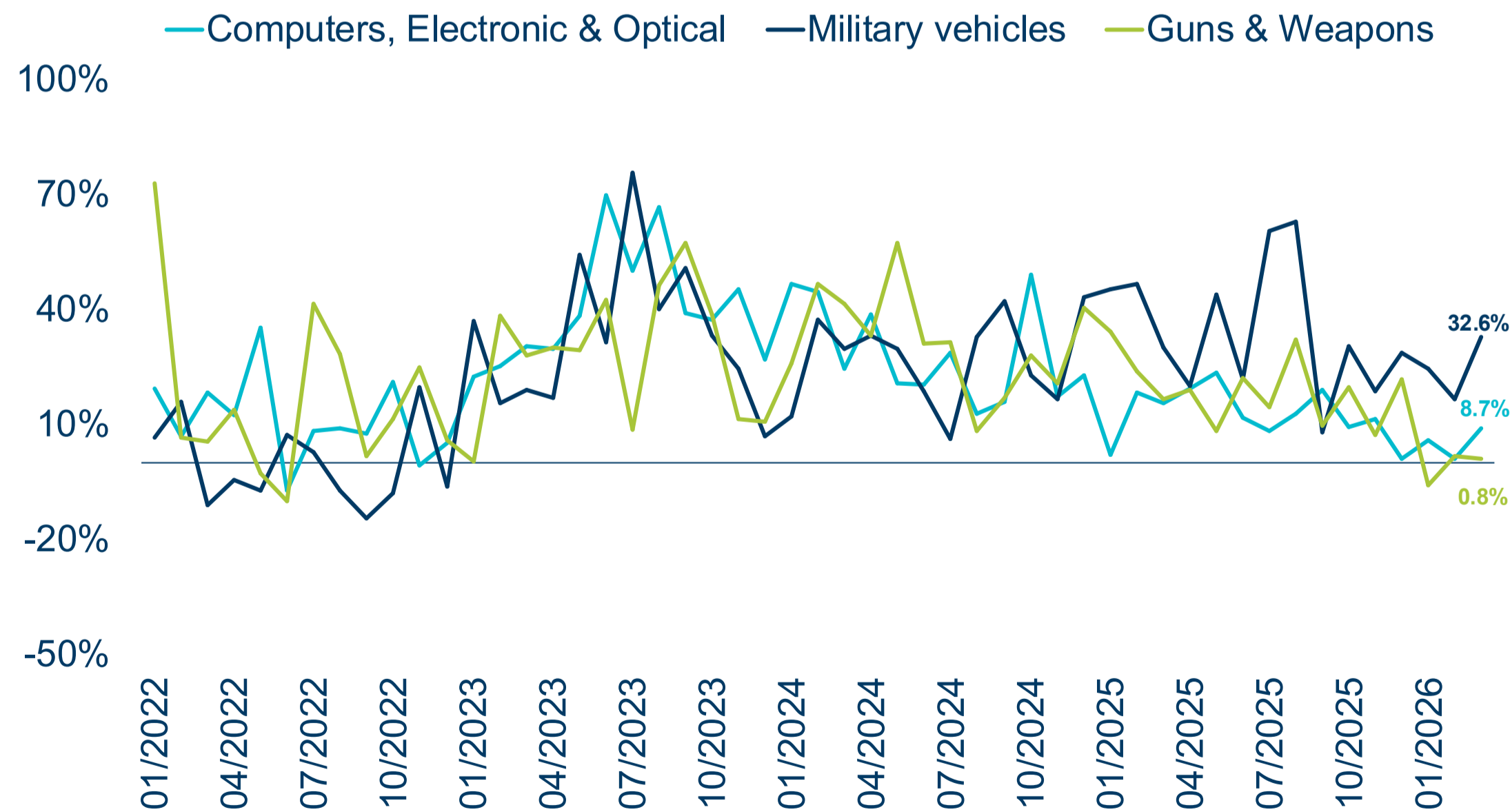
Source: Rosstat, Bank of Russia, IMF, OECD, World Bank



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

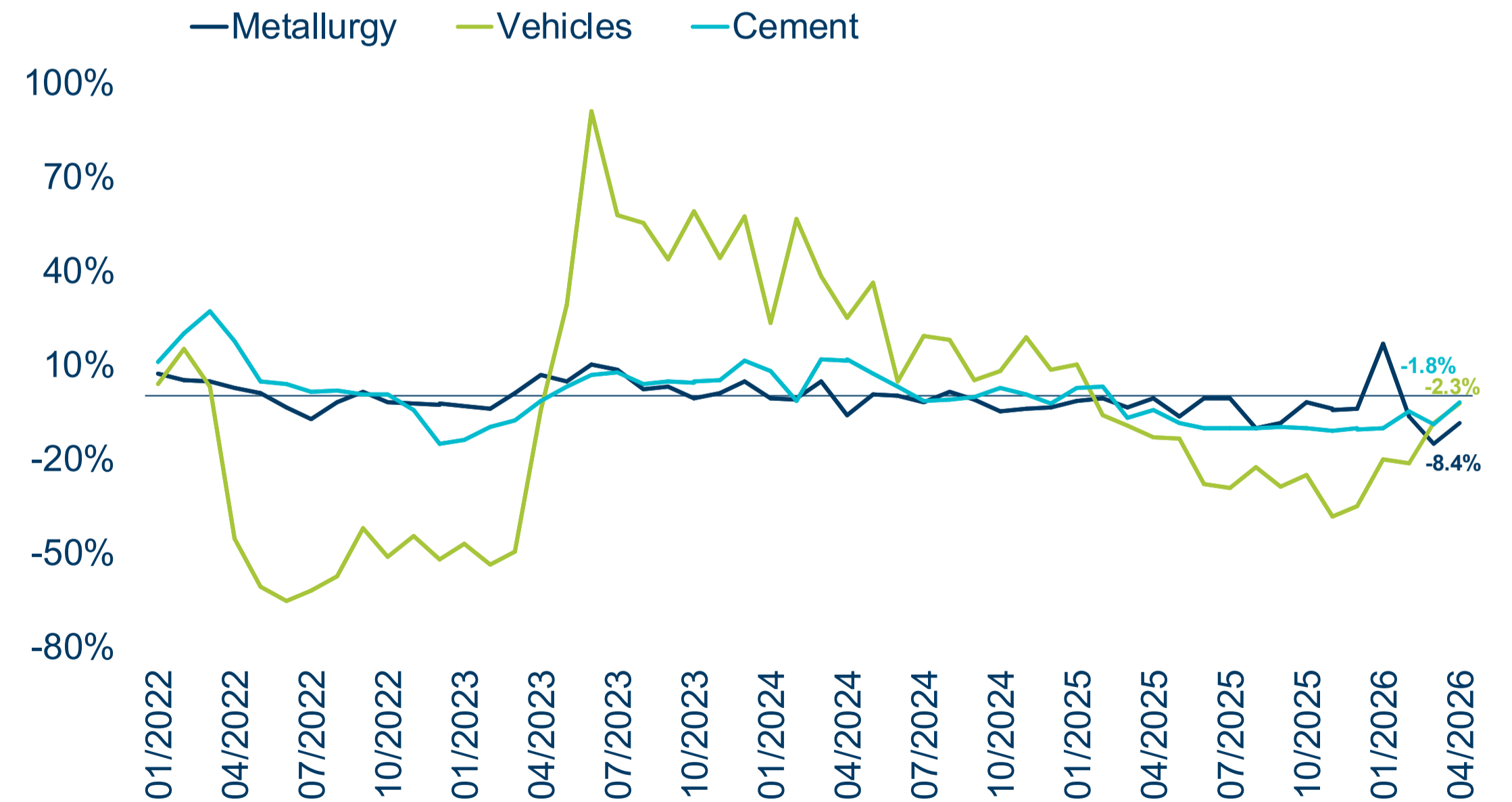
- Russia's industrial sector is propped up by defense spending, with war-related production maintaining robust growth.
- Key sectors of the civilian economy are contracting, driven by steep drops in transport, construction, and metallurgy.
- This divergence exposes a deeply unbalanced economy, effectively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

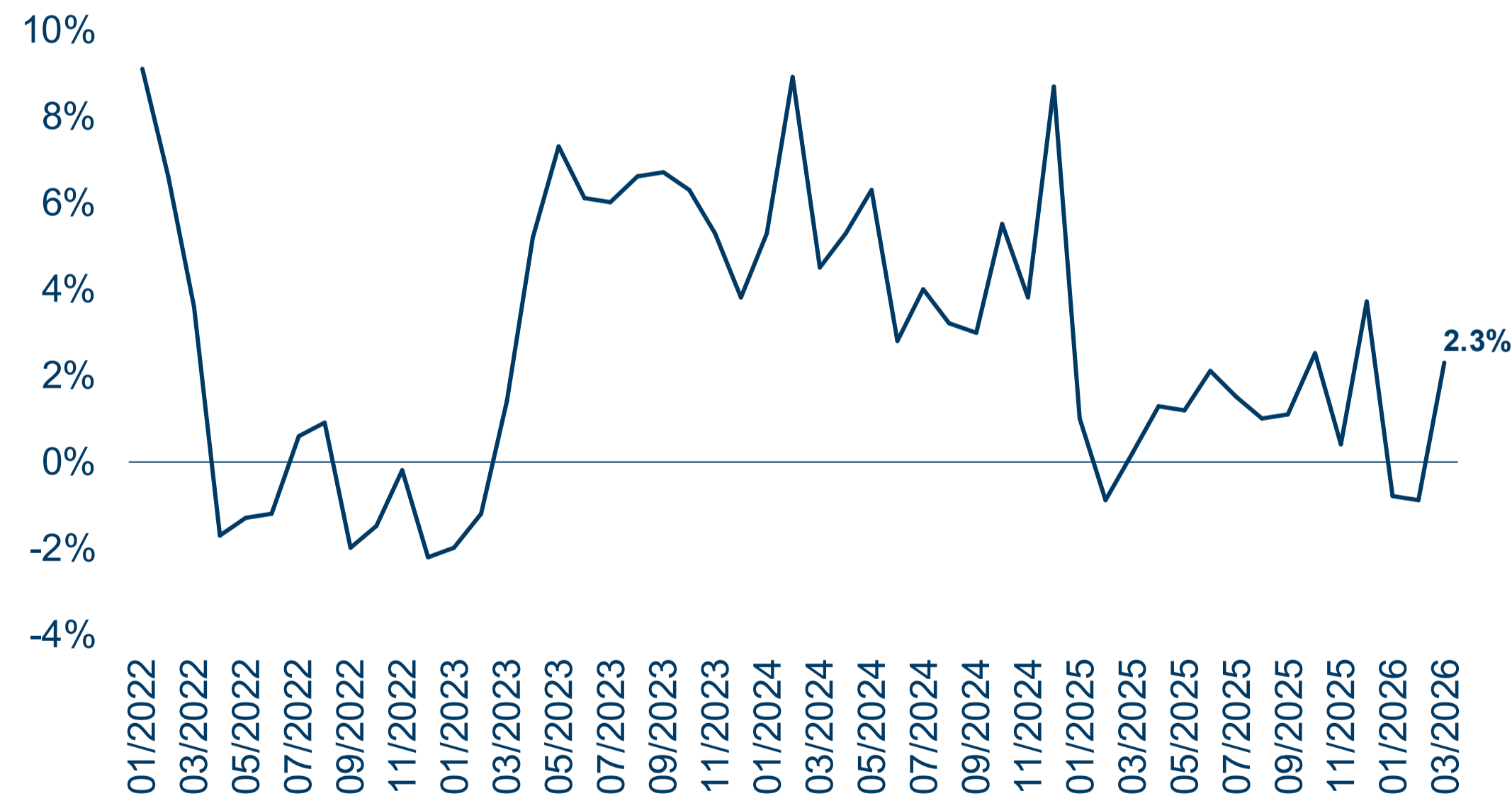


Source: Rosstat, KSE Institute

## Falling capacity utilization illustrates growth constraints.

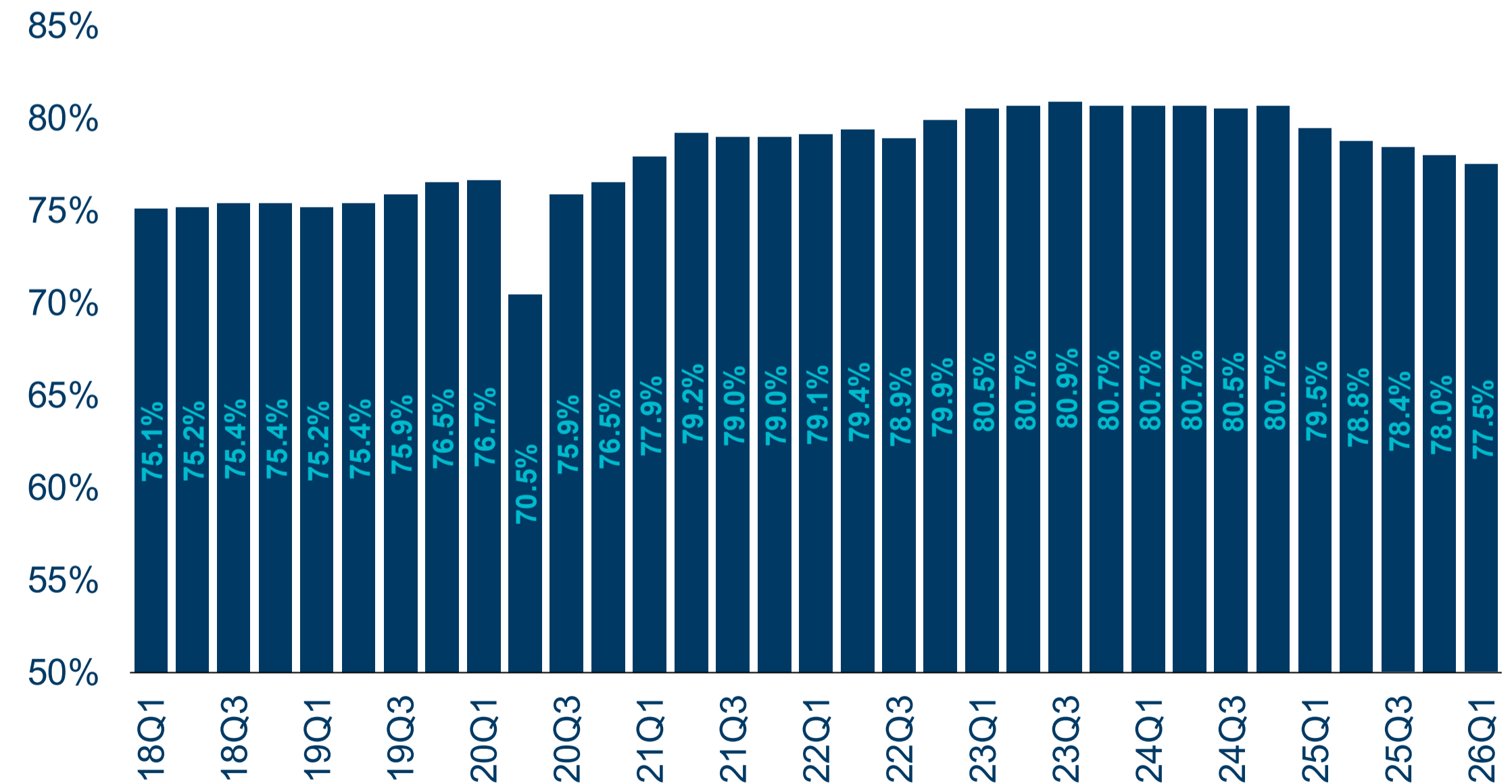
- Industrial production grew by 2.3% y-o-y in Mar. 2026, with recent volatility partially driven by base effects.
- At the same time, capacity utilization is falling from its historic highs, dropping to 77.5% in Q1 2026.
- This signals that fundamentals (e.g., tight labor market, high borrowing costs) 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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