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# KSE Institute Russia Chartbook

## Stalled Domestic Borrowing Poses Threat to Budget Financing; Energy Windfall Fades as Oil Prices Moderate

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# Executive Summary

1. **Russia's ability to finance the budget deficit is increasingly constrained.** In June, OFZ issuance hit its lowest level since Jan. 2026, driven by repeated auction cancellations and postponements. Fearing the need to borrow on excessively costly terms, the Ministry of Finance has suspended OFZ auctions for now. The last time such a suspension occurred was in 2020 during the height of the pandemic. This reflects severe instability in the domestic market, where 10-year bond yields have surged to their highest levels, and the Russian stock market has plunged to its lowest point since the beginning of the full-scale invasion. While federal domestic debt has doubled since Feb. 2022, reaching 32.7 trillion rubles (or roughly 15% of GDP) as of Jun. 2026, Russia's problem is one of cash flows, not stocks.
2. **Structural budget challenges remain despite a small surplus in June.** The cumulative federal budget deficit narrowed slightly to 5.7 trillion rubles in Jan.-Jun., driven by a small surplus in Jun. However, this does not signal a fundamental fiscal improvement as the surplus was largely achieved through a spike in non-O&G revenues (+33% vs. May, +33% vs. Jan.-Apr. 2026 avg.) and strict expenditure restraint (-20% vs Q1 2026 avg. in Jun.). Underlying structural issues persist: Expenditures in Jan.-Jun. were still 16% higher year-over-year, while O&G revenues are increasingly constrained by higher damper payments and a stronger ruble than assumed in the budget plan. Underscoring these challenges, the Ministry of Finance recently raised its annual deficit target by 1 trillion rubles, reflecting a clear inability to consolidate the budget. Furthermore, with OFZ issuance falling short of financing needs, the government has been forced to rely heavily on its Treasury accounts, draining the average cash balance by 3.6 trillion rubles between Dec. and Jun.
3. **Russia's oil export revenues declined amid a temporary pause in the Iran conflict.** In Jun., oil export earnings dropped sharply to $15.8 billion (-23% vs. Mar.-May avg.). This contraction is primarily driven by a decline in the export price of Russian oil, which fell to $65.3/barrel in Jun. (vs. $89.1/barrel in May), while the discount widened slightly to $19.9/barrel (vs. $18.2/barrel in May). At the same time, total Russian oil export volumes reached 7.7 mb/d in Jun., marking the highest level since Mar. 2024. This growth was driven by a forced substitution of petroleum products with crude oil due to Ukrainian drone strikes on refineries, with crude exports rising to 5.8 mb/d (vs. 5.2 mb/d in May) and oil product exports dropping to 1.9 mb/d (vs. 2.2 mb/d in May). While these volume shifts and lower prices have created a negative dynamic for Russian oil export revenues in Jun. and early Jul., the renewed escalation currently unfolding in the Middle East is pushing global prices up again and will provide another boost to Russia.

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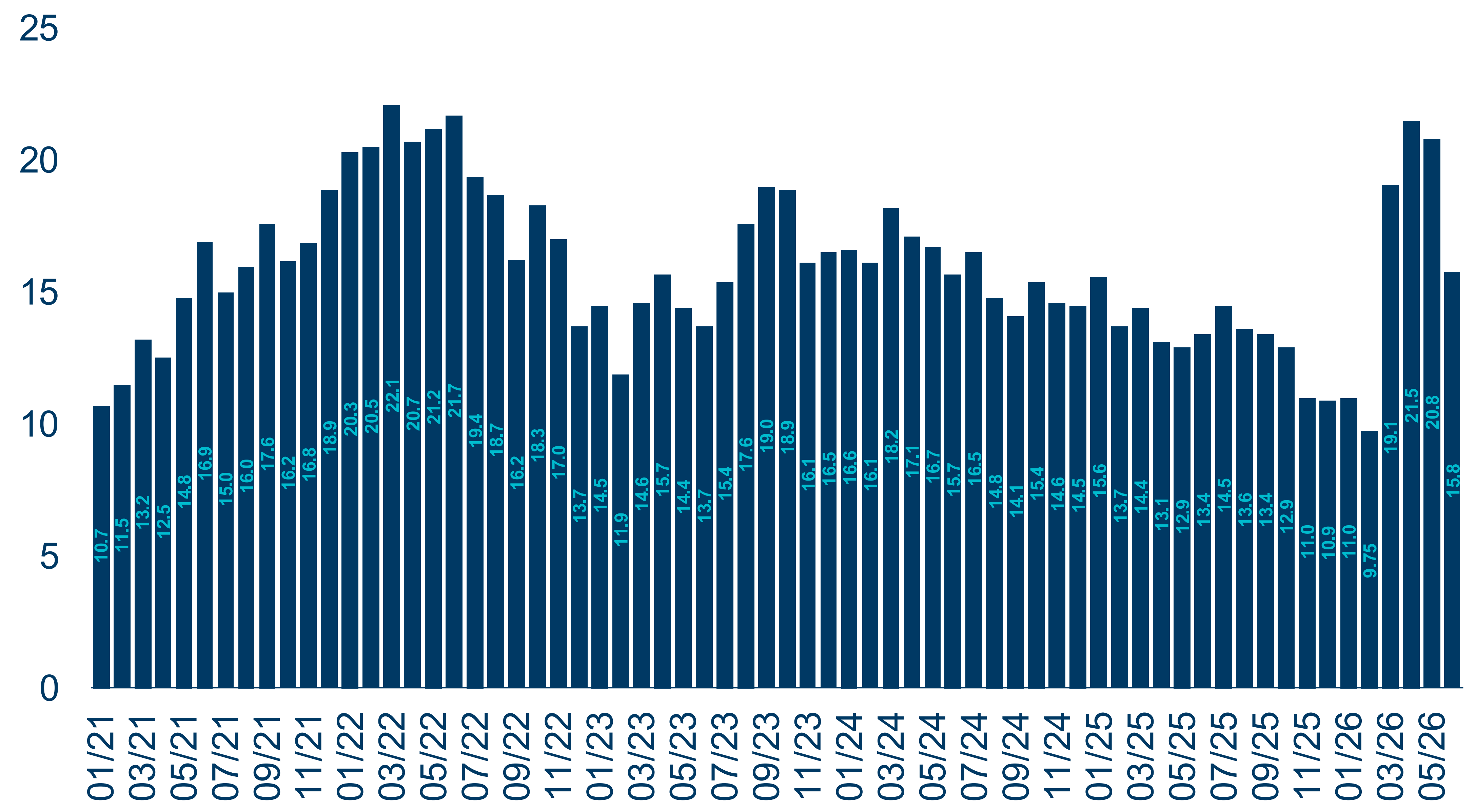
# Oil revenues drop sharply amid falling export prices and a wider discount.

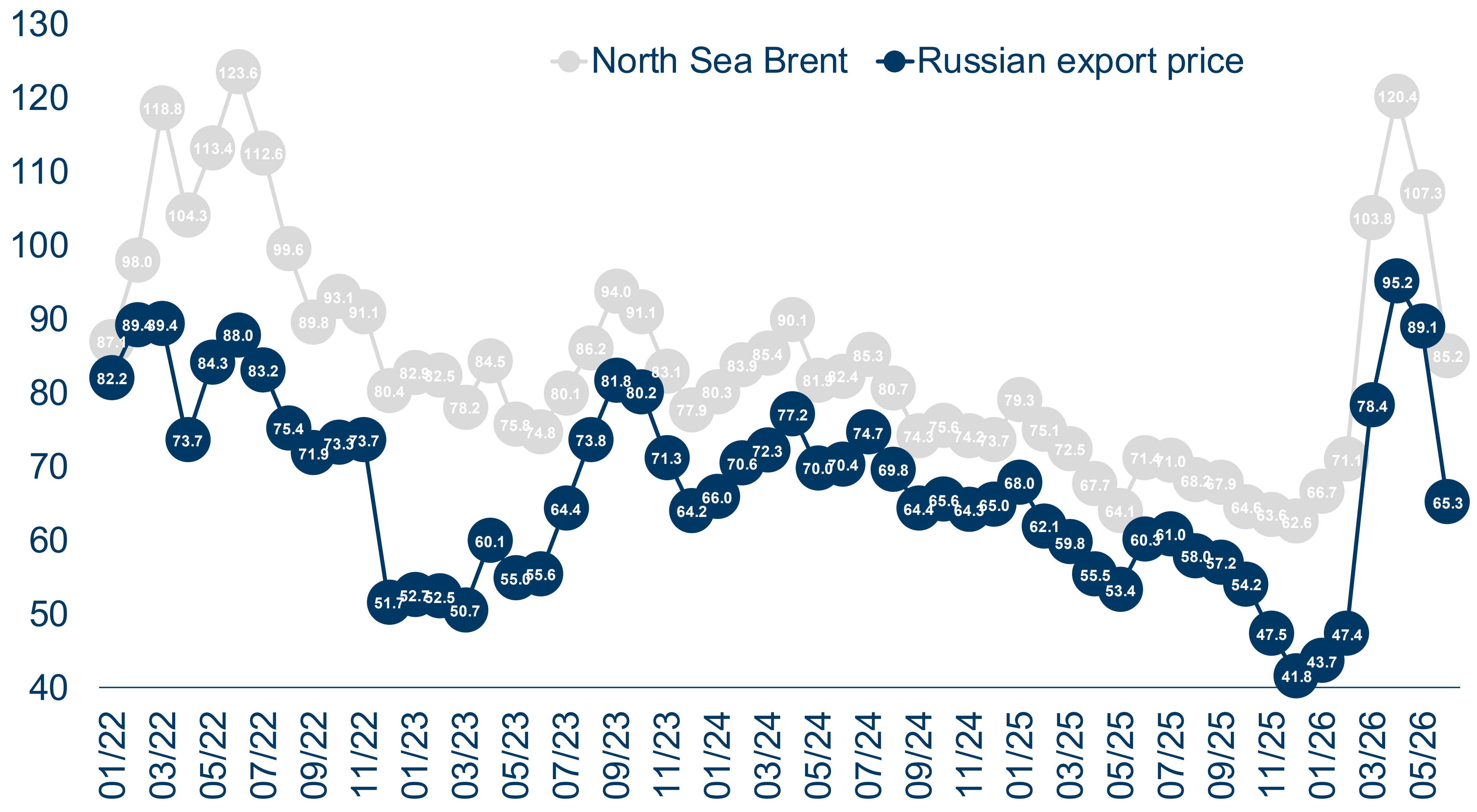
- Oil revenues plunged to $15.8 billion in June (vs. $20.8 billion in May) but still exceed pre-Iran war levels.
- Russian export prices experienced a sharp decline, dropping to $65.3/barrel in Jun. (vs. $89.1/barrel in May).
- Meanwhile, the discount on Russian oil widened slightly to $19.9/barrel (vs. a revised $18.2/barrel in May).

**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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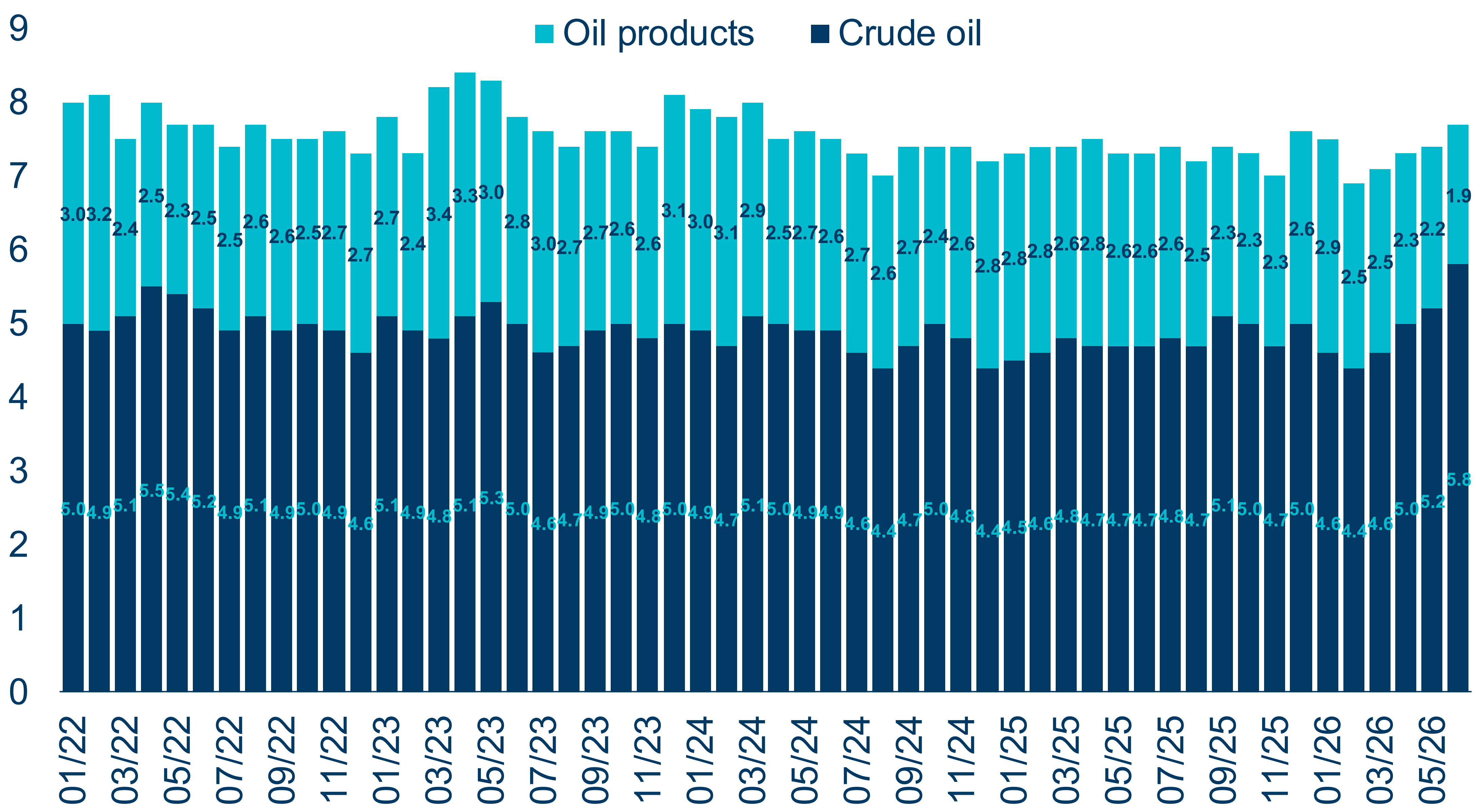
# Exports hit highest level since March 2024 as crude replaces oil products.

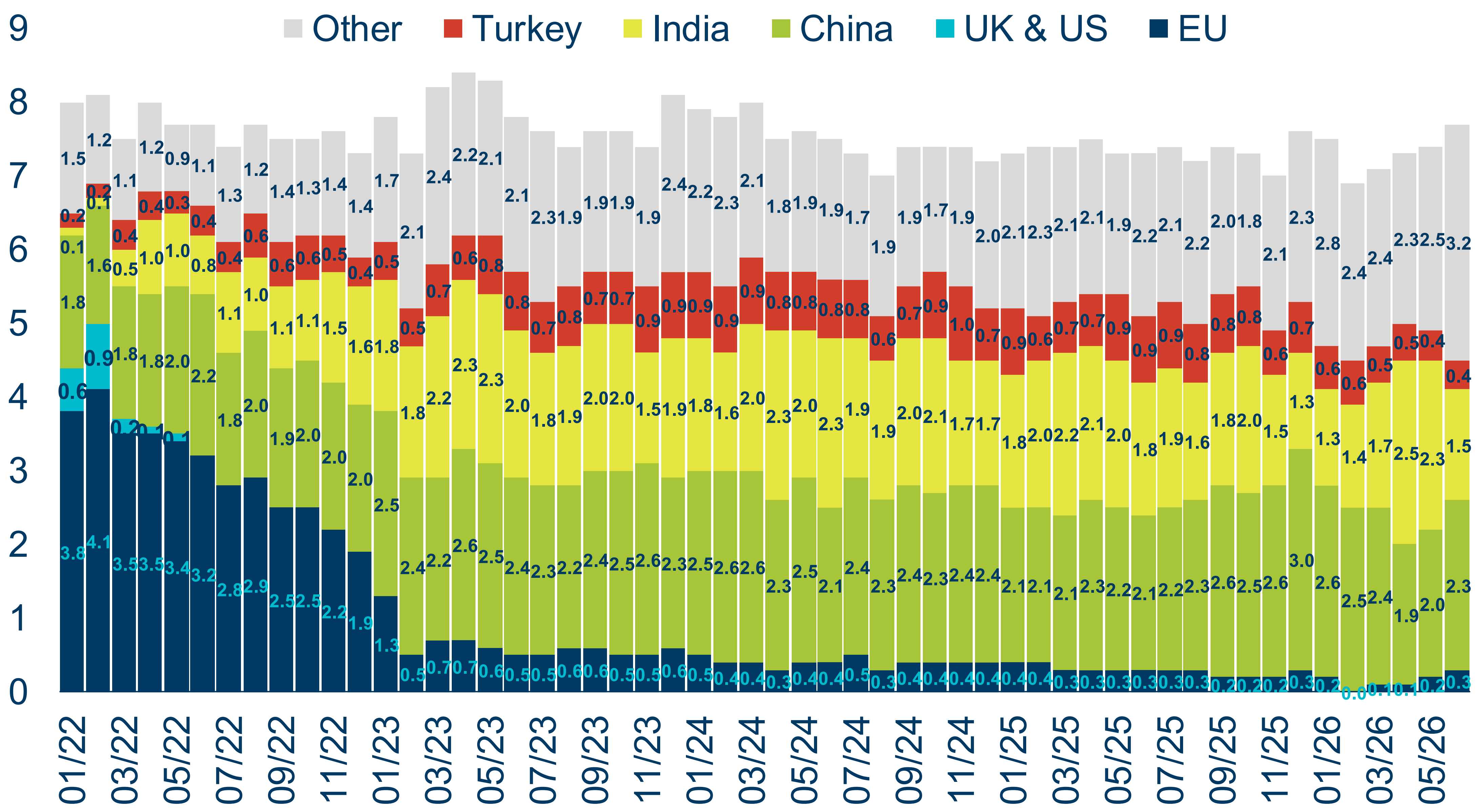
- Total Russian oil export volumes reached 7.7 mb/d in Jun. 2026, marking the highest level seen since Mar. 2024.
- Growth is driven by crude exports (5.8 mb/d in June vs. 5.2 in May) displacing oil products (1.9 mb/d vs. 2.2 in May).
- Export bans on a broader range of oil products and ongoing refinery strikes will further reduce oil product volumes.

**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

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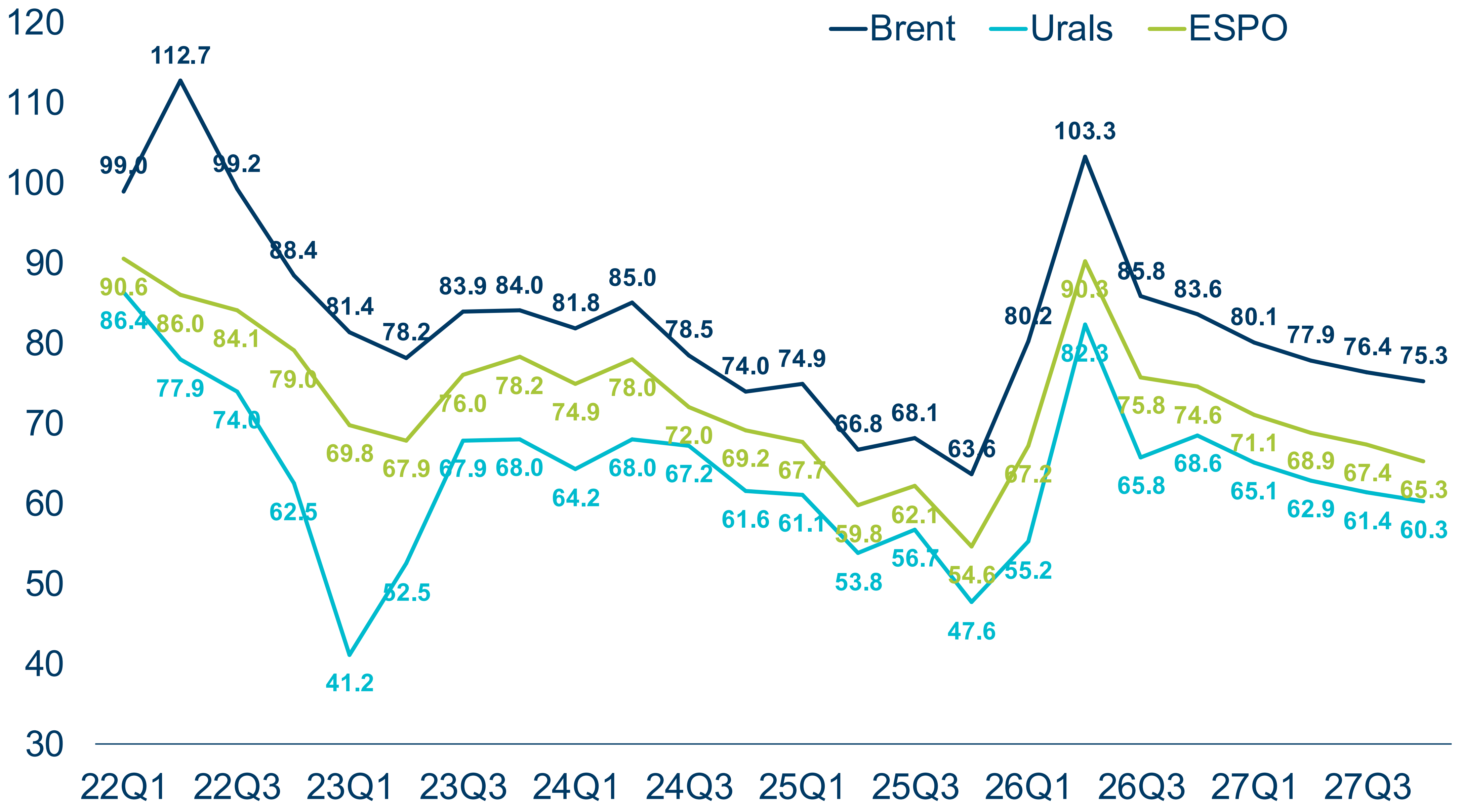
# Renewed Middle East tensions expected to keep Russian oil prices elevated.

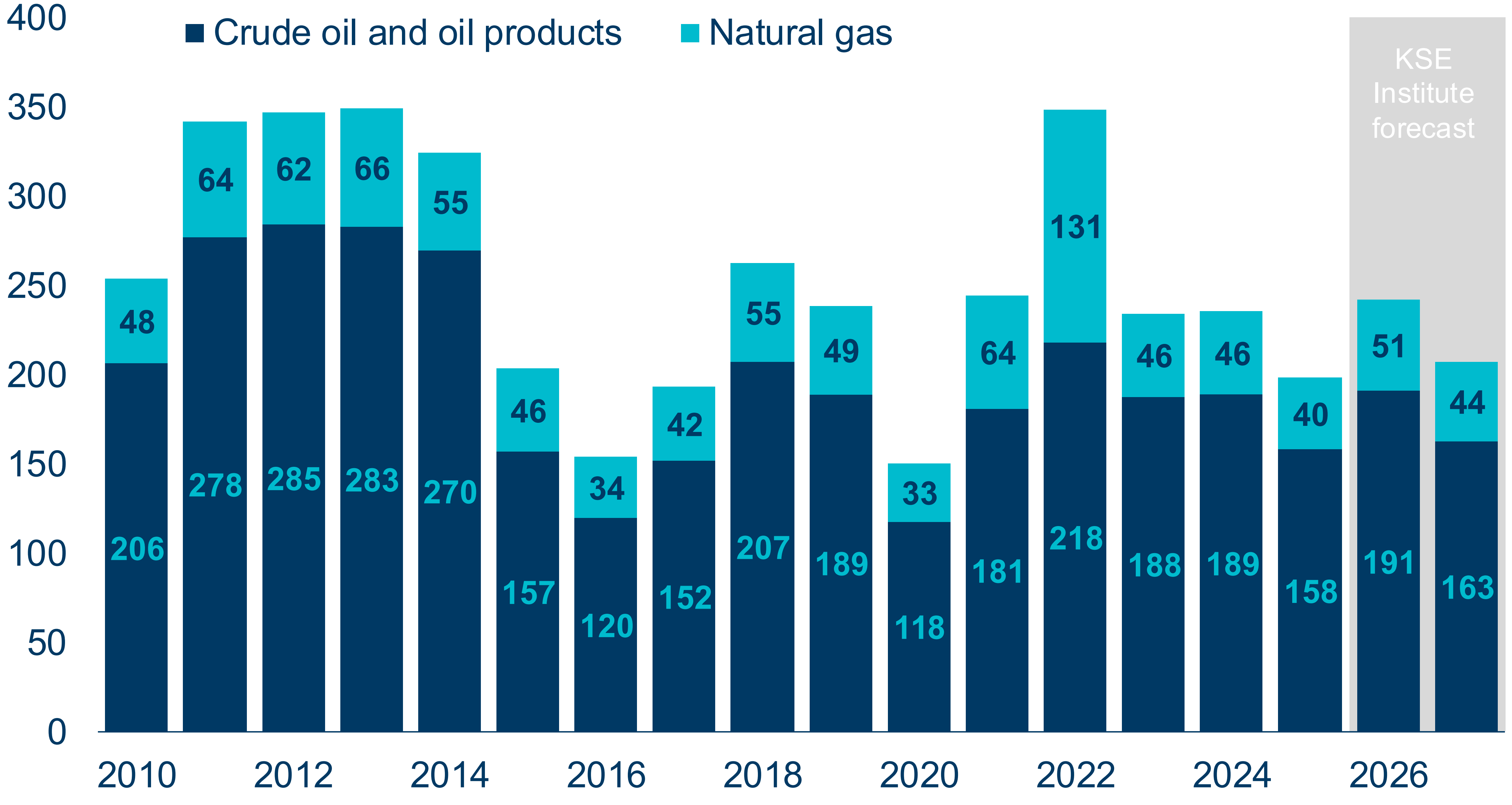
- Amid ongoing tensions, global oil benchmarks will remain high, with Brent projected to average ~$83/bbl over 2026-27.
- Supported by this trend, Russian Urals will trade well above the ~$60/bbl budget price, averaging ~$66/bbl.
- Altogether, oil exports are projected to increase to $191 billion in 2026 (+$33 billion vs. 2025) before declining to $163 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**

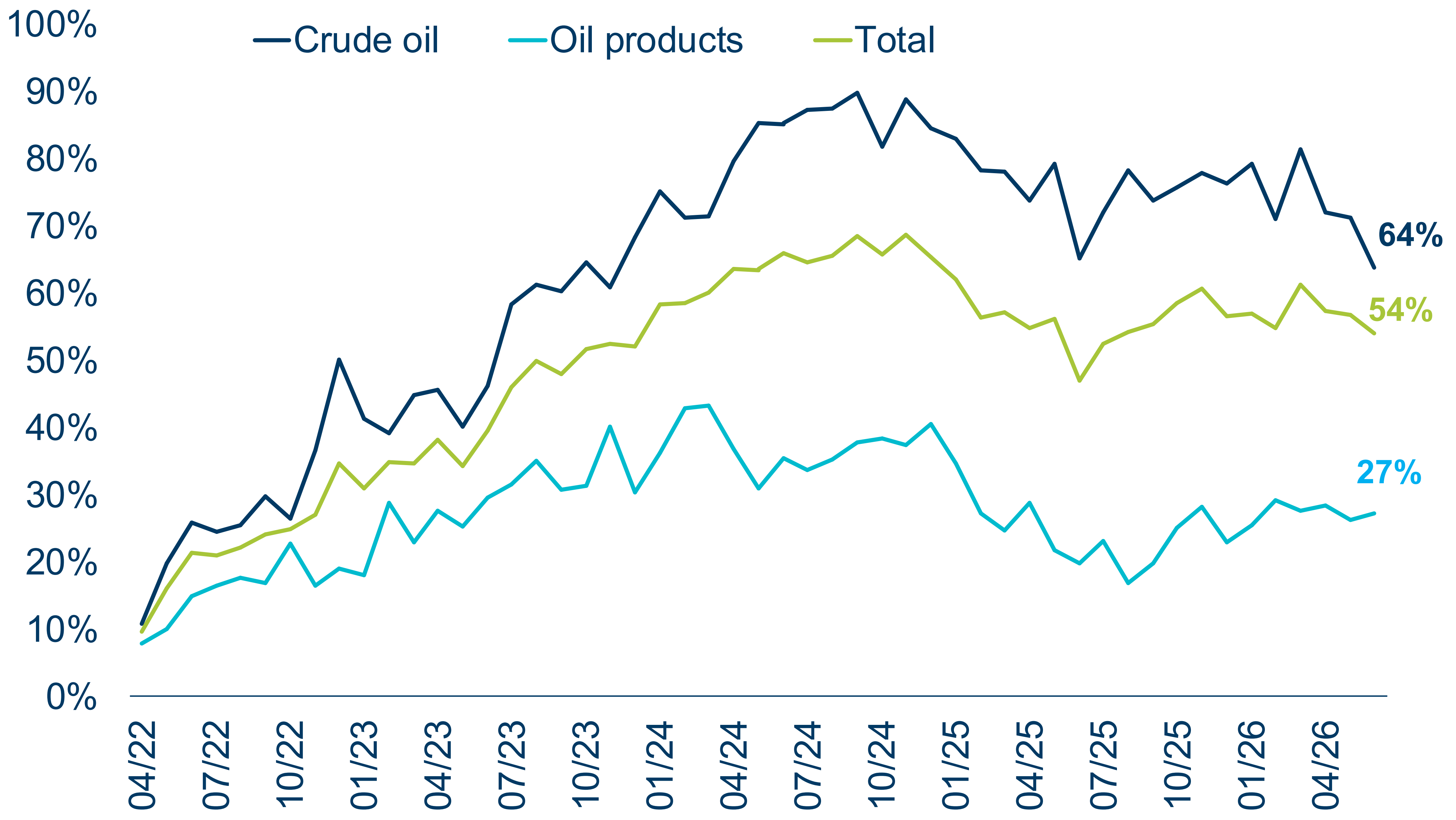



Source: Bank of Russia, KSE Institute

# Shadow fleet share declines due to crude transportation needs.

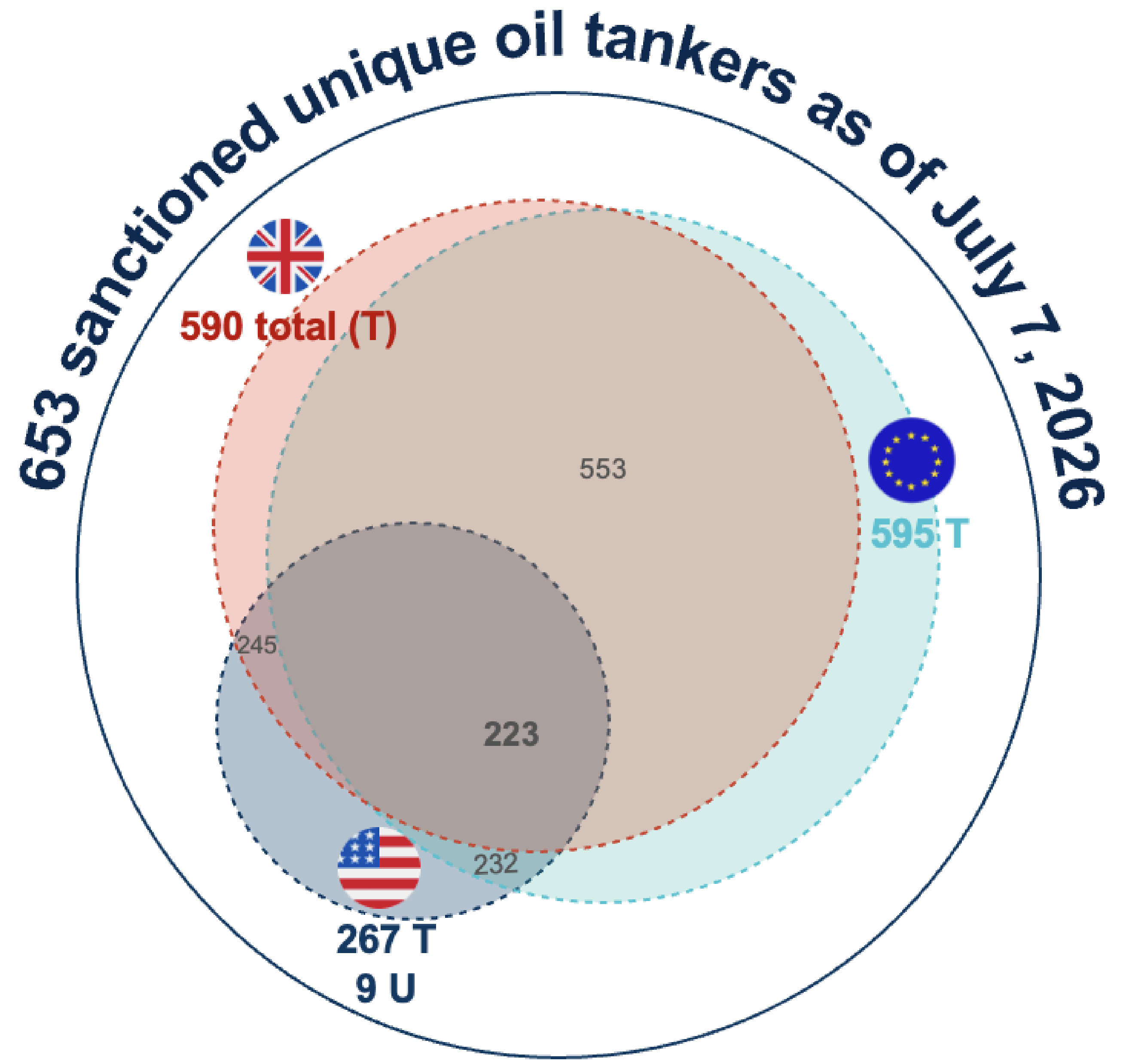
- The shadow fleet's share in Russian oil exports decreased slightly to 54% in Jun. compared to 57% in May.
- The share of crude oil dropped to 64% in Jun. (from 71%), while oil products remain mostly unchanged at 26%.
- This is linked to surging crude exports (+13% m-o-m), which required Russia to use extra non-shadow capacity.

**Shadow fleet share of seaborne oil exports, in %**




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

**Current vessel designations by jurisdiction**



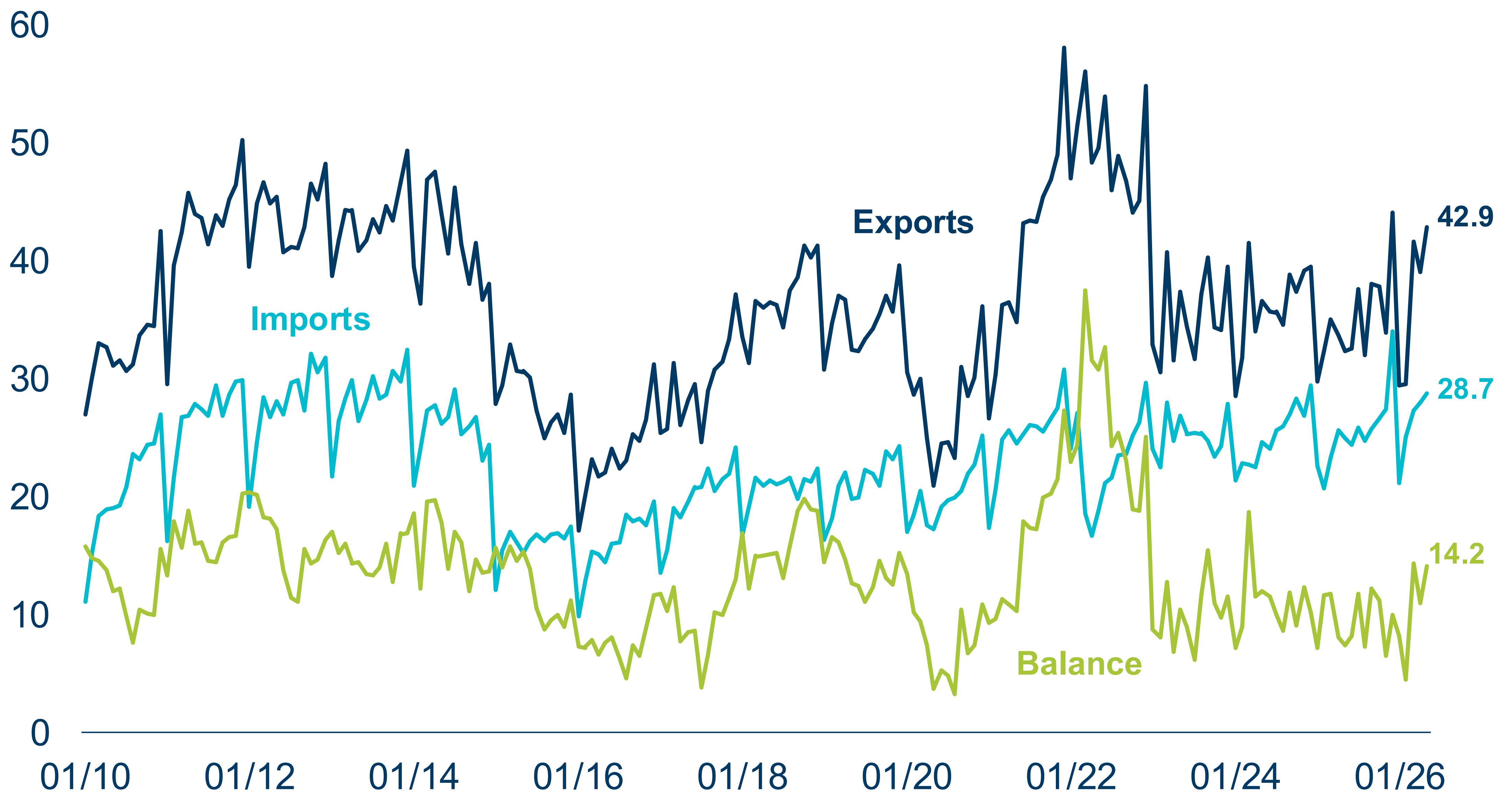

Source: European Commission, OFAC, OFSI, KSE Institute.

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 grows in May on the back of higher energy exports.

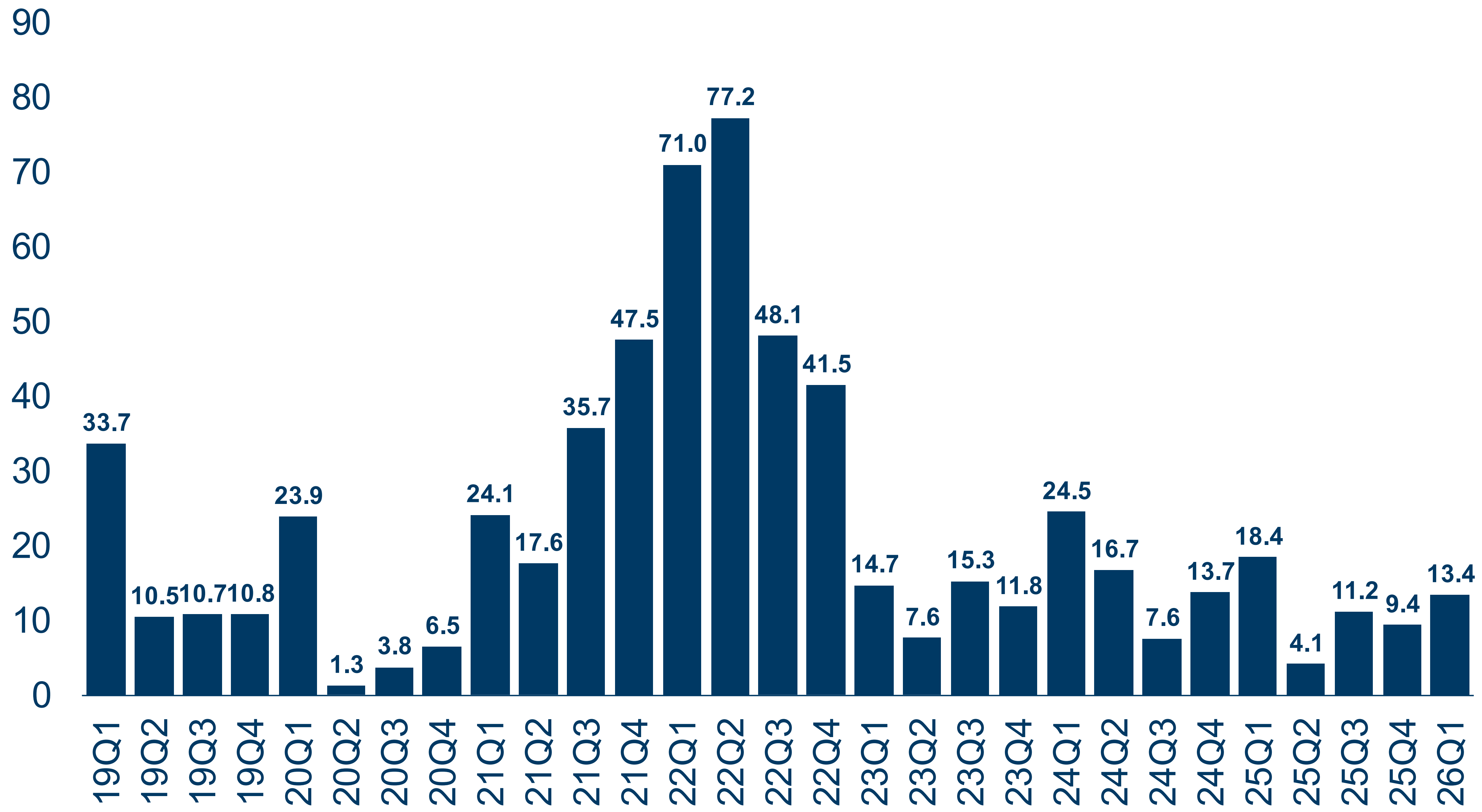
- Export growth more than offset higher imports, pushing the trade surplus up to $14.2 billion in May.
- This export growth occurred against the backdrop of high Russian oil export revenues in May ($20.8 billion).
- The Q1 current account balance stood at $13.4 billion, +43% q-o-q ($9.4 billion), but -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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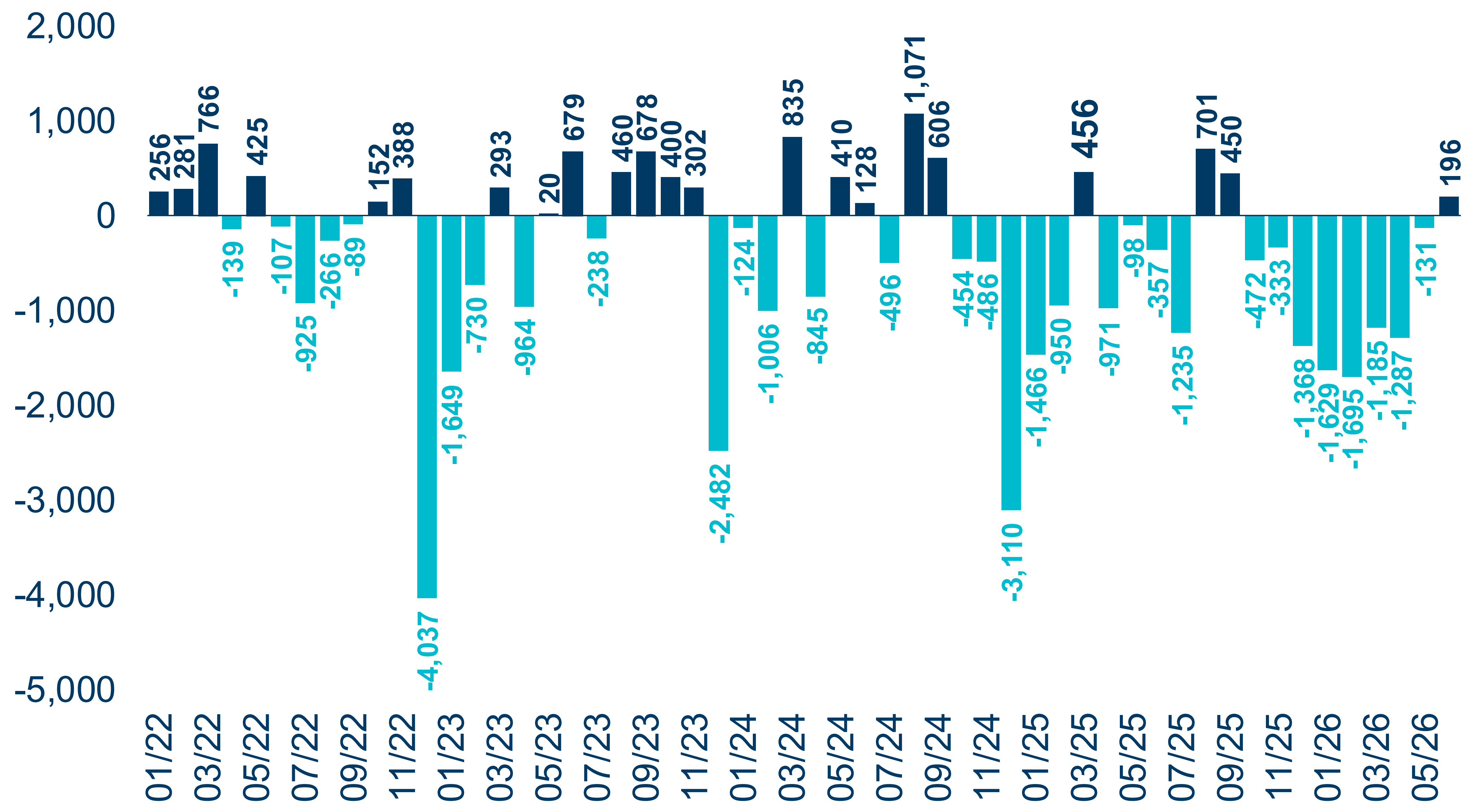
# Cumulative deficit declines marginally; increased target signals fiscal strain.

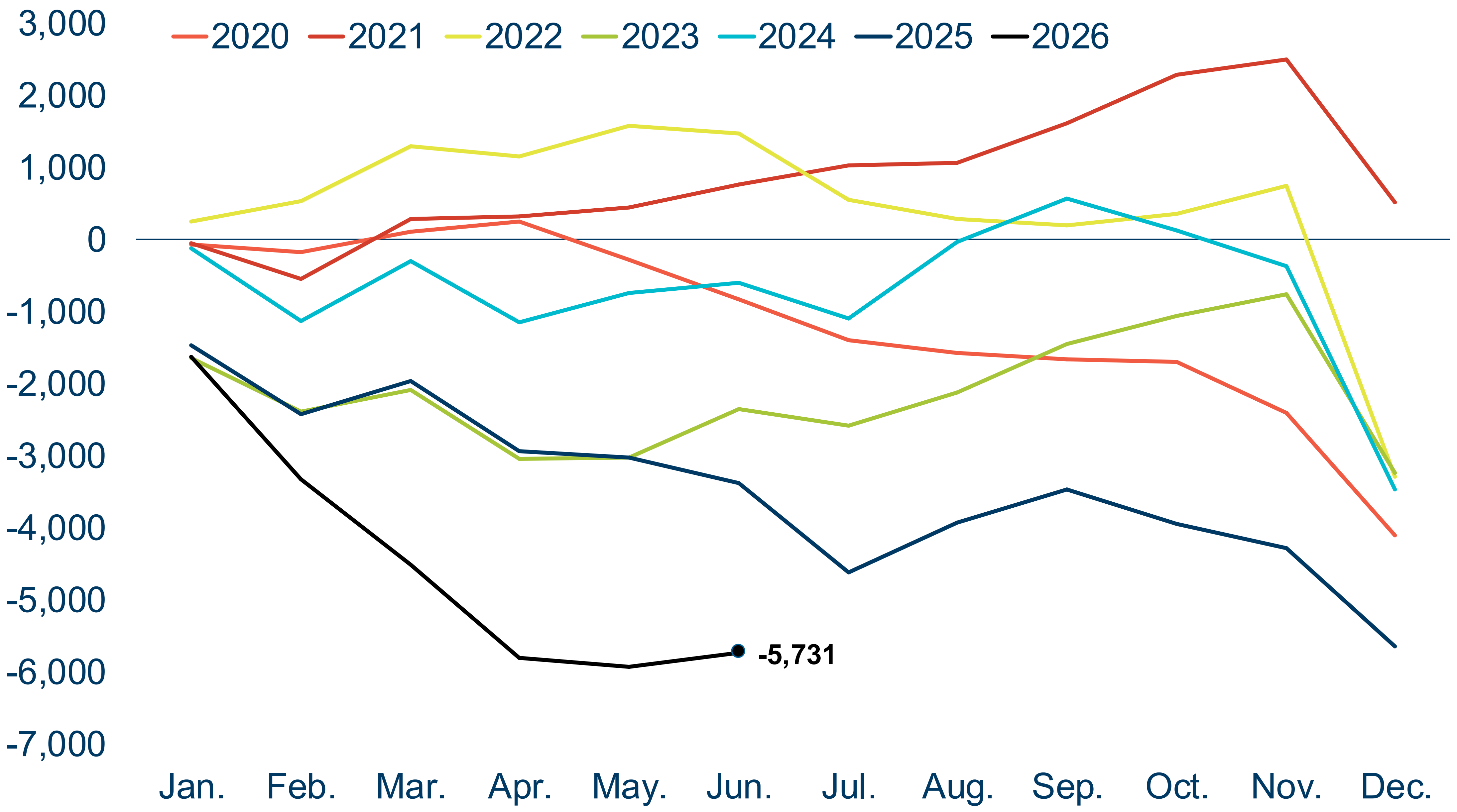
- The cumulative federal budget deficit decreased marginally (by 200 billion rubles), reaching 5.7 trillion in Jan.-Jun.
- The small surplus was achieved through growing non-O&G revenues (+33% vs. May; +33% vs. the Jan.-Apr. 2026 avg.).
- MinFin’s recent announcement to raise the deficit target by 1 trillion rubles reflects an inability to consolidate the budget.

**Federal government balance, in ruble billion**




Source: Ministry of Finance, KSE Institute

**Cumulative federal budget balance, in ruble billion**

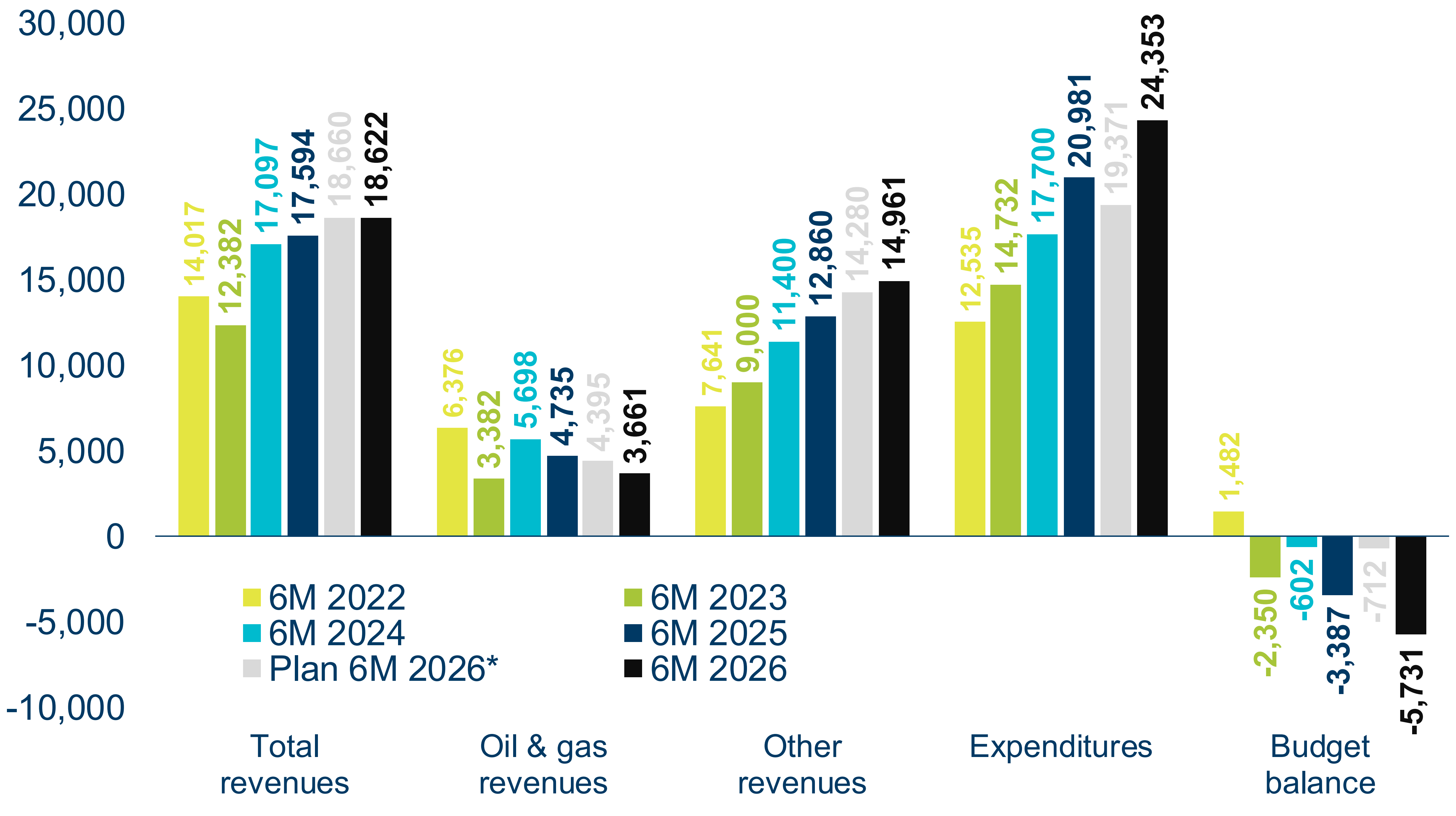



Source: Ministry of Finance, KSE Institute

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

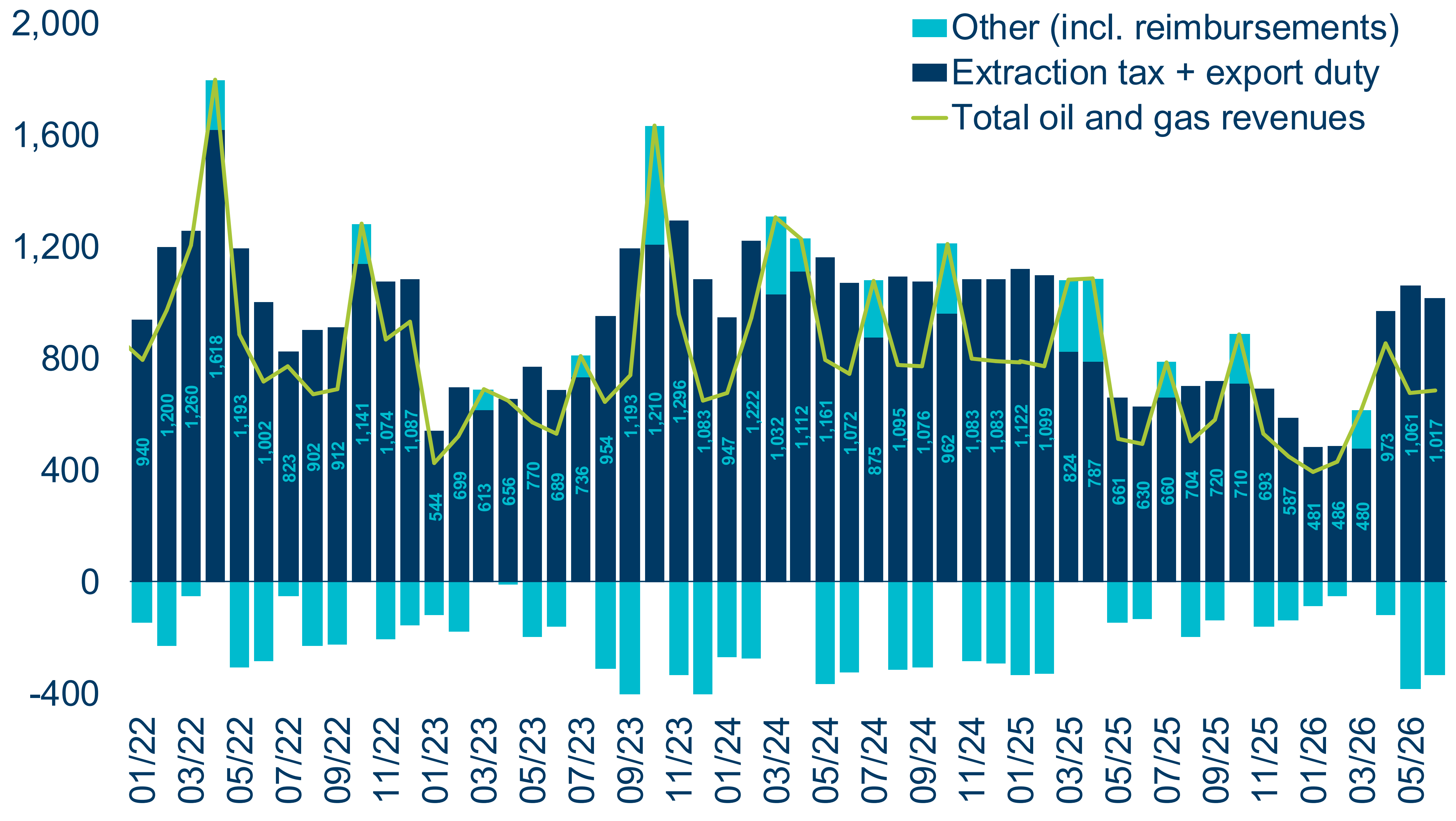
- In Jan.–Jun, O&G revenues were 23% weaker y-o-y, non-O&G revenues 16% stronger, and expenditures 16% higher.
- Base O&G revenues (i.e., extraction taxes and duties) rose markedly in Q2 to $41.6 billion (+117% vs. $19.1 billion in Q1).
- However, higher energy prices drove up damper payments and the 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

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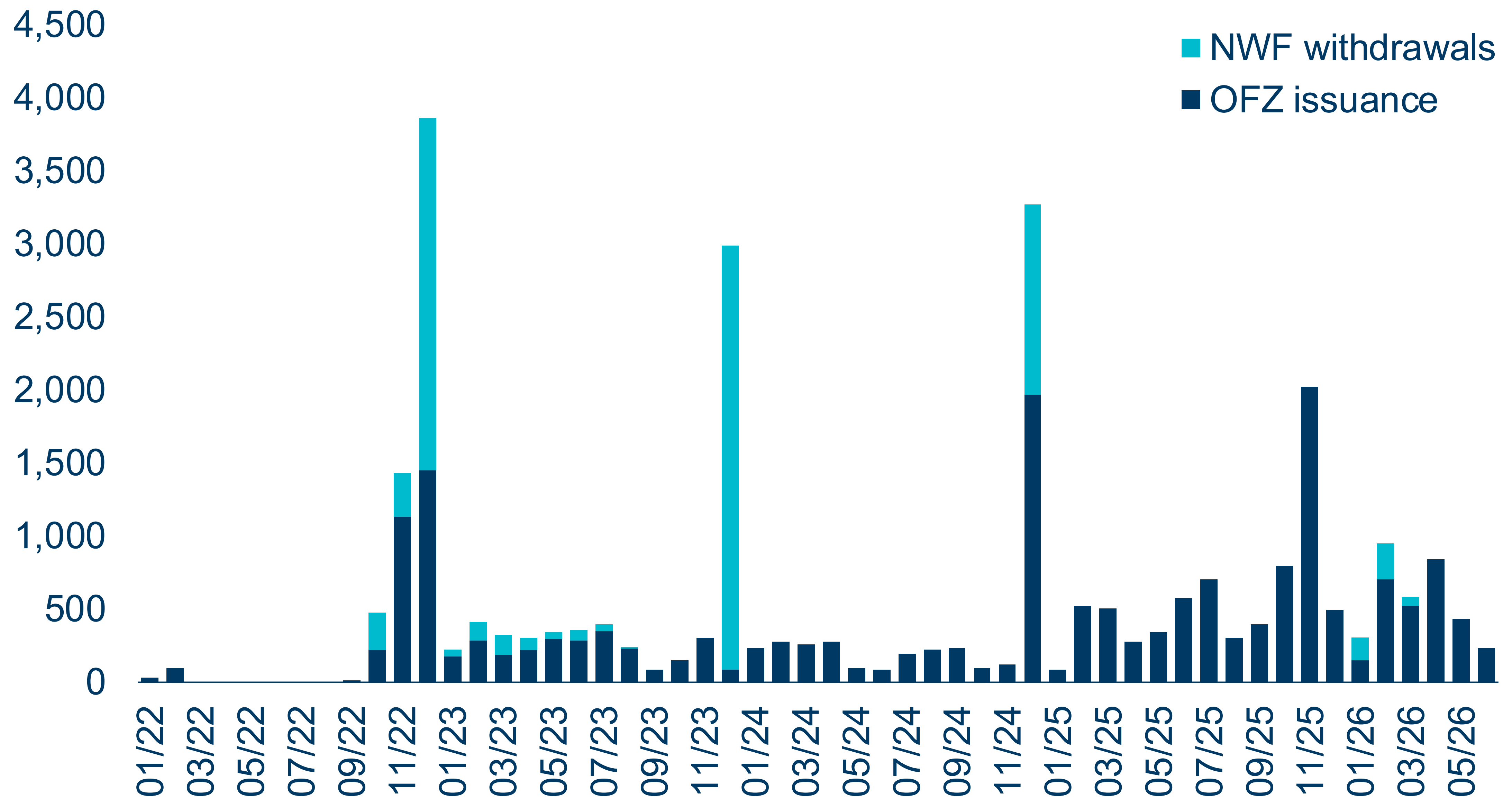
# Domestic borrowing stalls; MinFin fails to secure acceptable terms.

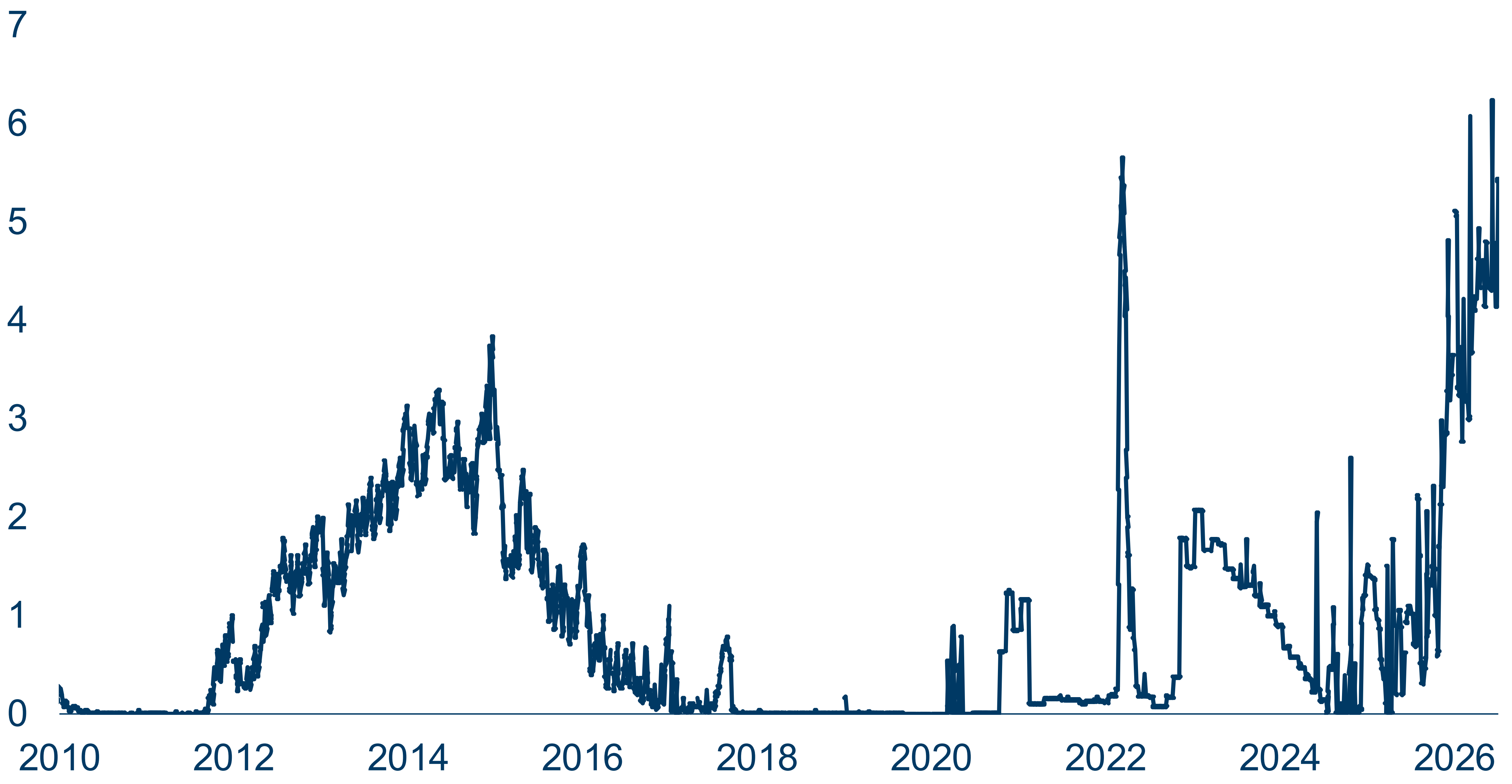
- OFZ issuance in Jun. hit its lowest level since January 2026, driven by repeated auction cancellations.
- Total domestic debt issuance in Jan.-Jun. reached 2.9 trillion rubles (+26% vs Jan.-Jun. 2025).
- Meanwhile, CBR repo operations continue to accelerate, with outstanding volumes now above 6 trillion.

**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

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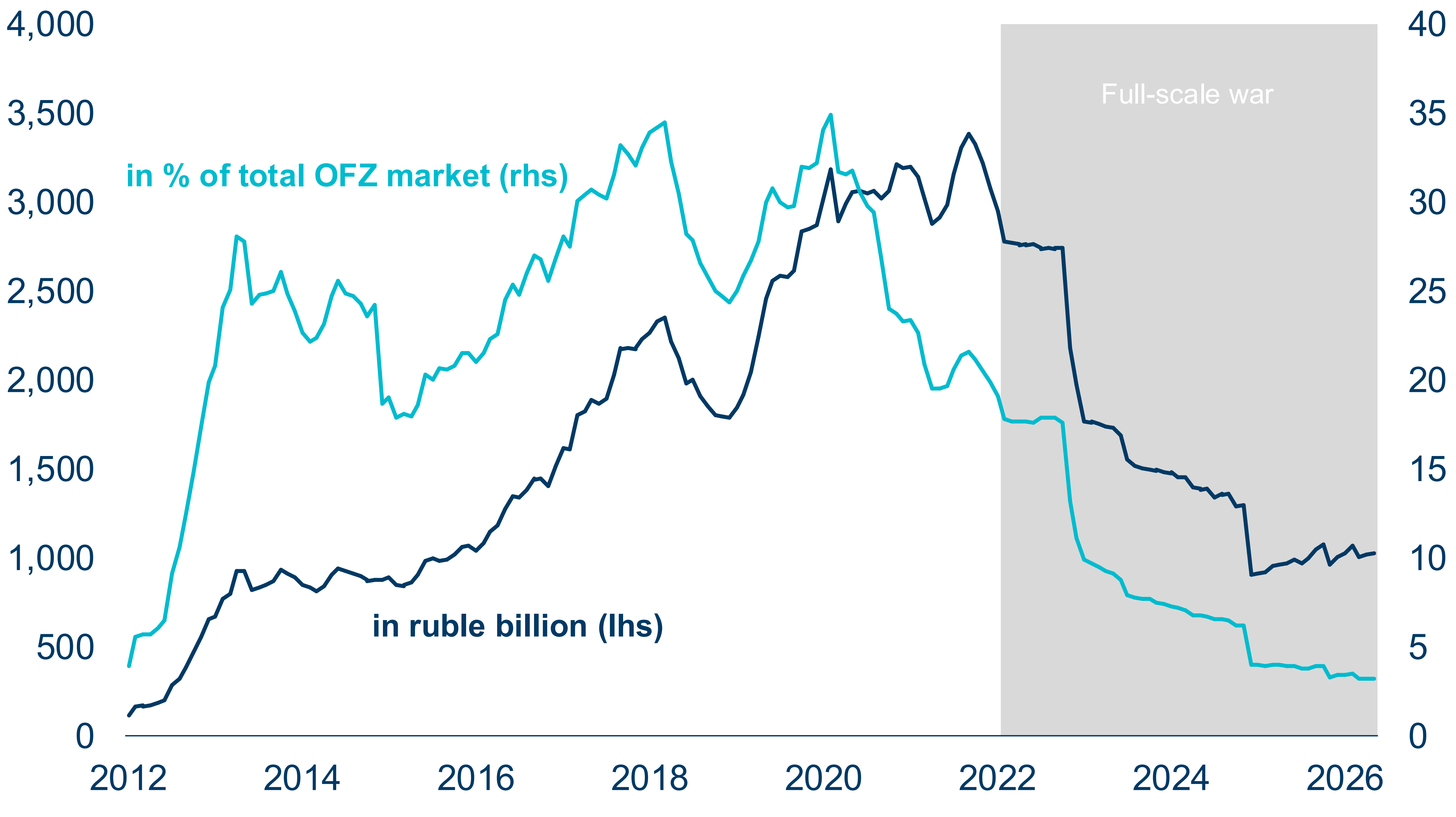
# Domestic banks are the only remaining buyers of OFZs.

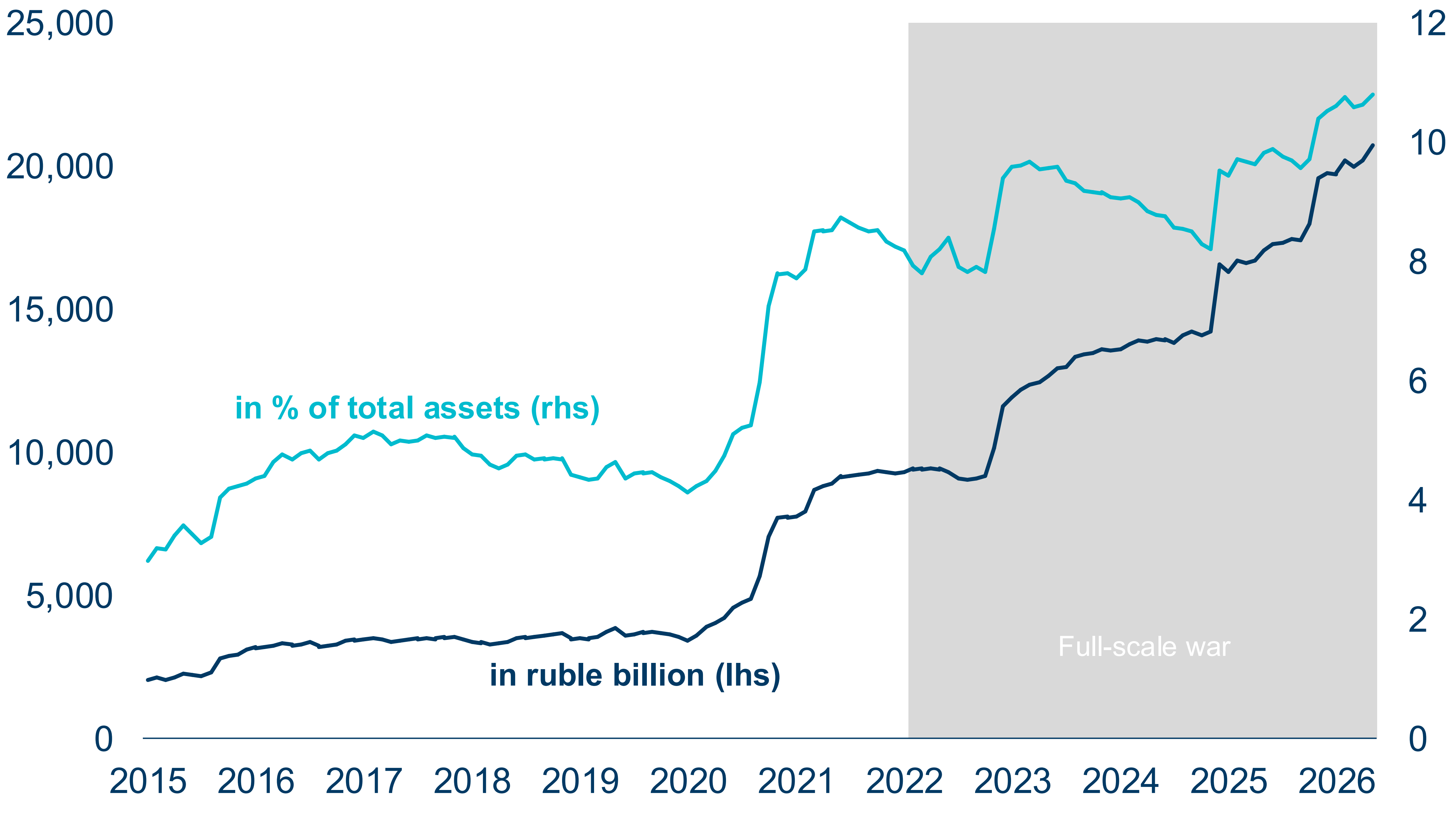
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 1.9 trillion rubles (or 65%) since January 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

**Non-resident OFZ holdings**




Source: Bank of Russia, KSE Institute

**Depository corporations' OFZ holdings***

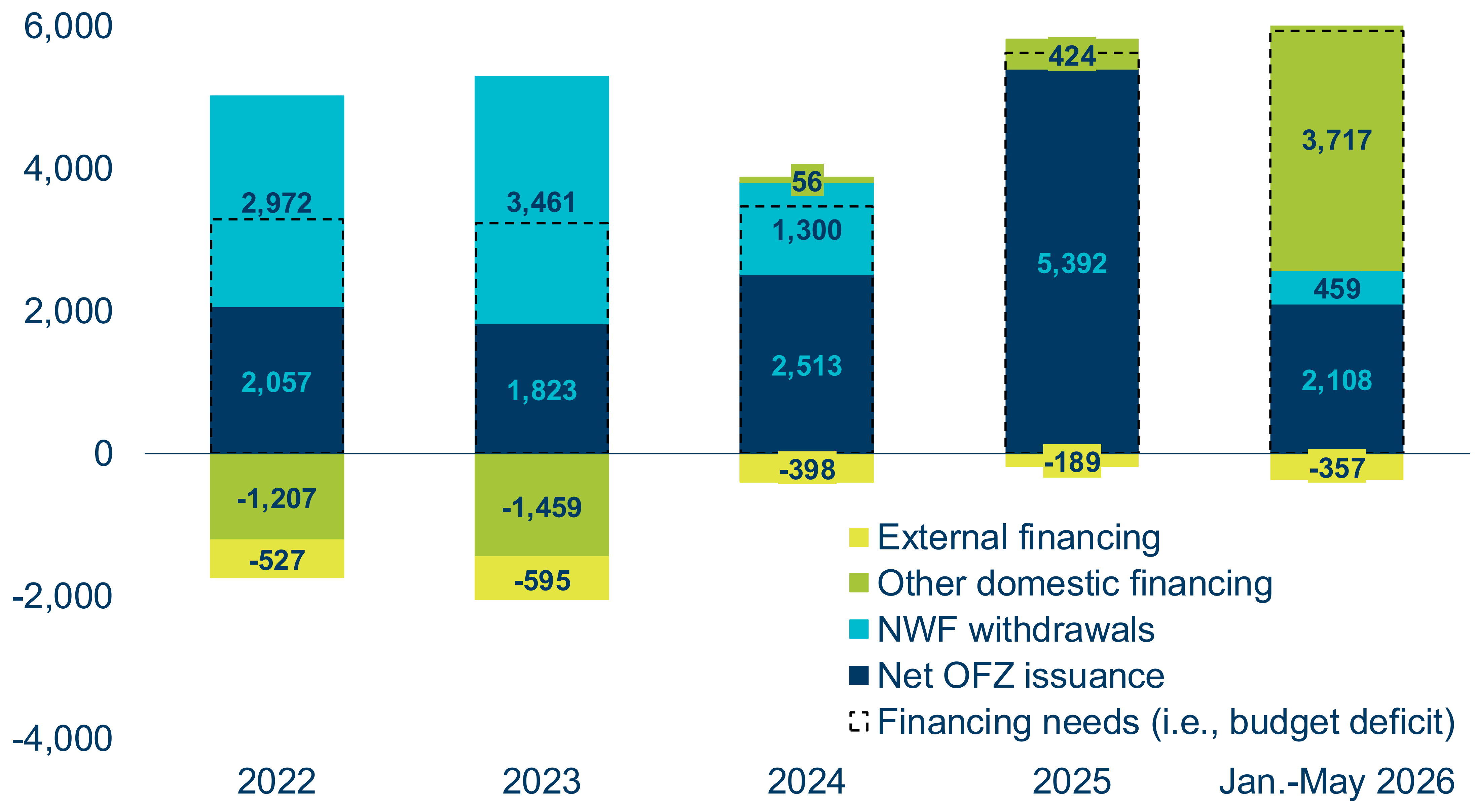



Source: Bank of Russia, KSE Institute *excluding Bank of Russia

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

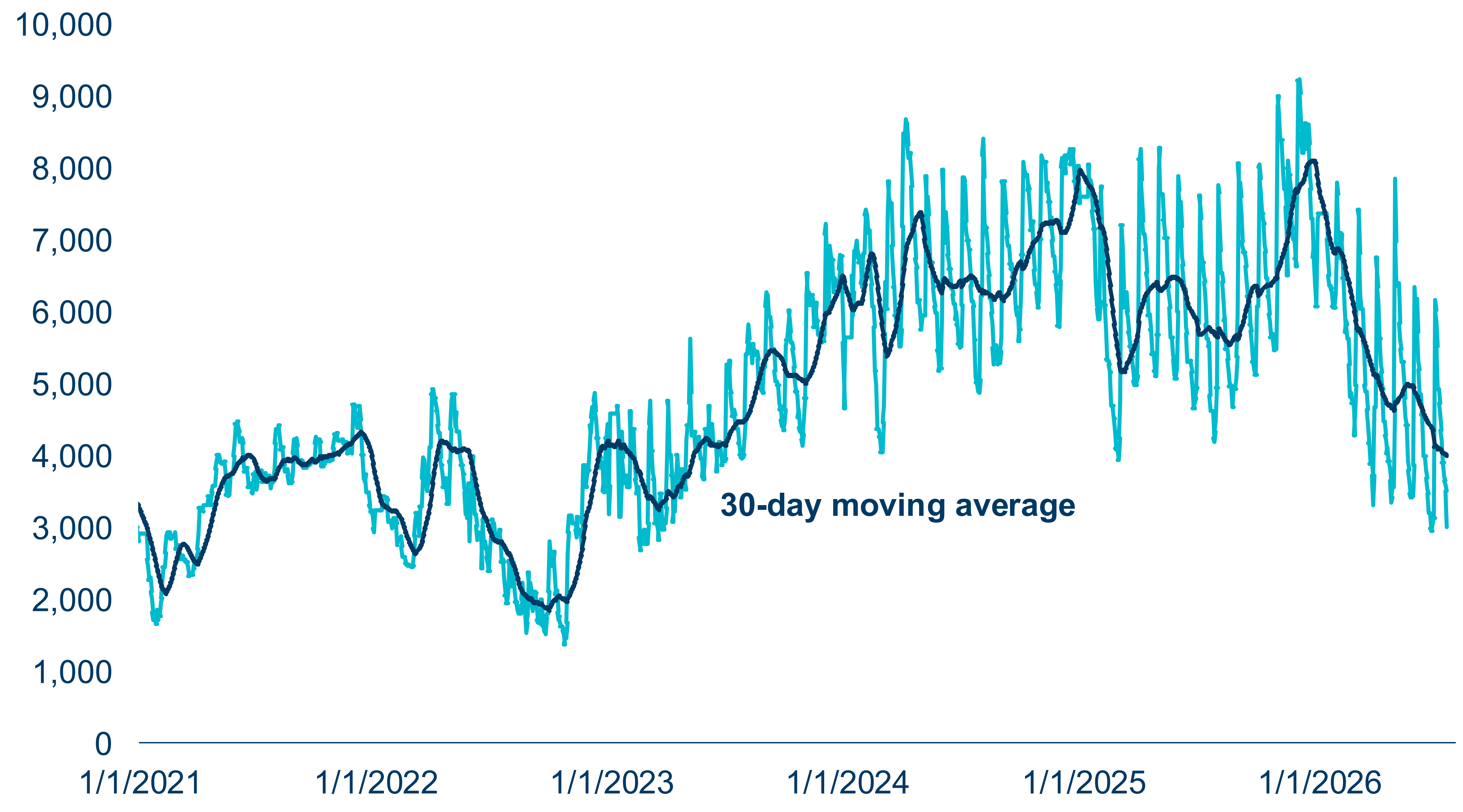
- Net OFZ issuance and NWF withdrawals were 3.4 trillion rubles ($43 billion) smaller than the deficit in Jan.-May.
- Russia relied on its Treasury's account, which declined by 3.6 trillion rubles from December to Jun. (monthly avg.).
- In the absence of meaningful fiscal improvements, higher domestic 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**

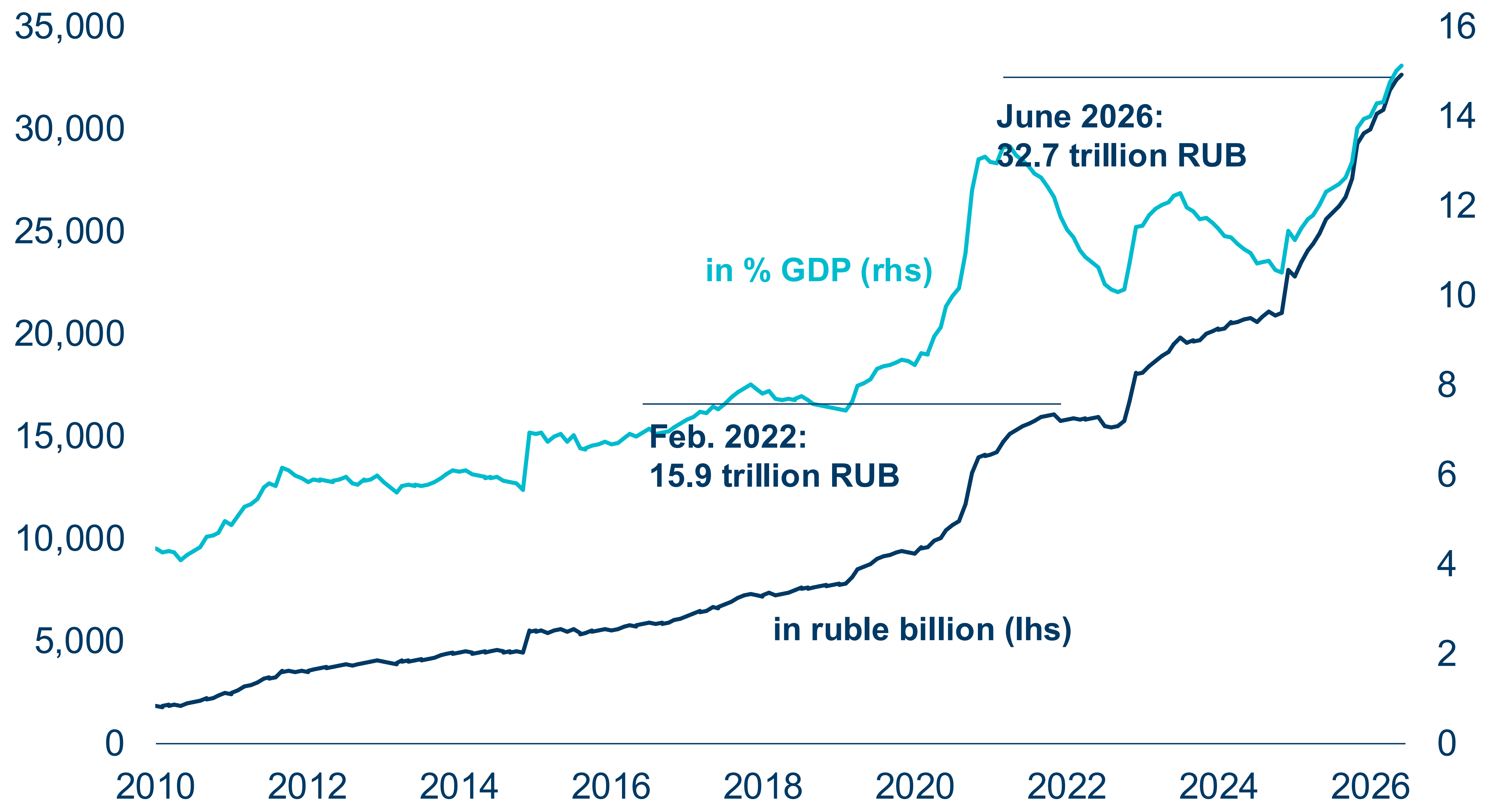



Source: Bank of Russia, Russian Treasury, KSE Institute

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

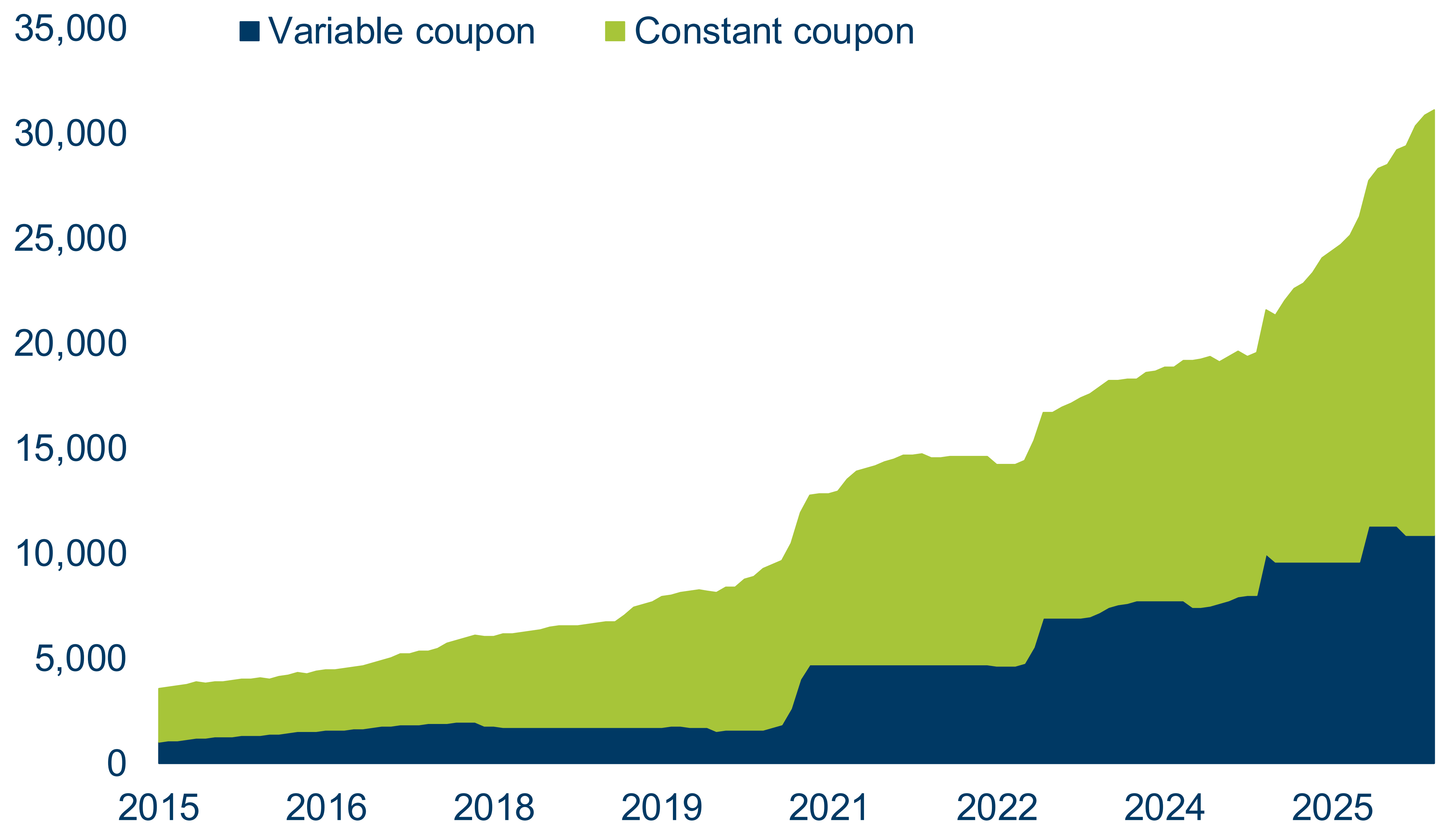
- Federal domestic debt has doubled since Feb. 2022 to 32.7 trillion rubles in Jun. 2026 and stands at ~15% of GDP.
- Facing surging bond yields, MinFin has temporarily canceled OFZ auctions to avoid unfavorable borrowing conditions.
- Amid a potential CBR rate hike, returning to floating yields could force MinFin to incur even higher debt servicing costs.

**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

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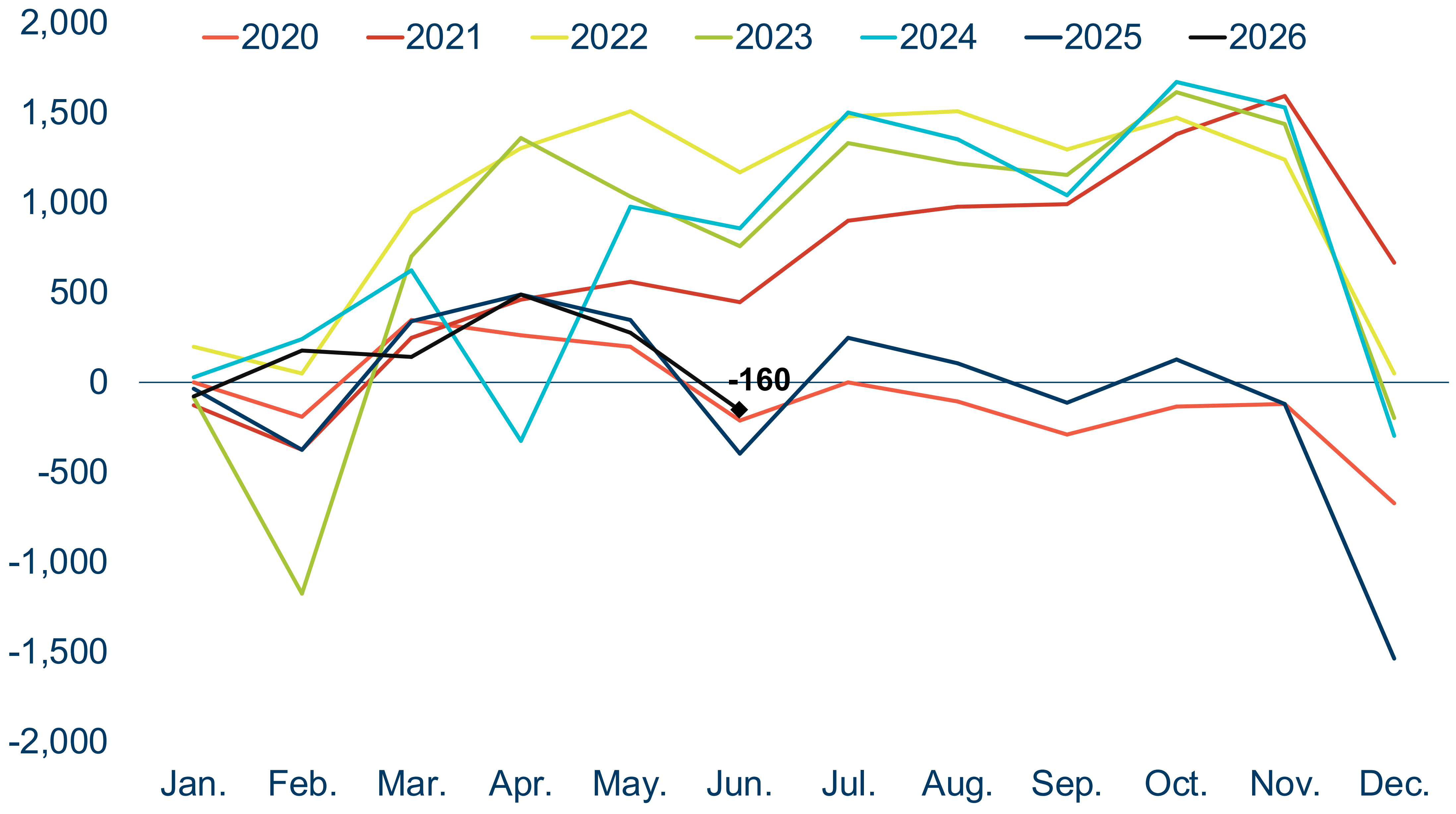
# Regional budgets under strain; widespread deficits offset by federal bailouts.

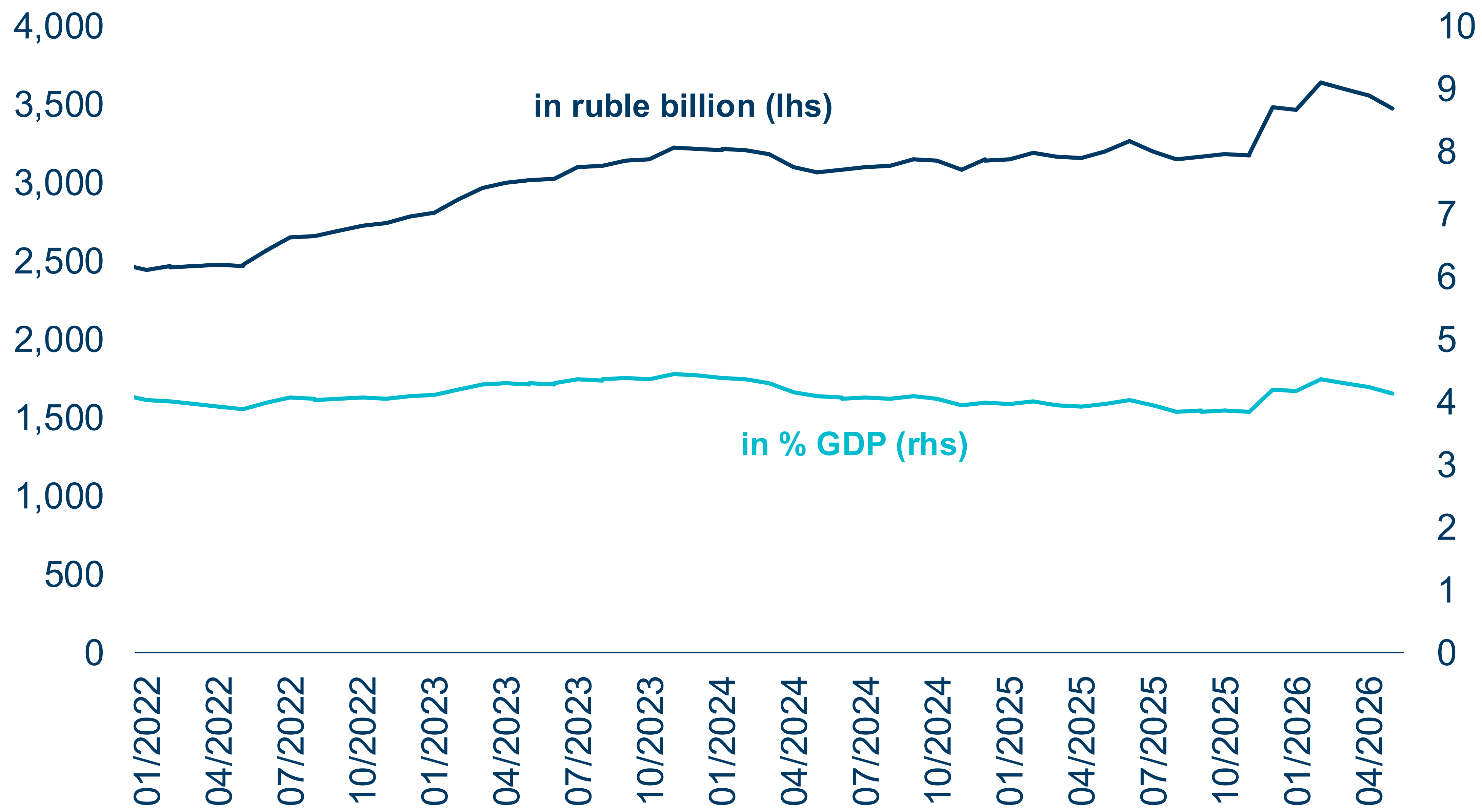
- Over Jan.-Jun. 2026, the cumulative budget of the regions was in line with the 2025 path (at -160 billion rubles).
- As of the first quarter of 2026, 55 out of 89 regions (including annexed territories) were running a budget deficit.
- To ease the debt burden, 2/3 of regional loans were written off 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

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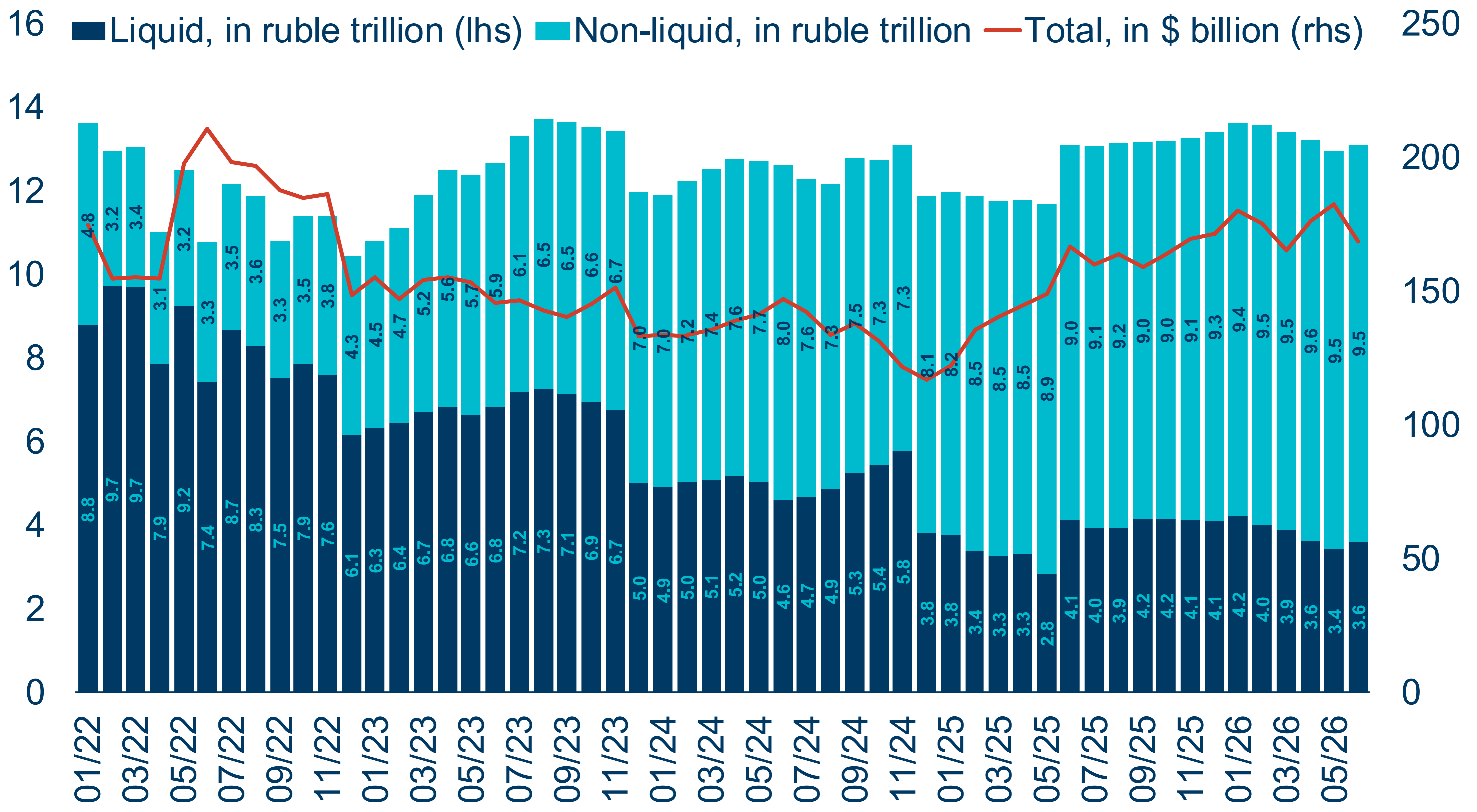
# Liquid NWF assets gradually decline.

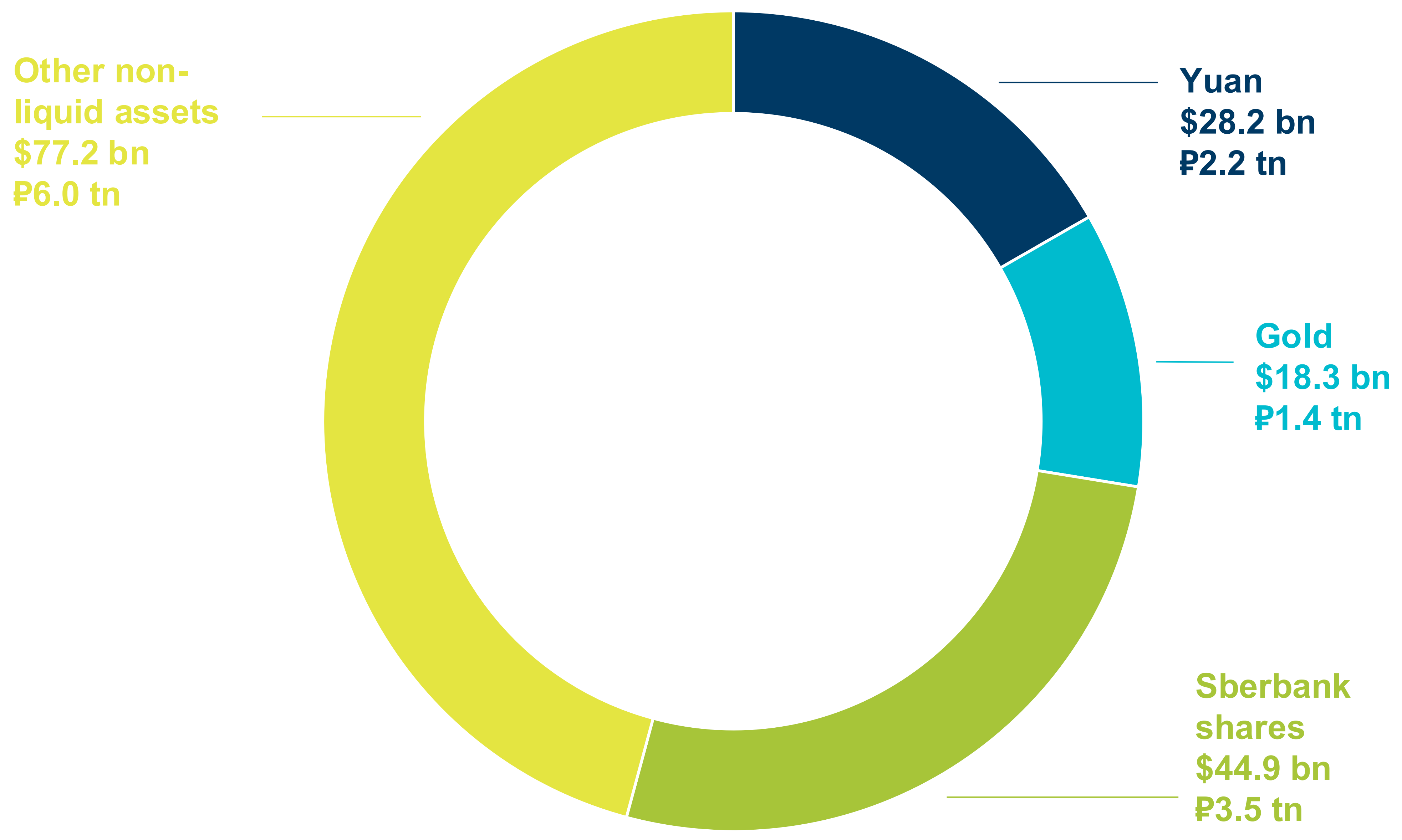
- Total assets of the National Welfare Fund stood at 13.1 trillion rubles ($168.5 billion, 6.1% of GDP) in Jun. 2026.
- Liquid assets have shrunk by 63% since early 2022 and only accounted for 28% of the total in Jun. (vs. 75%).
- Recent dynamics are driven by sales of gold and yuan assets, volatile 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 July 1, 2026*




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

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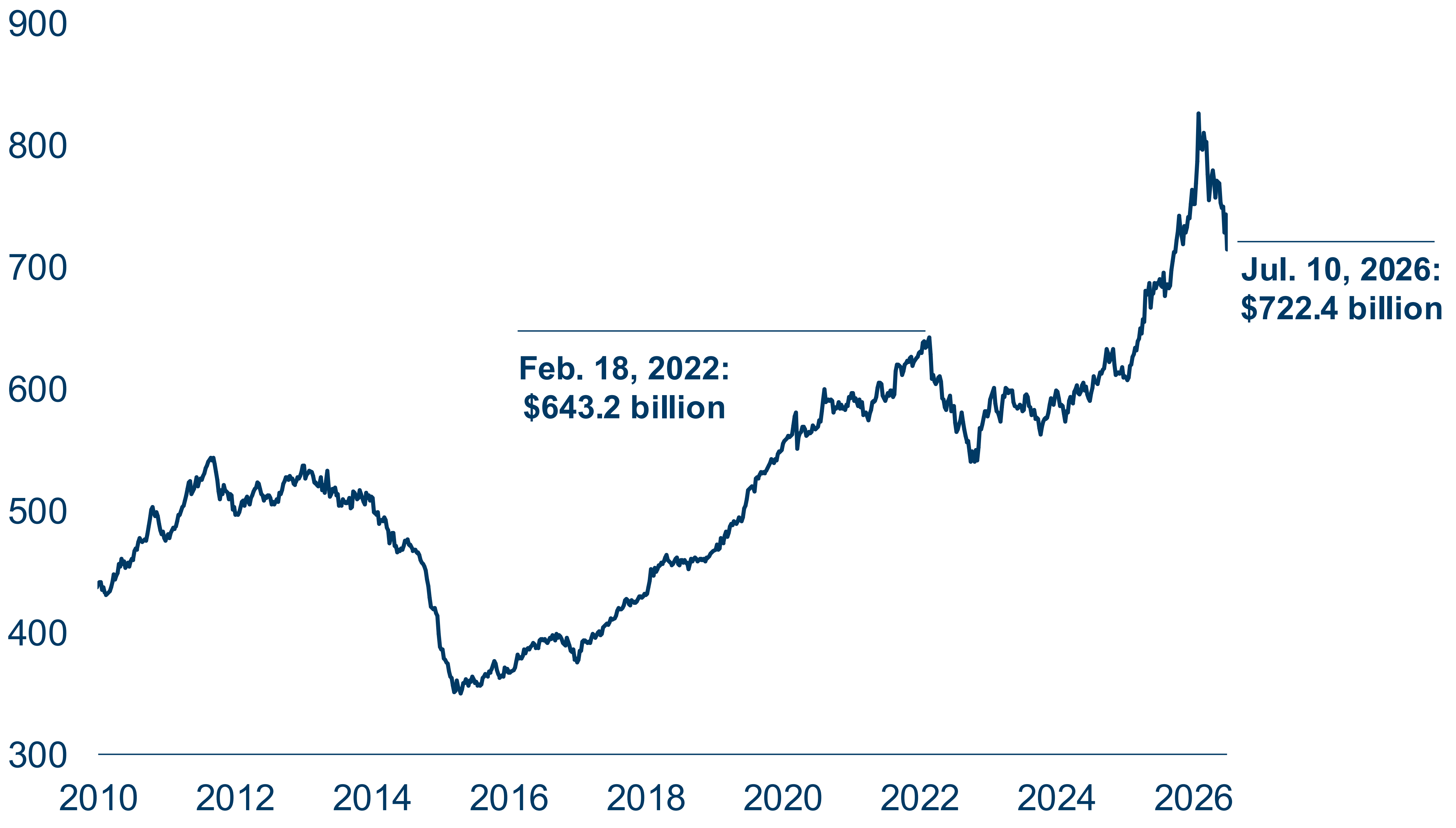
# Reserves decline as gold prices fall; FX reserves are broadly stable.

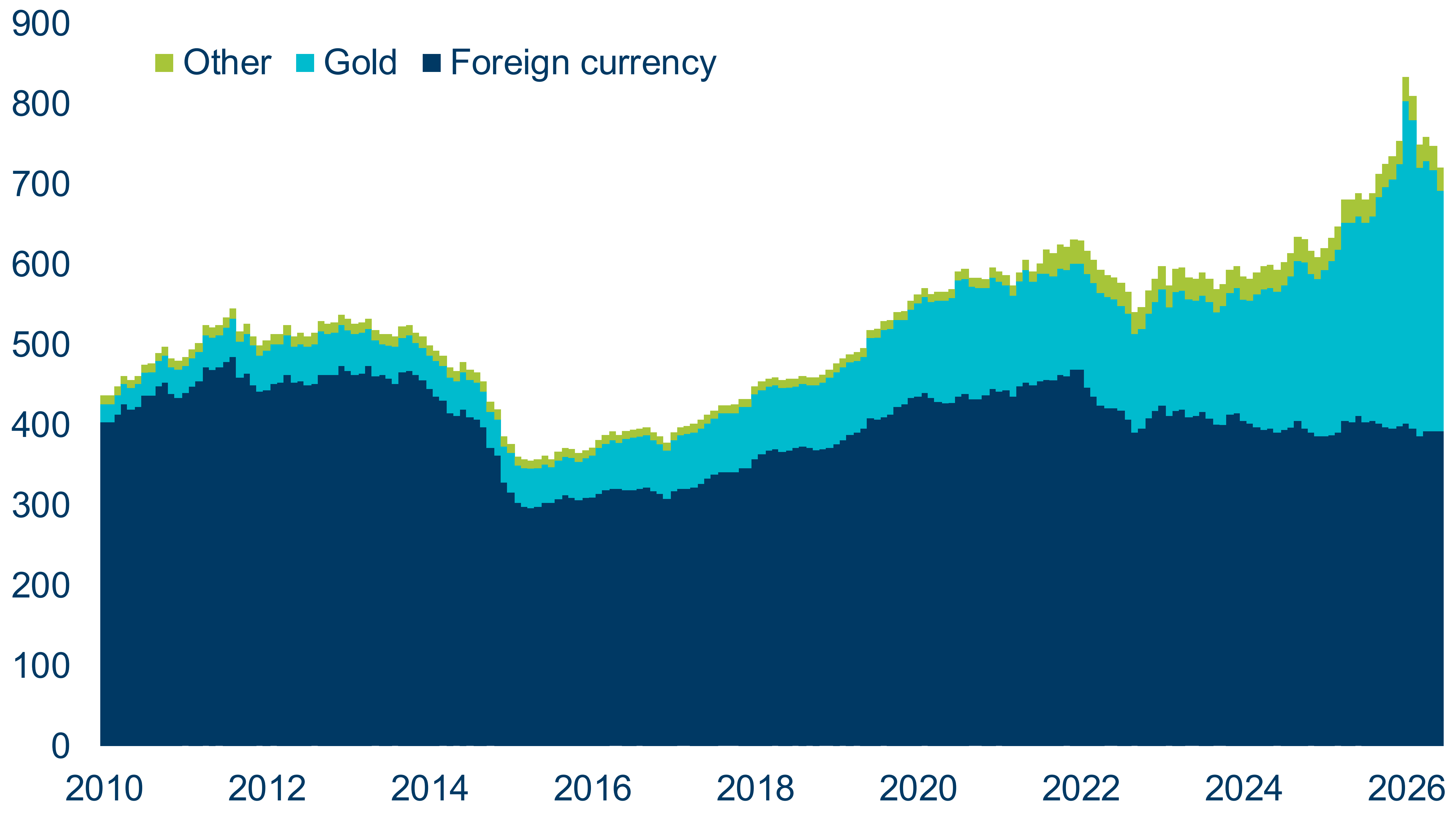
- Russia's total international reserves stand at $722 billion vs. $643 billion before the start of the full-scale war.
- Foreign currency reserves have been broadly stable for 4+ years as a large share is immobilized due to sanctions.
- Changes in the total value of Russian reserves are largely driven 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**

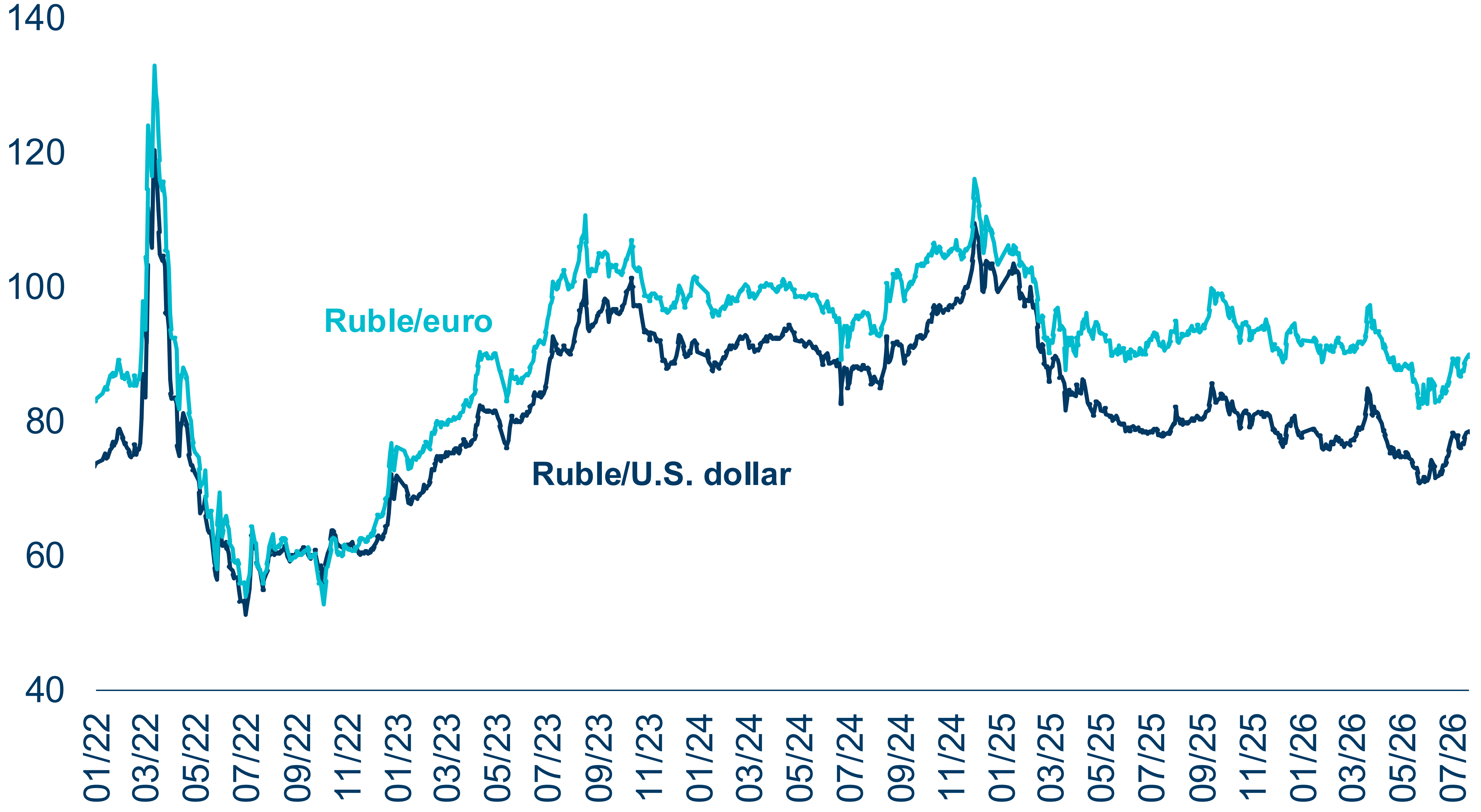



Source: Bank of Russia, KSE Institute

# Inflation accelerates and ruble recovers; CBR hesitant to cut rates further.

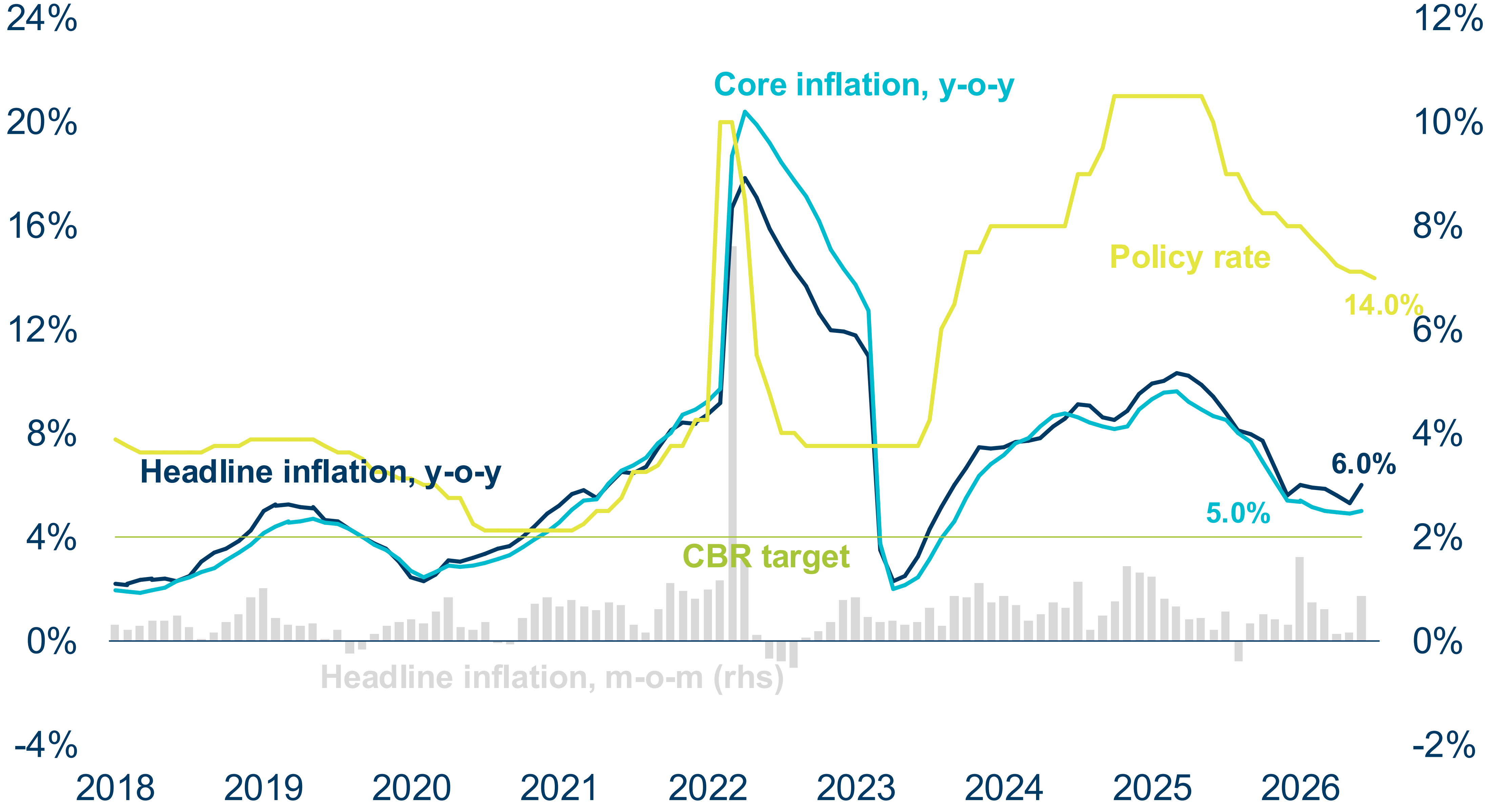
- The ruble has reversed its recent strengthening, with the exchange rate returning to levels last seen in early April.
- Headline inflation accelerated to 6.0% y-o-y in Jun. (from 5.3% in May), moving further away from the CBR's 4.0% target.
- Fearing a further rise in inflation, the CBR will likely be less eager to ease further monetary policy despite political pressure.

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




Source: Bank of Russia, KSE Institute

**Inflation and CBR policy rate, in %**

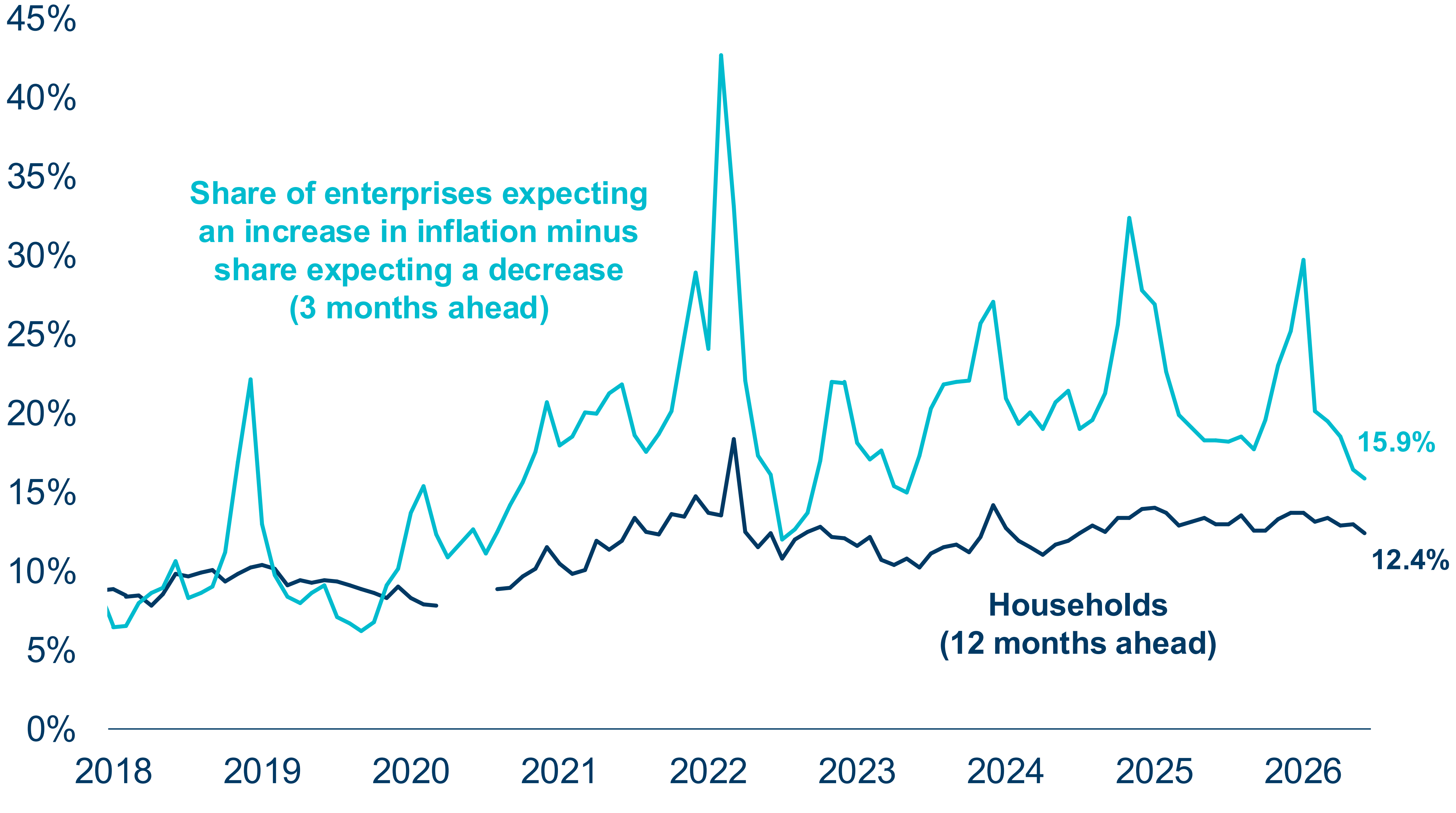



Source: Bank of Russia, KSE Institute

# Inflation pressures mount as fuel prices pass through.

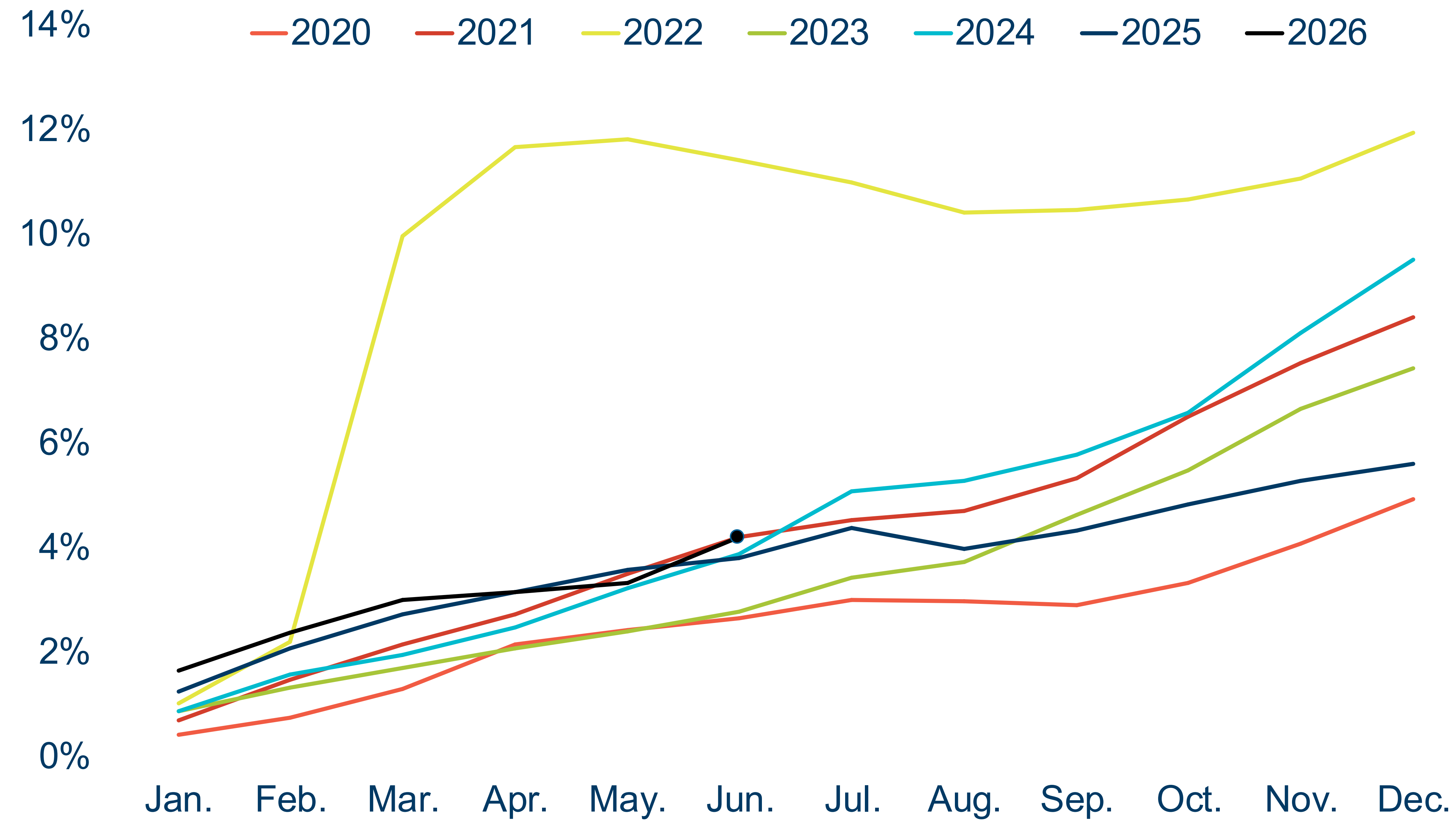
- Inflation expectations have moderated but remain well above the CBR's inflation forecast and official target.
- Cumulative headline inflation has risen to 4.2% in Jun. (vs. 3.3% in May) and is now above 2023–25 levels.
- Strikes on oil refineries are already contributing to accelerating inflation, a trend that will only continue.

**Inflation expectations, %**




Source: Bank of Russia, KSE Institute

**Cumulative inflation, in %**

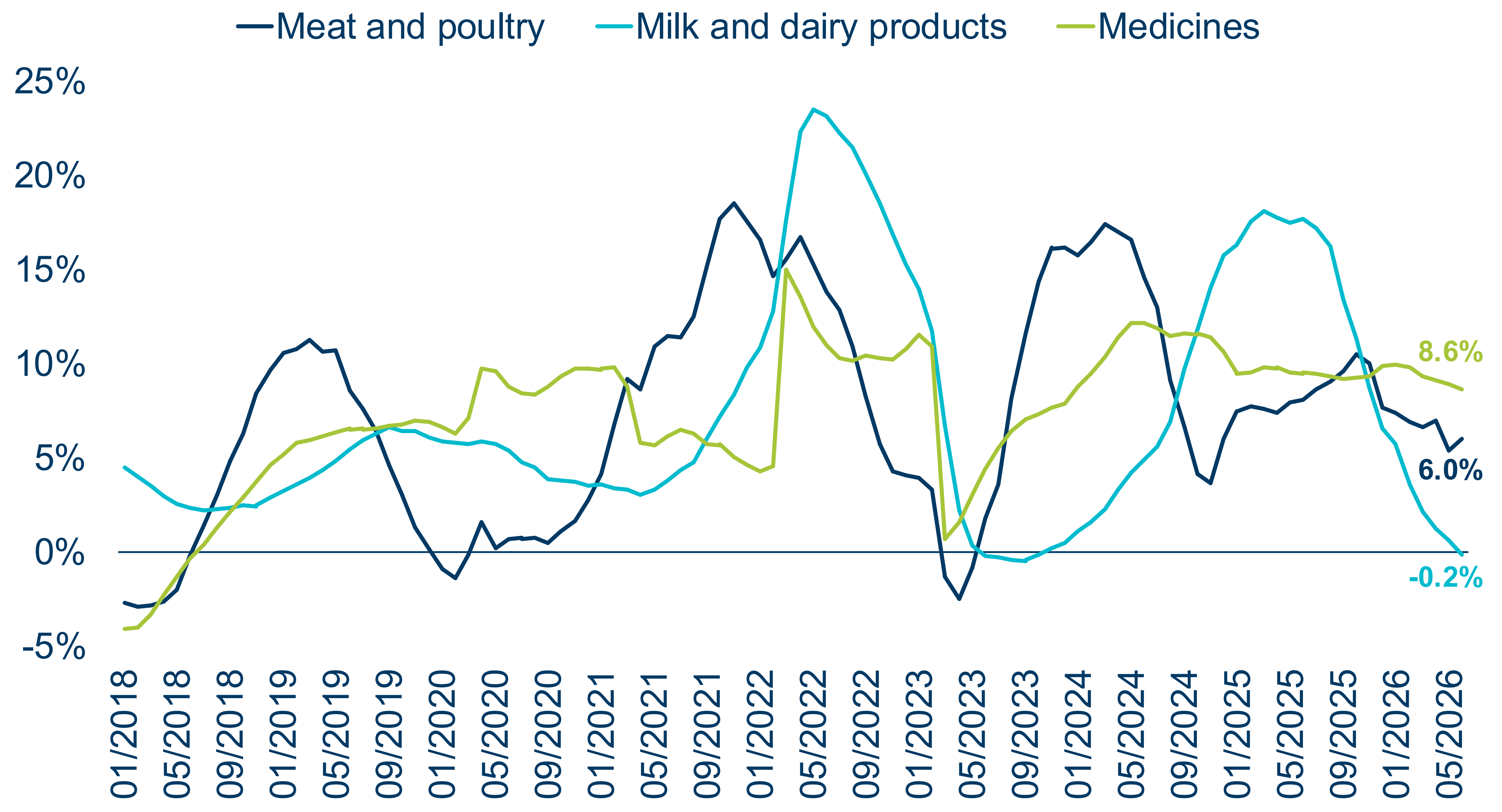



Source: Bank of Russia, KSE Institute

# Services drive inflation, while consumer goods show mixed dynamics.

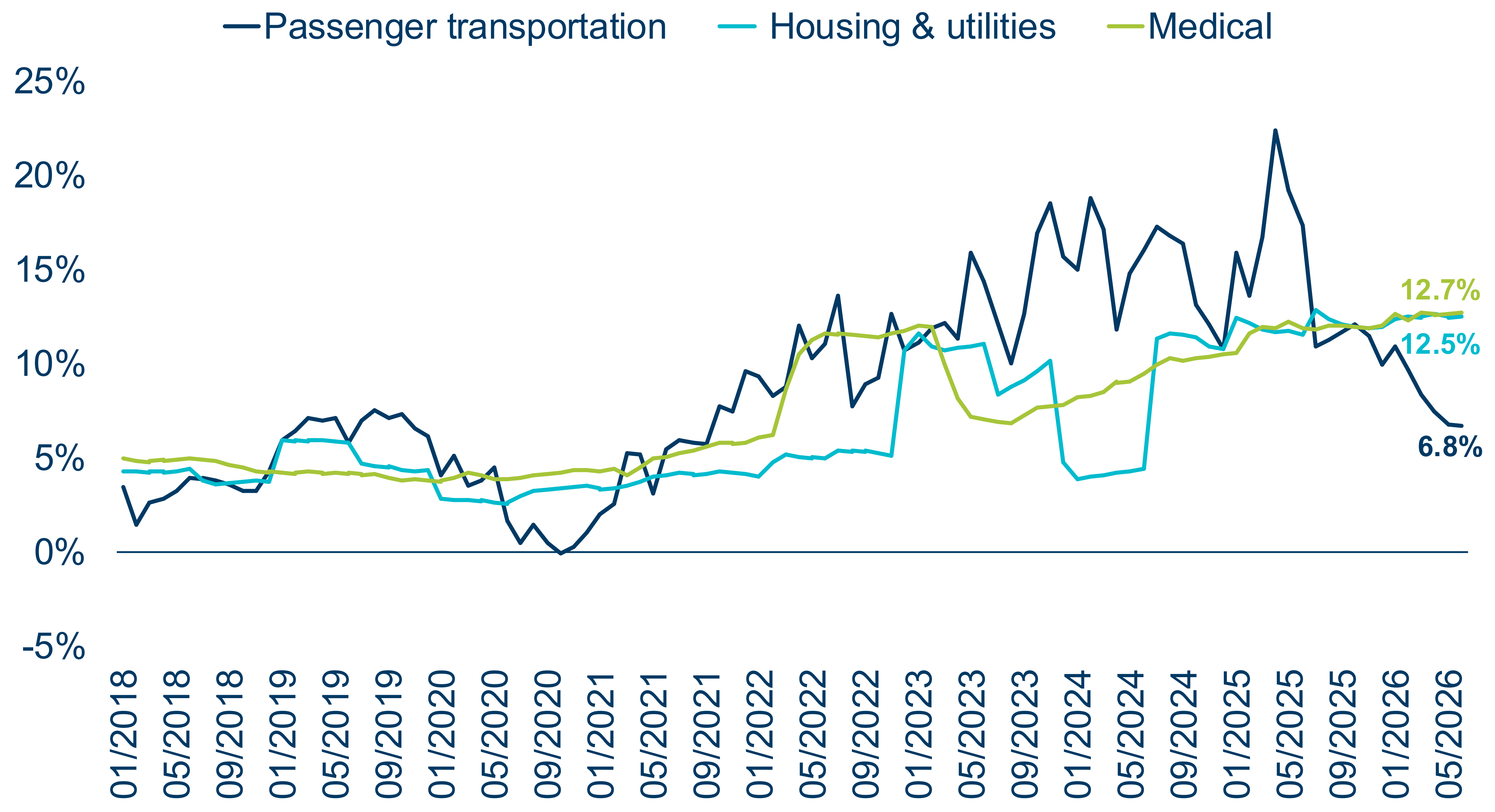
- In Jun., important consumer goods categories and all tracked services categories grew above headline inflation.
- Consumer goods: medicines (+8.6%) and dairy (+6.0%) inflation grew, while meat and poultry fell to -0.2% y-o-y.
- Services are driving inflation, with medical care (12.7%) and housing & utilities (12.5%) showing persistent growth.

**Inflation for selected consumer goods, in % year-over-year**




Source: Rosstat

**Inflation dynamics for selected services, in % year-over-year**

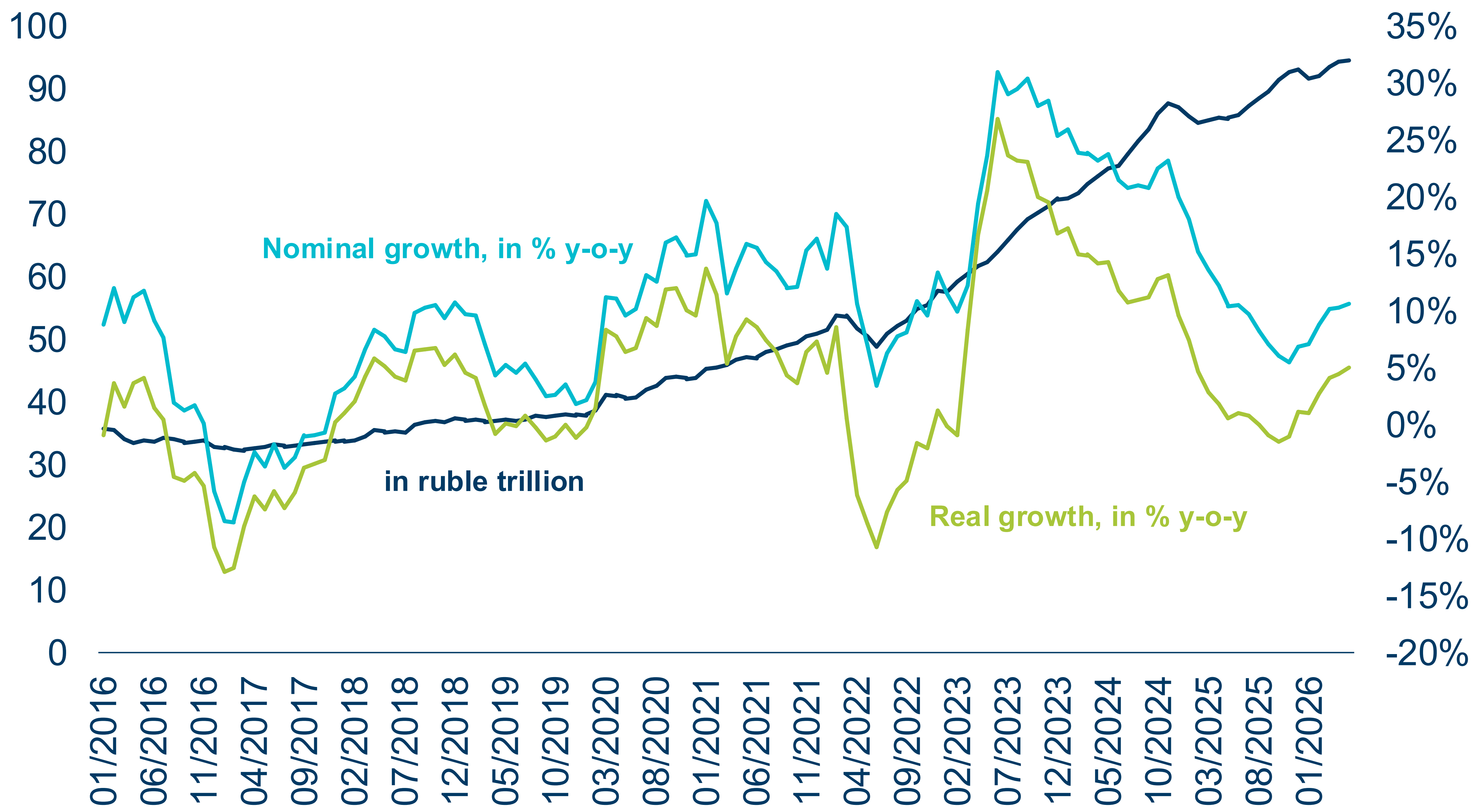



Source: Rosstat

# Corporate lending gradually recovers despite elevated borrowing costs.

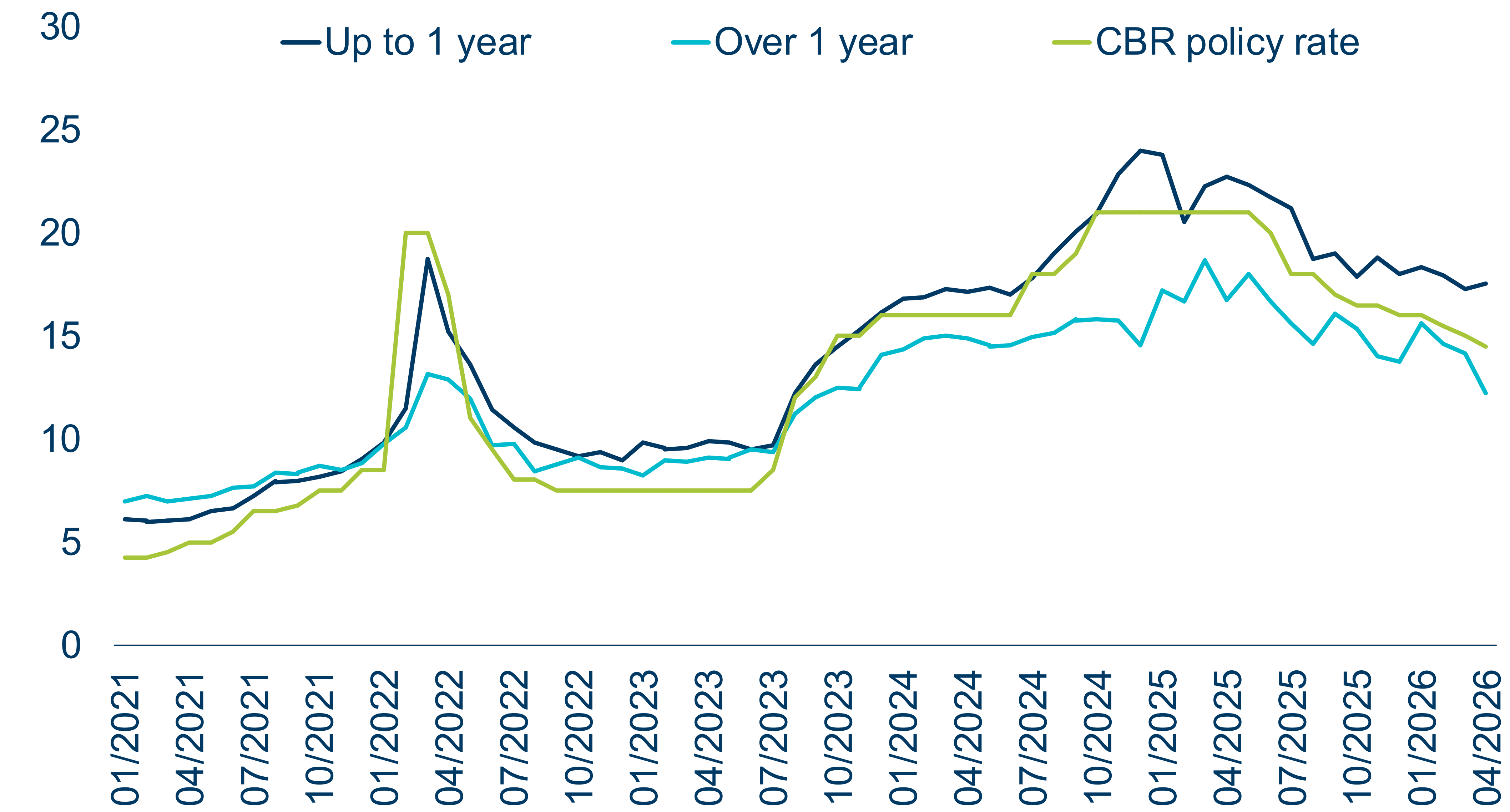
- Borrowing is gradually recovering in nominal and real terms from the collapse in 2025, while remaining subdued.
- Borrowing costs remain historically elevated as corporate loan rates closely track the CBR's tight monetary policy.
- The cost of short-term borrowing is higher than long-term rates, illustrating ongoing pressure on business liquidity.

**Volume and growth rate of corporate loans**




Source: Bank of Russia, KSE Institute

**Corporate Loan Rates vs. CBR Policy Rate, in %**




Source: Bank of Russia, KSE Institute

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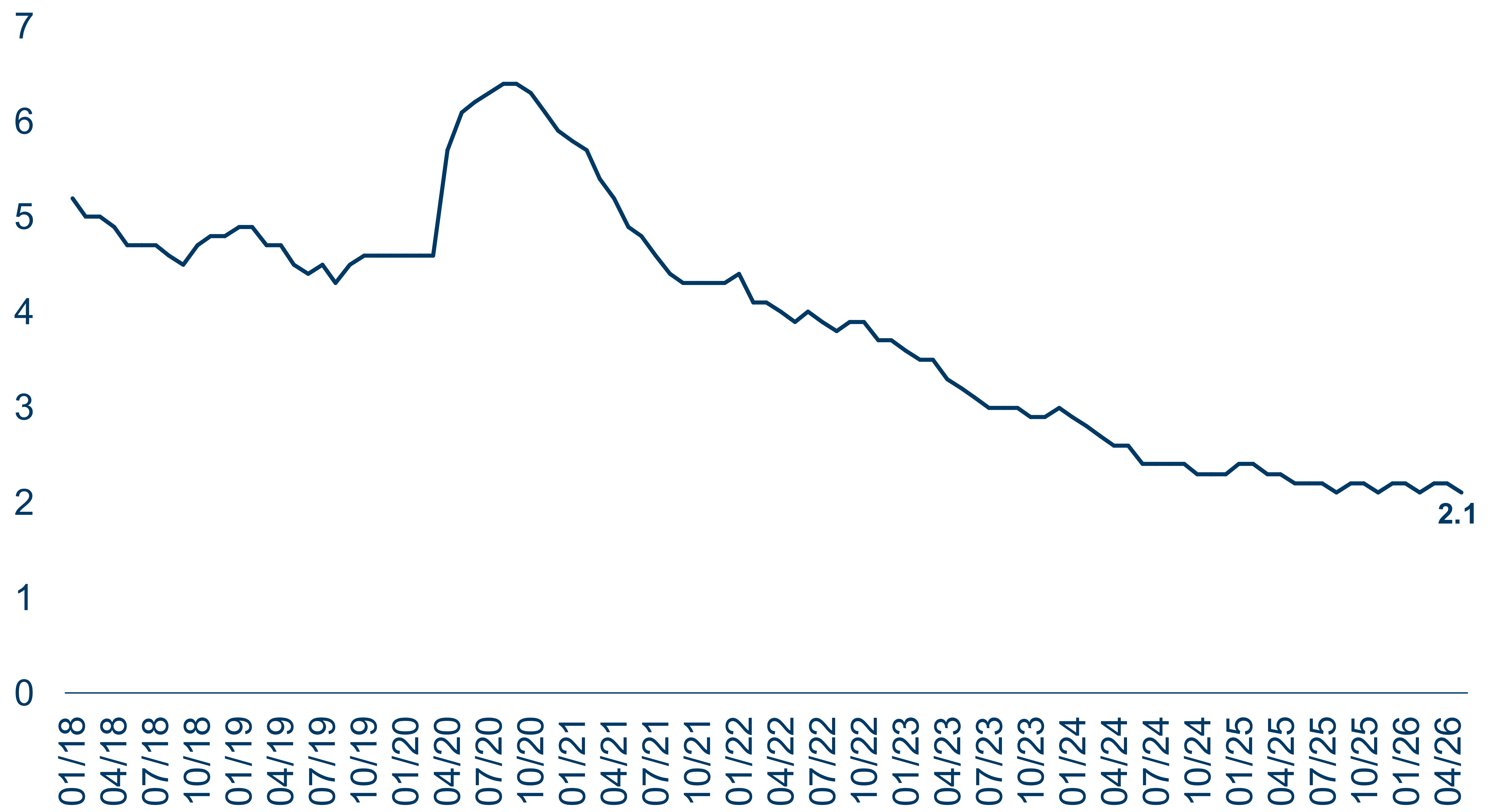
# Labor shortages persist, while wage growth shows signs of cooling.

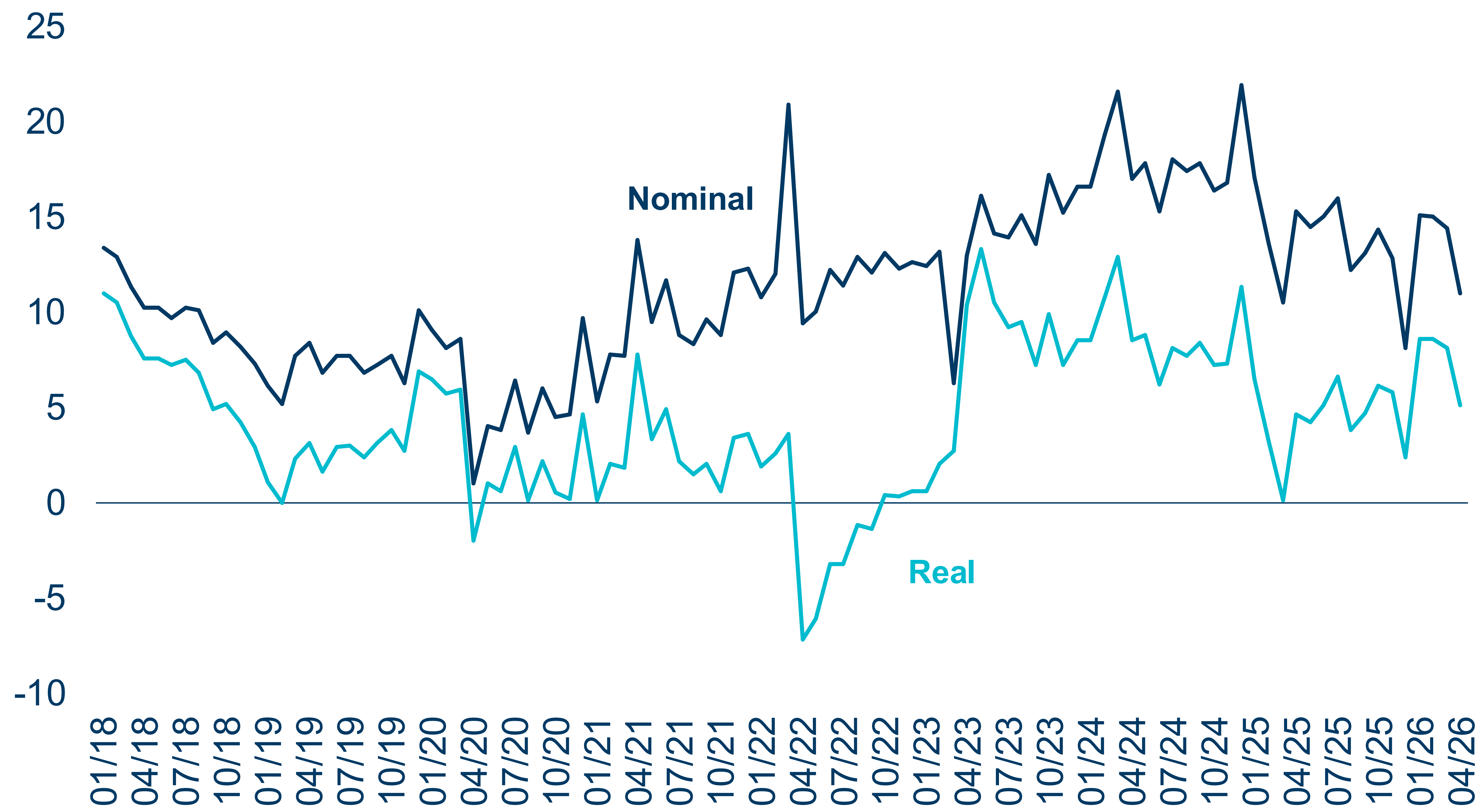
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- Anecdotal evidence regarding furloughs by large struggling enterprises points to increasing labor mismatches.
- Nominal wage growth declined notably to 11.0% in Apr. along with real wage growth (+5.1%).

**Unemployment rate, in %**




Source: Rosstat

**Wage growth, in % year-over-year**




Source: Rosstat

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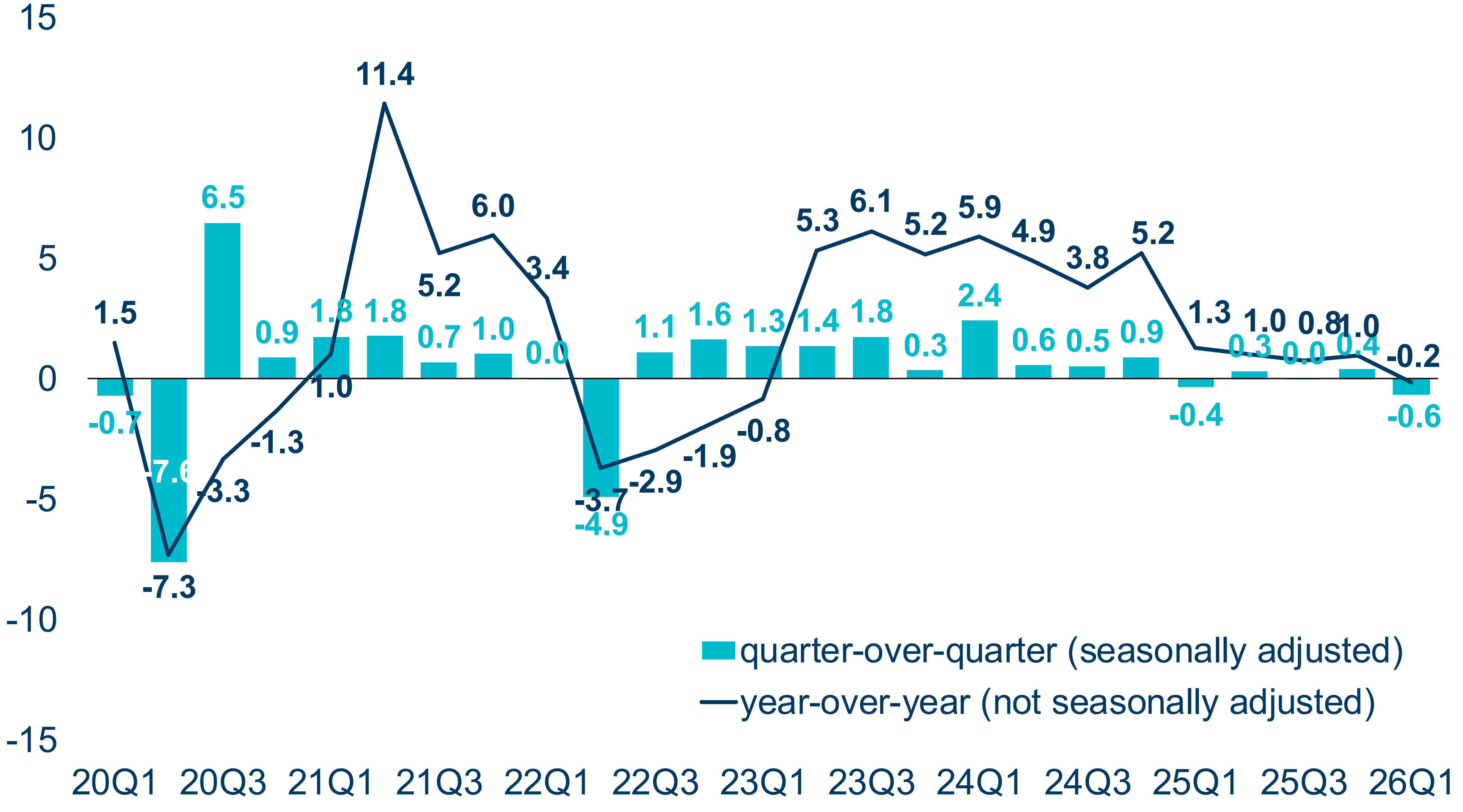
# GDP shrunk in Q1 2026; bleak outlook for 2026–27.

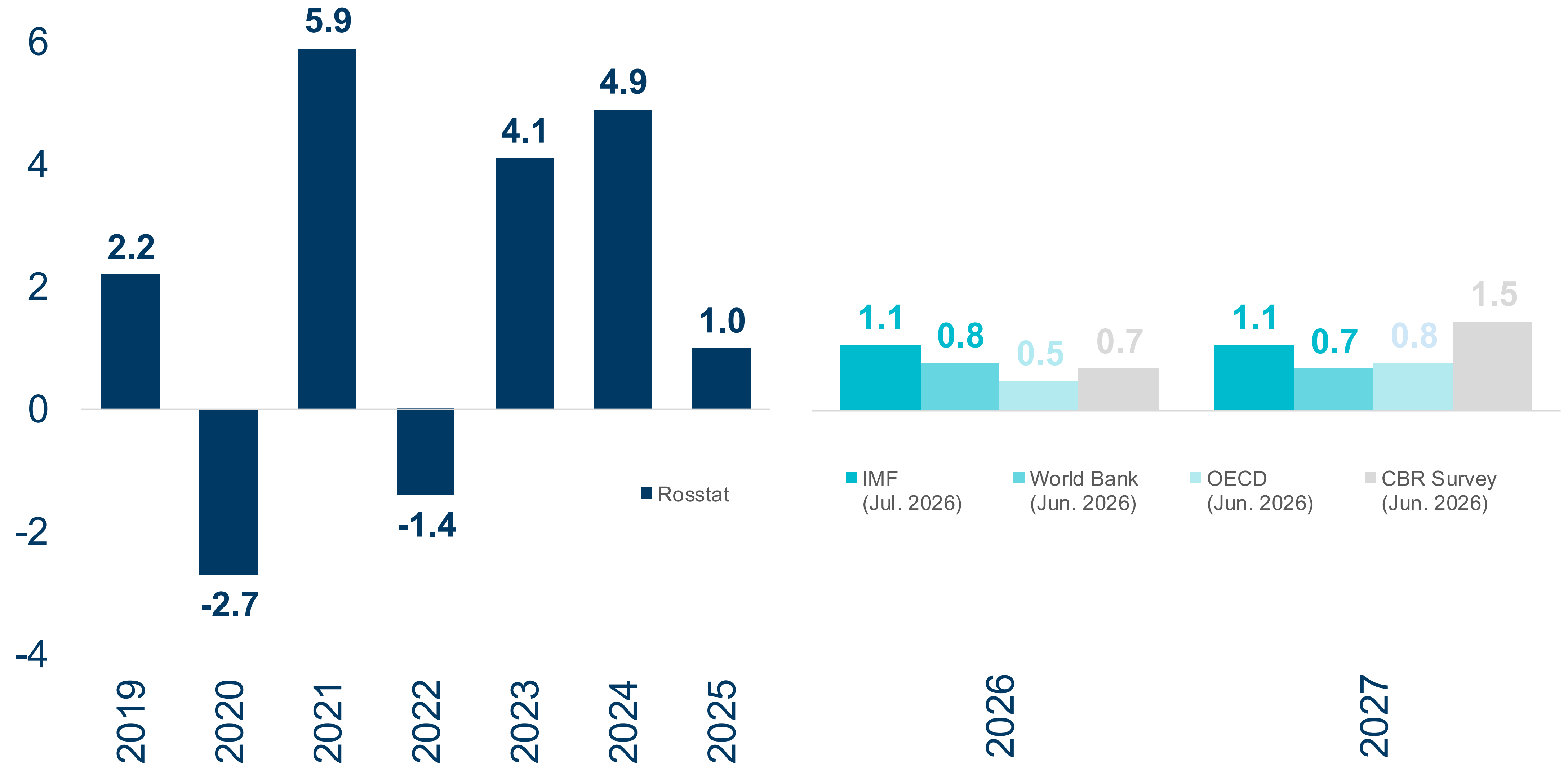
- Growth dropped sharply in 2025 (1% vs. >4% in 2023–24), indicating that the war-driven boom is over.
- Following the 2025 slowdown, GDP shrunk in Q1 2026, contracting by 0.6% q-o-q and 0.2% y-o-y.
- The outlook remains bleak although forecasts have been revised up marginally due to high energy prices.

**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

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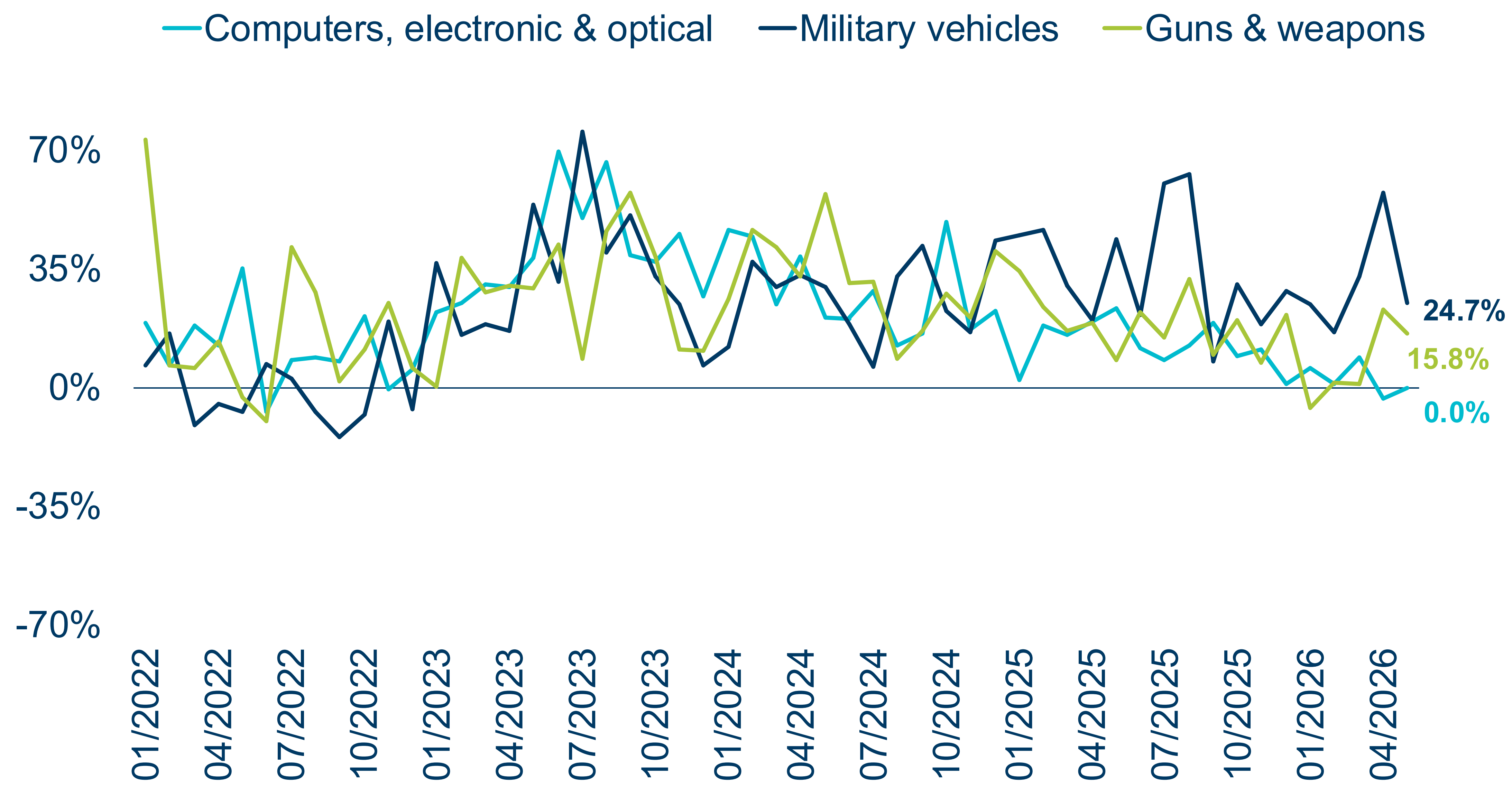
# Military production loses momentum, failing to offset civilian contraction.

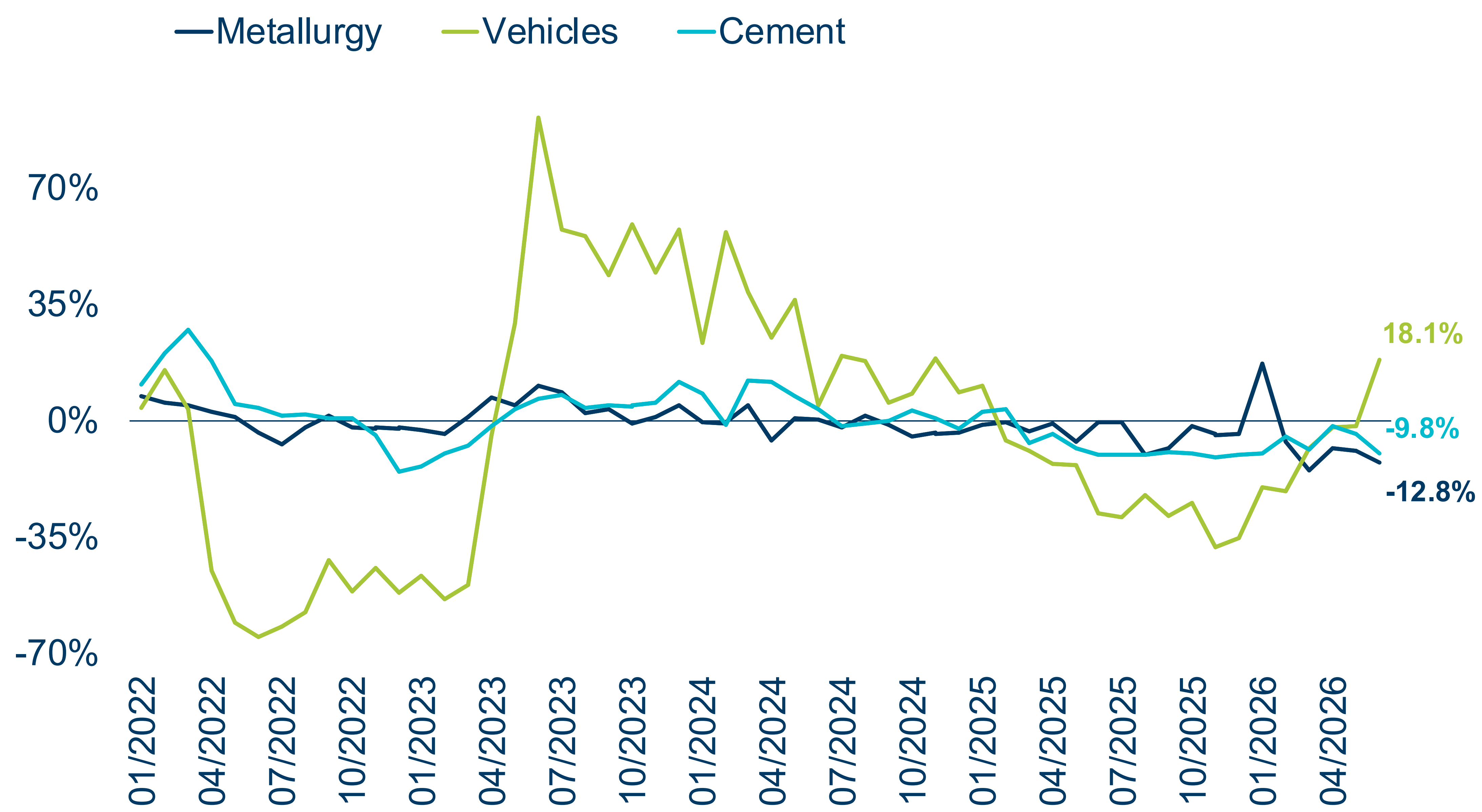
- The defense sector may no longer prop up overall industrial output, as all 3 key military sectors slowed down in May.
- Notably, the production of computers & electronics has stagnated, failing to show growth for the second consecutive month.
- The sudden May spike in vehicle production is likely driven by a low base effect rather than a genuine recovery.

**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 %**

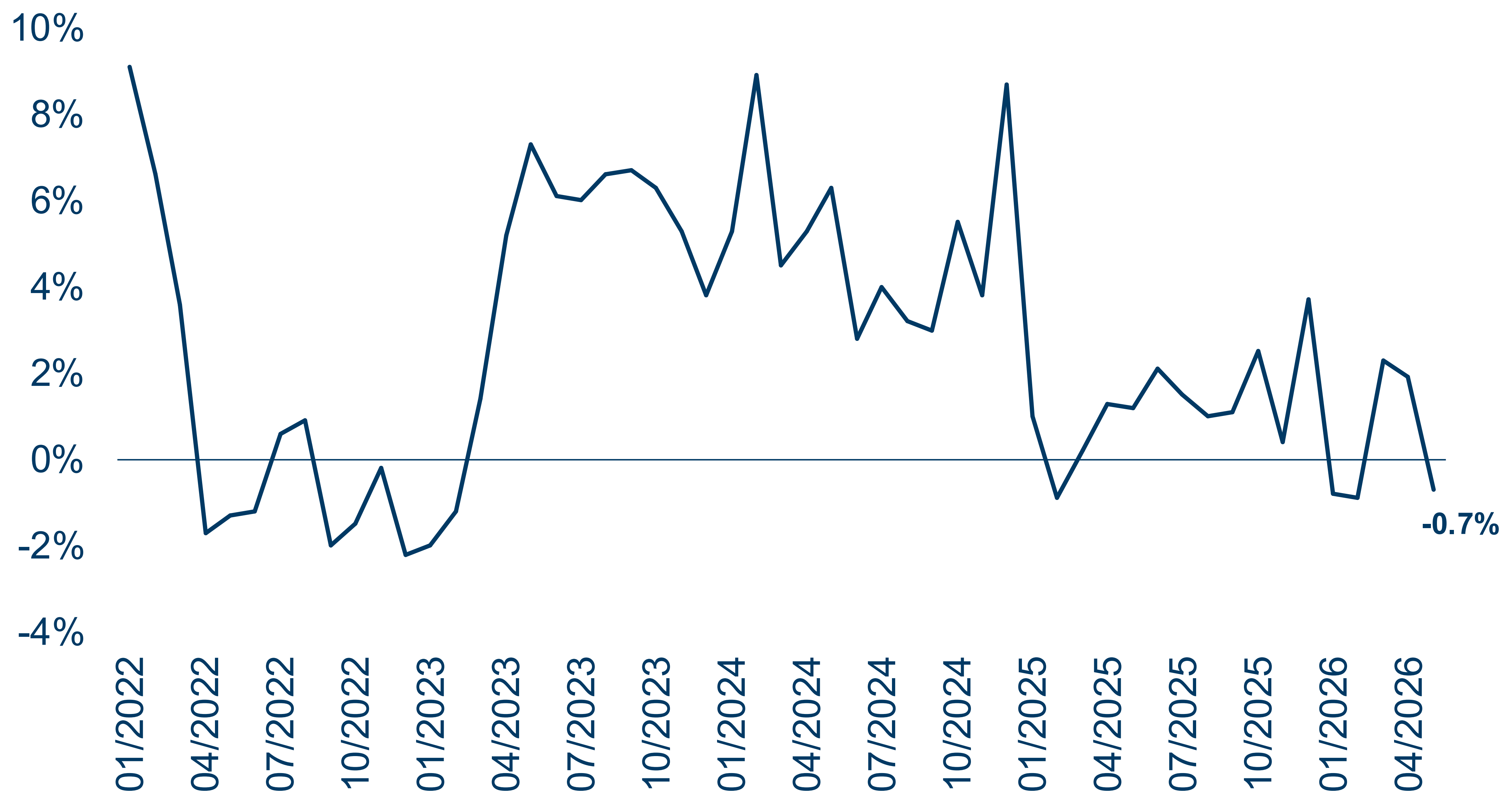



Source: Rosstat, KSE Institute

# Falling output and capacity utilization expose economic constraints.

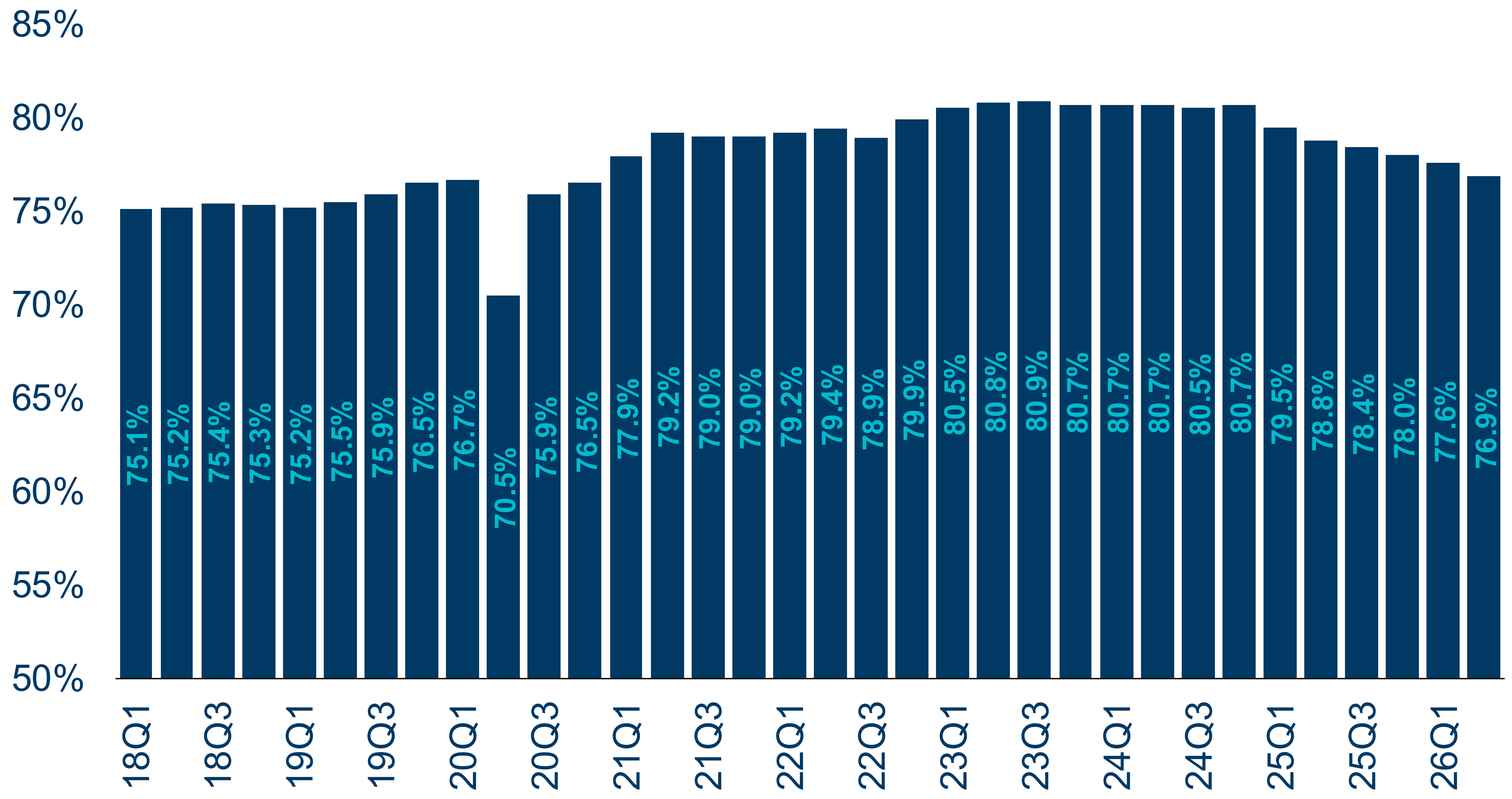
- Industrial production contracted by 0.7% y-o-y in May 2026, a noticeable reversal from the 1.9% growth recorded in April.
- At the same time, capacity utilization is falling from its historic highs, dropping to 76.9% in Q2 2026.
- This signals that fundamentals (e.g., tight labor market, high borrowing 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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