

KSE INSTITUTE RUSSIA CHARTBOOK

RUSSIA RAMPS UP DOMESTIC BORROWING AFTER A TWO-MONTH BREAK AS FISCAL PRESSURES PERSIST DESPITE HIGHER OIL PRICES

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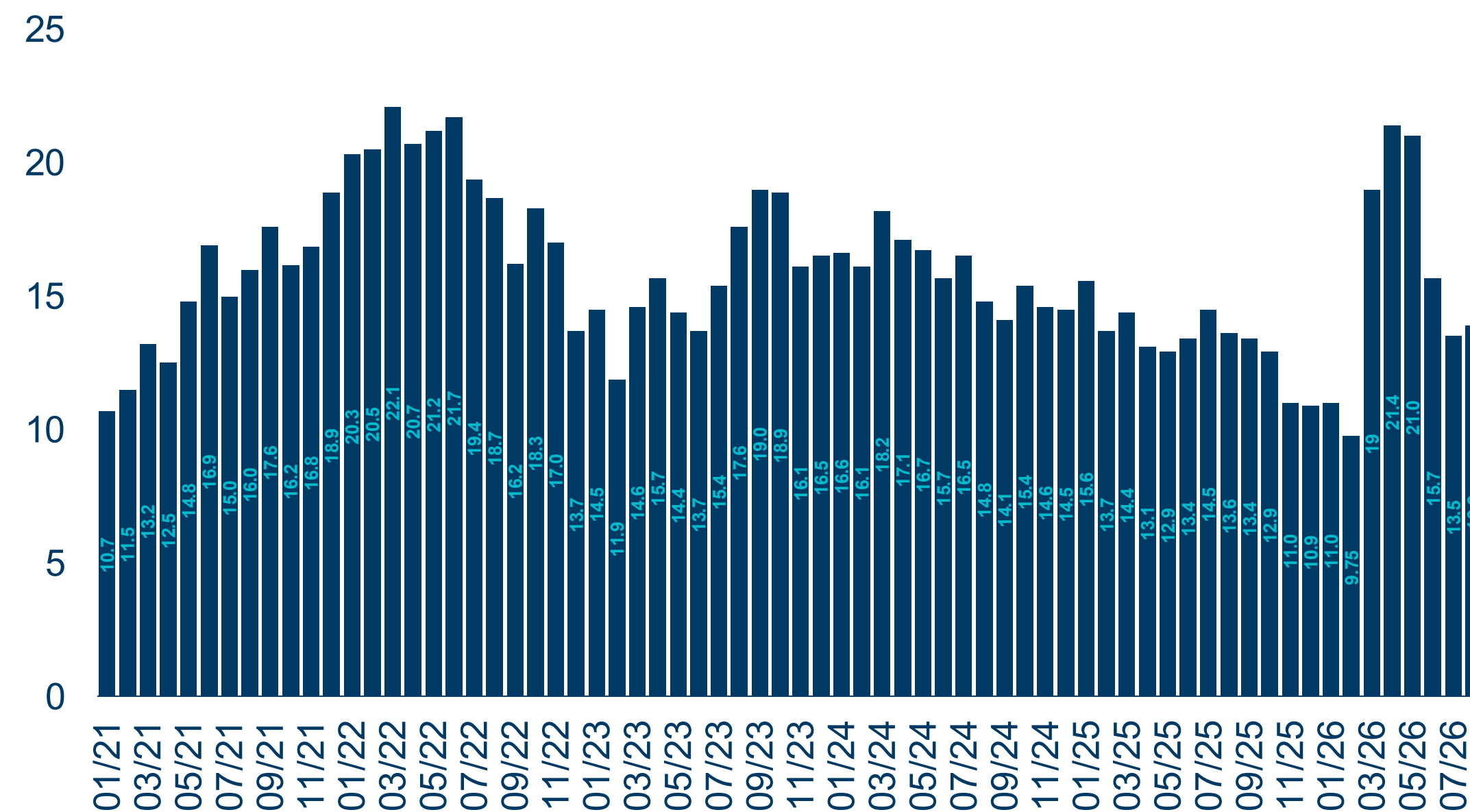
Executive Summary

- 1. Russian oil exports edged higher in August despite a continued decline in physical export volumes.** Total earnings rose to \$13.9 billion (up from \$13.5 billion in July). The increase in export earnings was driven by higher export prices, with Russian oil prices climbing to \$68.4/barrel (vs. \$59.5/barrel in July) as the discount narrowed slightly to \$22.3/barrel. This increase occurred even as total oil export volumes fell to 6.5 mb/d in August (vs. 6.8 mb/d in July), marking the lowest level since the full-scale invasion. This drop was primarily caused by temporary closures of the Novorossiysk port, which disrupted crude shipments (5.2 mb/d vs. 5.5 mb/d in July). Meanwhile, product shipments remained flat due to ongoing attacks and export bans. With disruptions to energy flows in the Middle East persisting, elevated global prices should provide further support to Russian oil earnings and O&G revenues in the coming months.
- 2. The federal budget deficit shrank in August, aligning with historical seasonal trends, but fiscal pressures remain substantial.** The cumulative federal budget deficit decreased to 5.8 trillion rubles in August. This monthly surplus was driven by a substantial 23% m-o-m drop in expenditures—which were also 22% lower than the average monthly spending during the first seven months of 2026—and a 31% m-o-m increase in non-O&G revenues. However, despite this seasonal relief, the cumulative deficit remains 48% larger year-over-year and already exceeds the Ministry of Finance’s revised full-year target of 4.8 trillion rubles by 21%. Financing has not kept pace with the large deficit: net OFZ issuance and NWF withdrawals fell 3.0 trillion rubles short of financing needs in Jan.–Aug., contributing to a 3.7 trillion ruble decline in Treasury cash since December. Fiscal strains are also visible at the regional level.
- 3. Financing the budget deficit increasingly relies on domestic borrowing, supported by central bank liquidity.** While total domestic debt remained virtually unchanged in August due to a borrowing pause, the Ministry of Finance returned to the domestic market in September, borrowing a total of 1.3 trillion rubles by September 23 (75% of the borrowing plan). Domestic banks remain the only major source of demand for OFZs, increasing the financial system’s exposure to sovereign debt. Moreover, much of the recent borrowing relied on variable-coupon bonds, increasing exposure to future debt-servicing costs. The renewed issuance is also heavily dependent on central bank liquidity provided through repo operations. With Treasury cash already drawn down substantially and the government reluctant to rely more heavily on the NWF, sustained borrowing will remain critical unless the fiscal position improves.

Oil revenues edge higher in August driven by rising export prices.

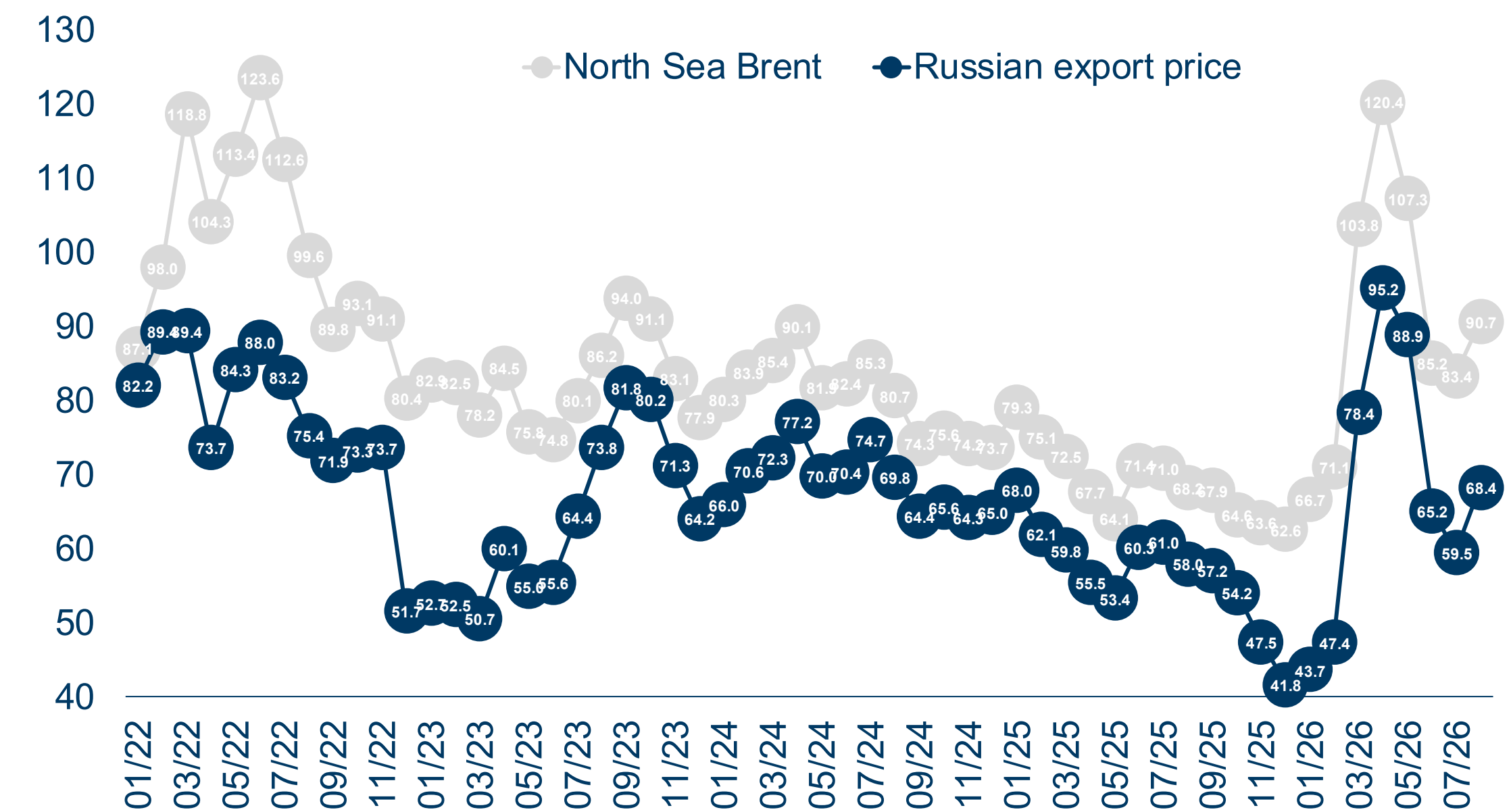
- Total oil export earnings increased modestly to \$13.9 billion in Aug. (vs. \$13.5 billion in Jul.).
- This revenue growth was driven by higher Russian oil prices, which rose to \$68.4/barrel (vs. \$59.5/barrel in Jul.).
- At the same time, the discount on Russian oil narrowed slightly to \$22.3/barrel (vs. \$23.9/barrel in Jul.).

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

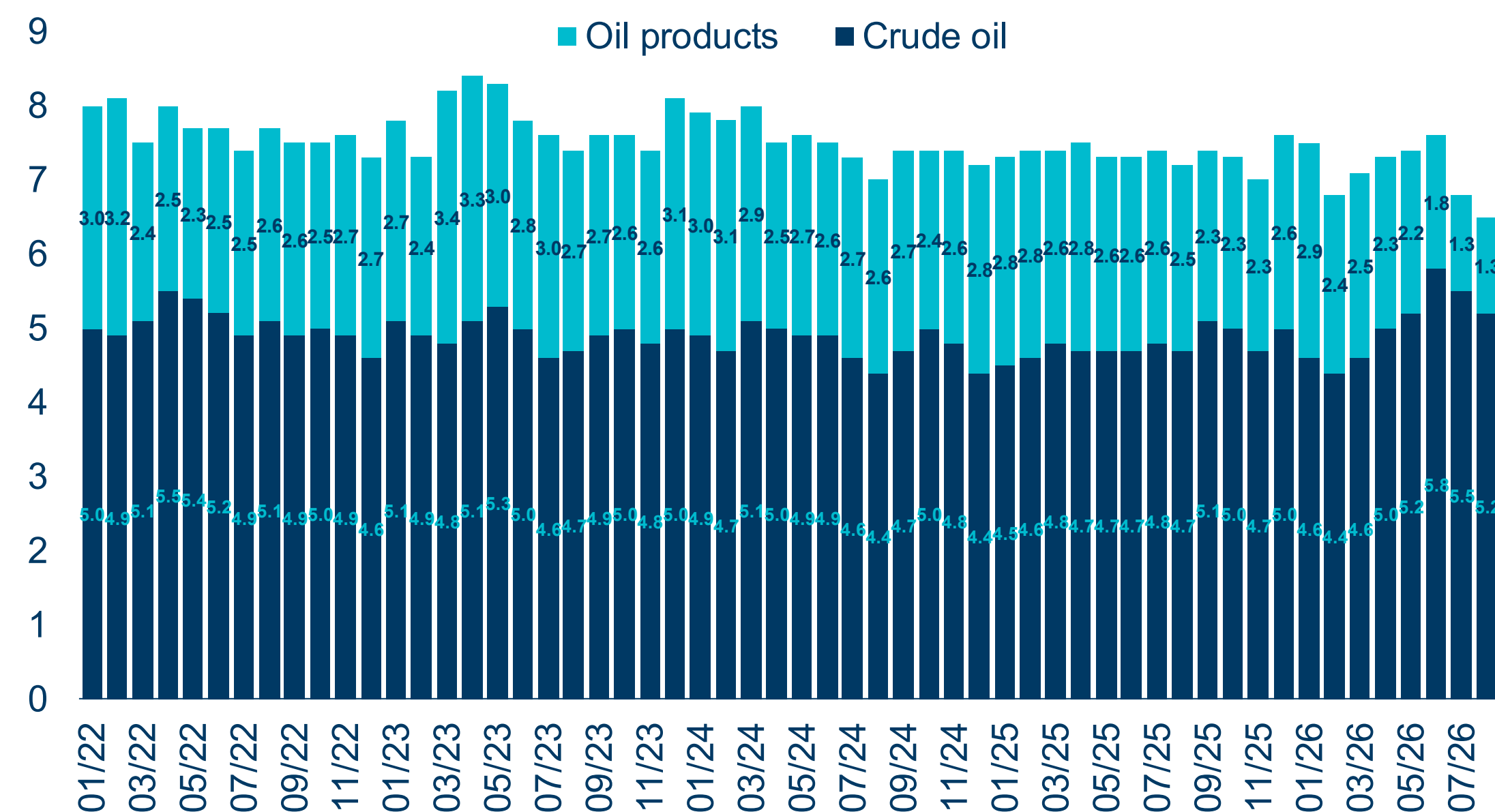


Source: International Energy Agency, KSE Institute

Oil export volumes hit a full-scale invasion low as crude shipments fall.

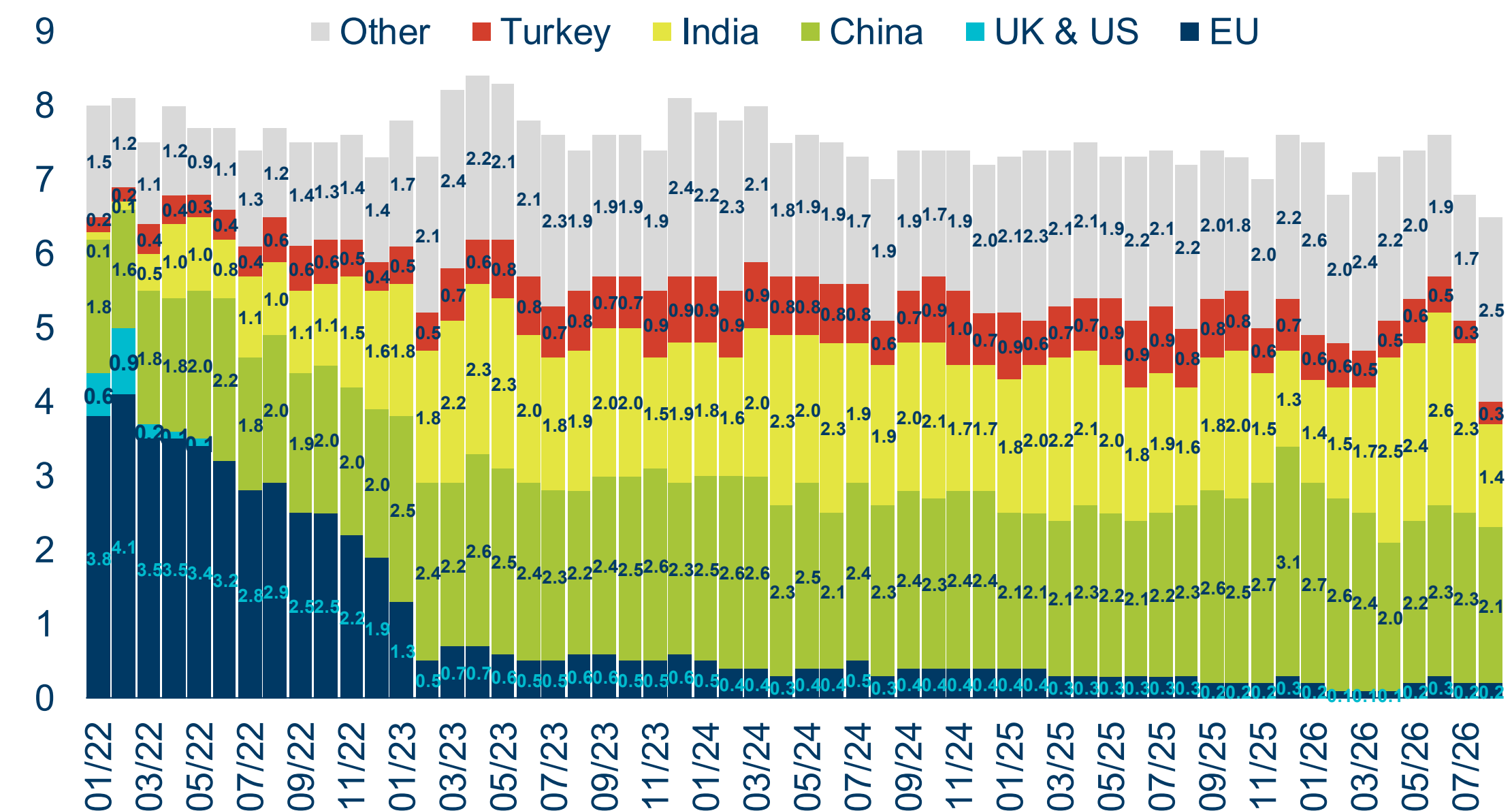
- Total oil exports fell to 6.5 mb/d in Aug. (vs. 6.8 in Jul.), marking the lowest level since the full-scale invasion.
- The decline was driven by crude oil, which dropped to 5.2 mb/d (vs. 5.5), while product shipments remained at record low.
- Product exports remain weak due to ongoing attacks and export bans, while crude fell due to Novorossiysk port closures.

Russian oil export volume by type, in million barrels/day



Source: International Energy Agency, KSE Institute

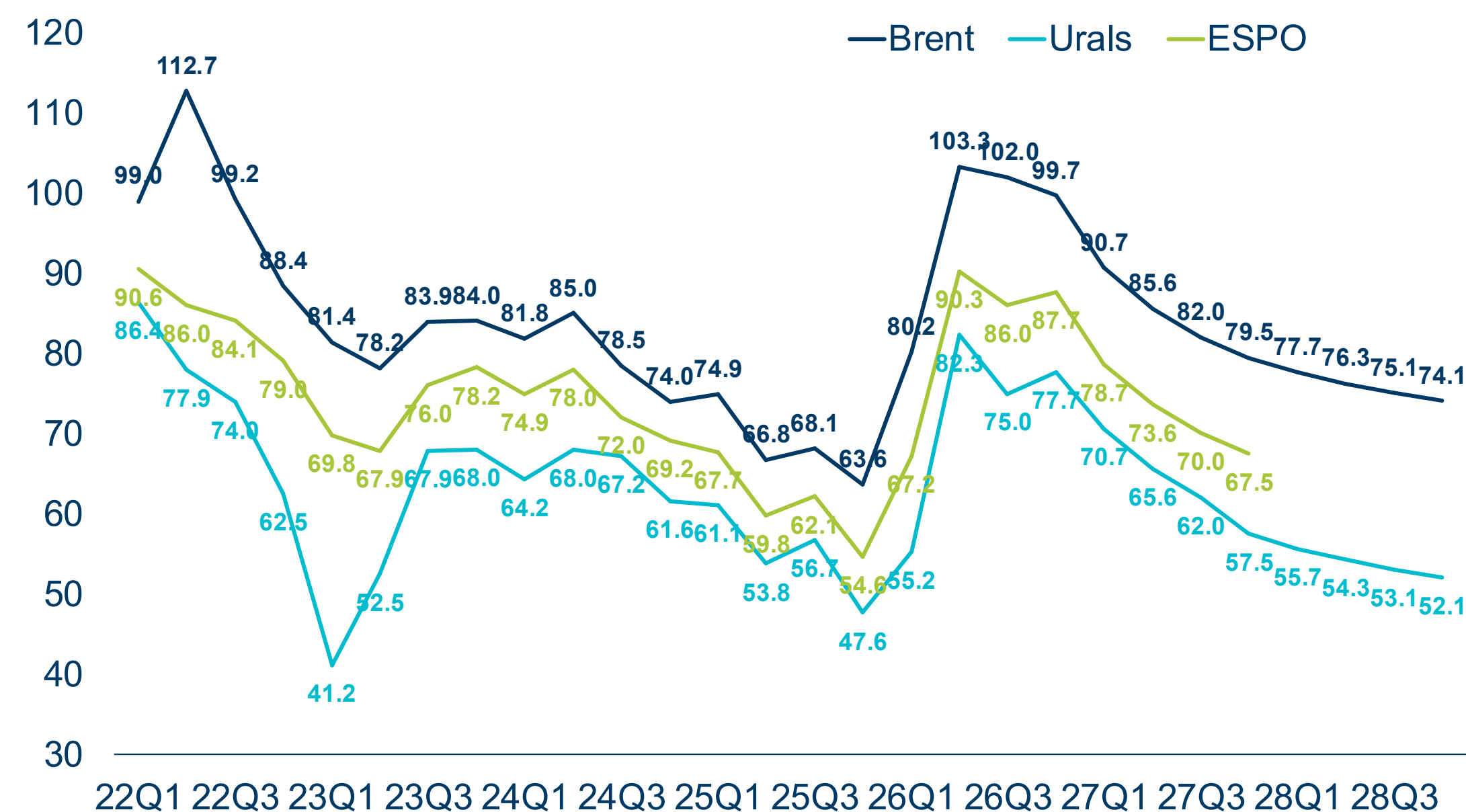
Russian oil export volume by destination, in million barrels/day



Renewed Middle East tensions to keep Russian oil prices elevated.

- Global oil benchmarks will remain elevated, with Brent projected to peak above \$100/bbl in 2026 before easing.
- Driven by this, Russian Urals will trade well above the \$60/bbl budget price, averaging over \$70/bbl for 2026—2027.
- Total oil exports will jump to \$193 billion in 2026 (+\$35 billion vs. 2025) before dropping to \$158 billion in 2027.

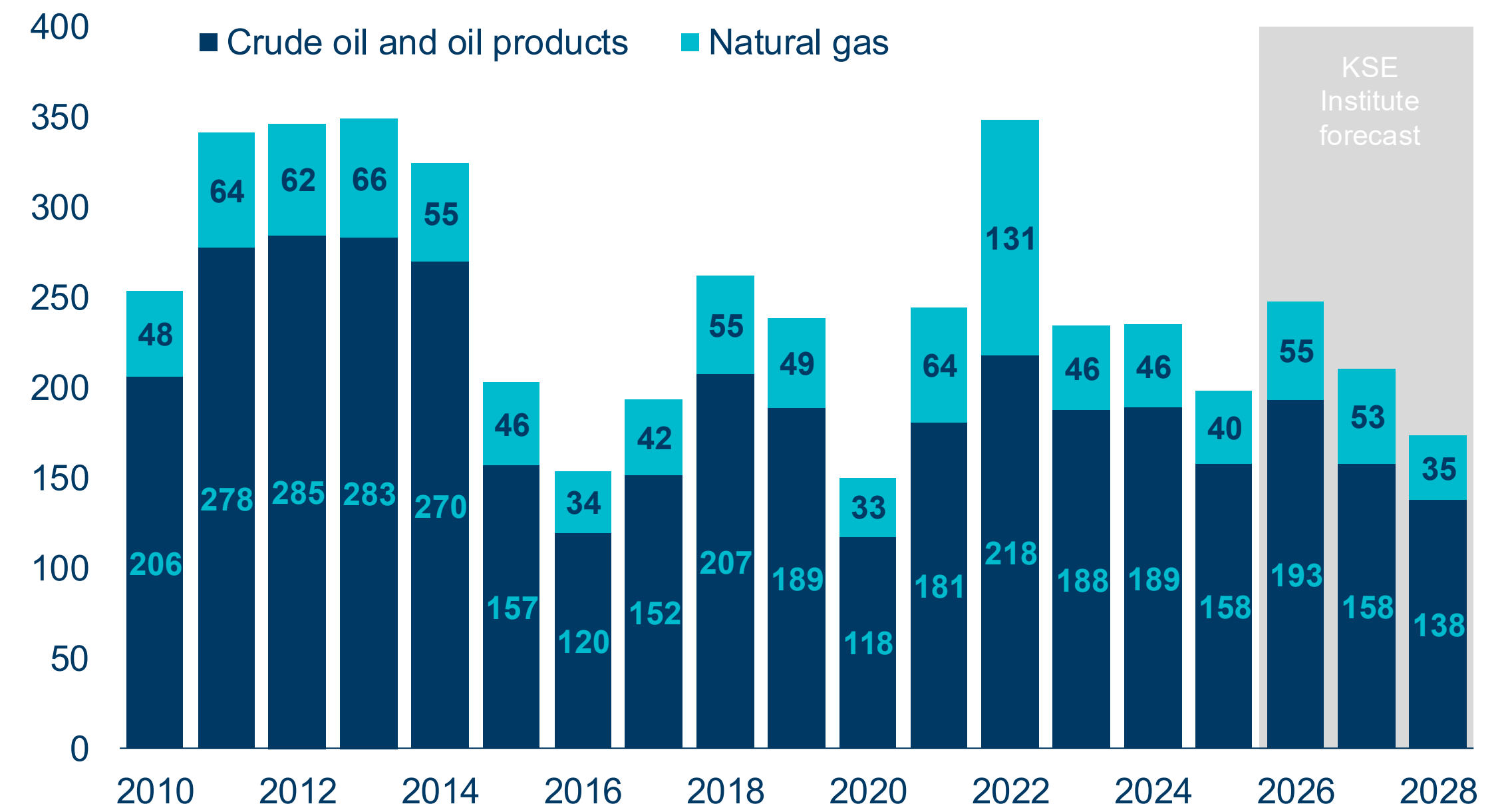
Crude oil prices, in U.S. dollar/barrel



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

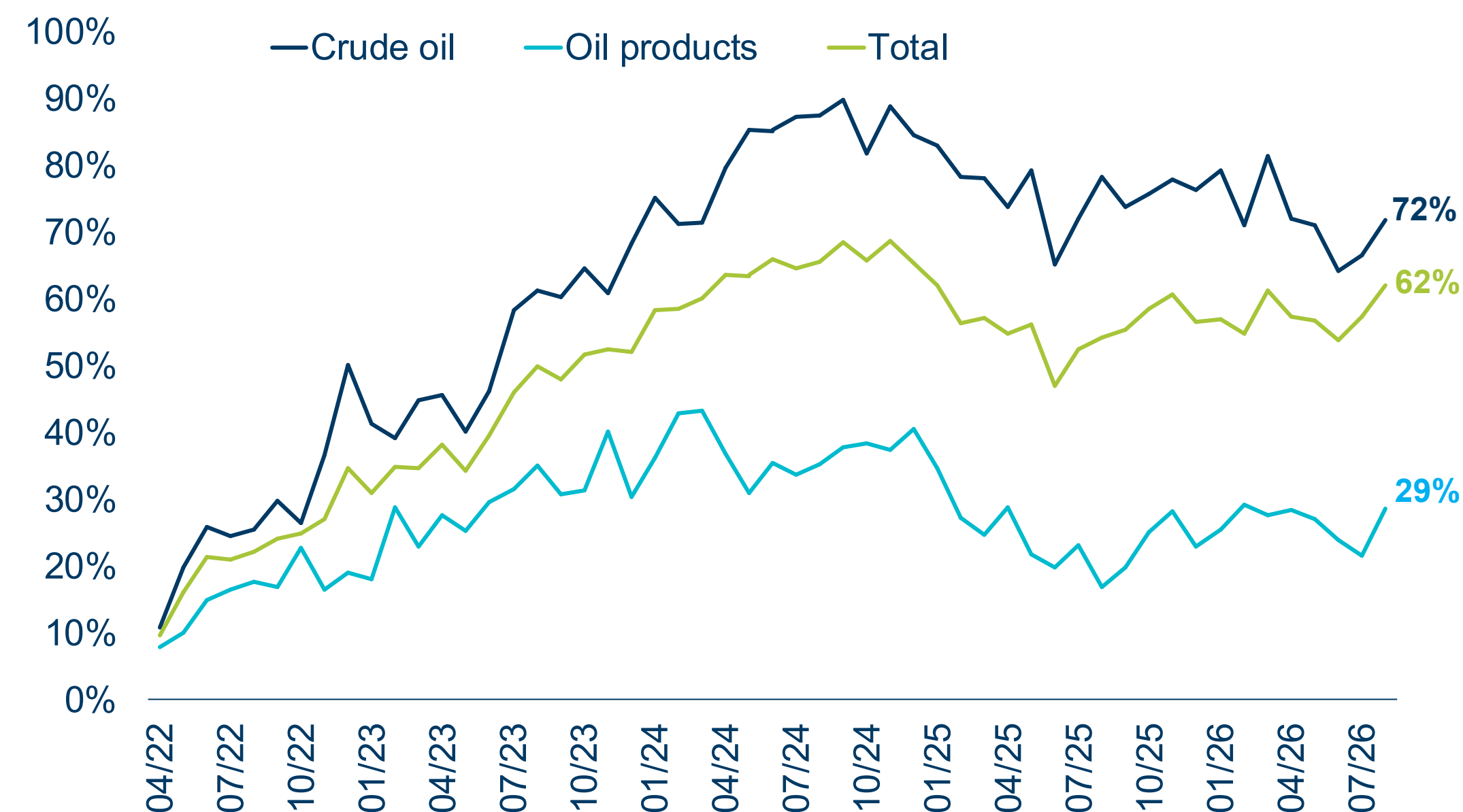


Source: Bank of Russia, KSE Institute

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

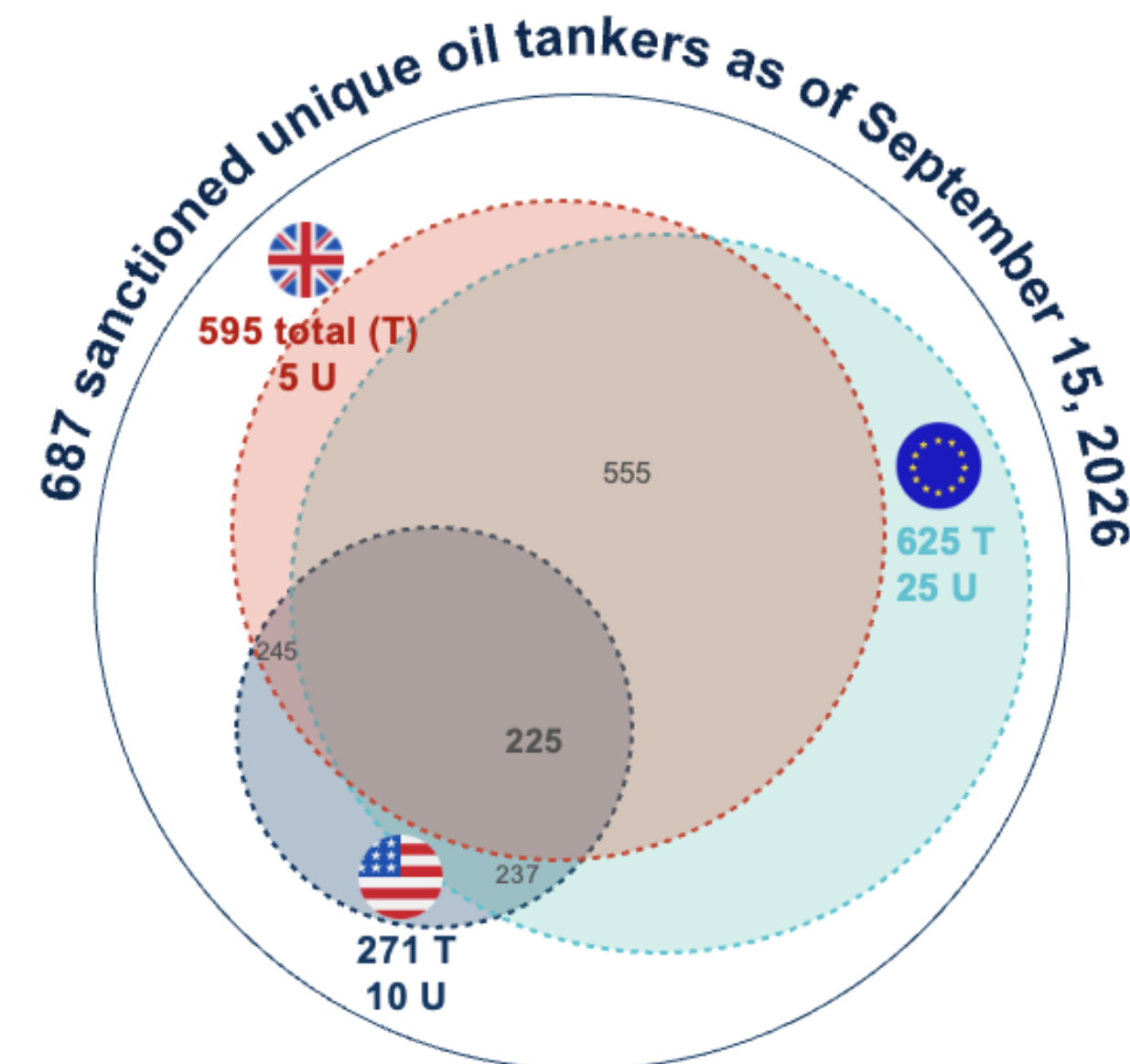
- The shadow fleet's share in Russian oil exports increased slightly to 62% in Aug. compared to 57% in Jul.
- Higher Russian prices drove up shadow fleet shares for both crude and products (72% and 29% in Aug., respectively).
- Vessel designations remain insufficient without comprehensively targeting the ecosystem; further alignment is also needed.

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction



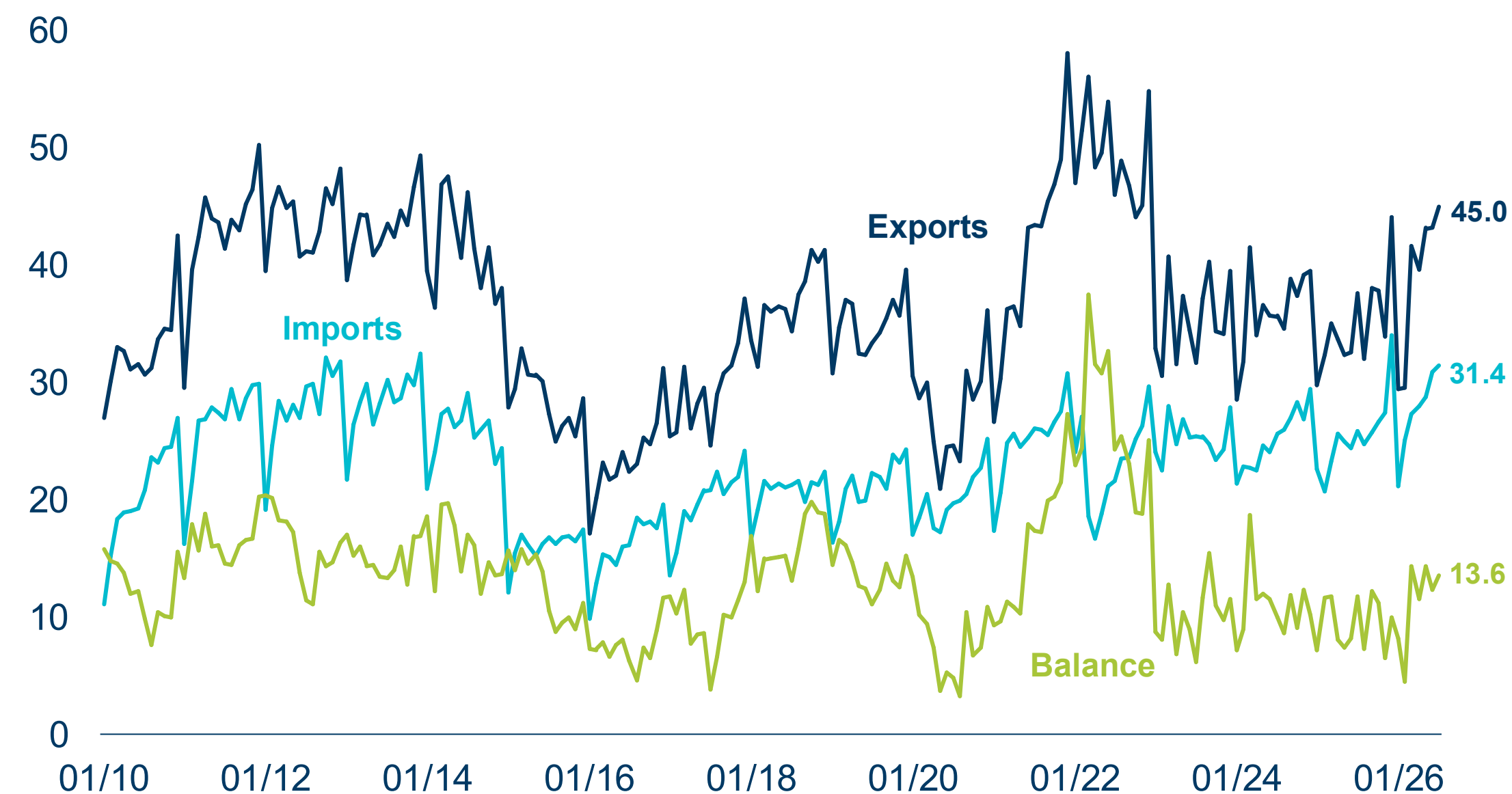
Source: European Commission, OFAC, OFSI, KSE Institute.

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.

Current account balance surges in Q2 driven by oil windfalls.

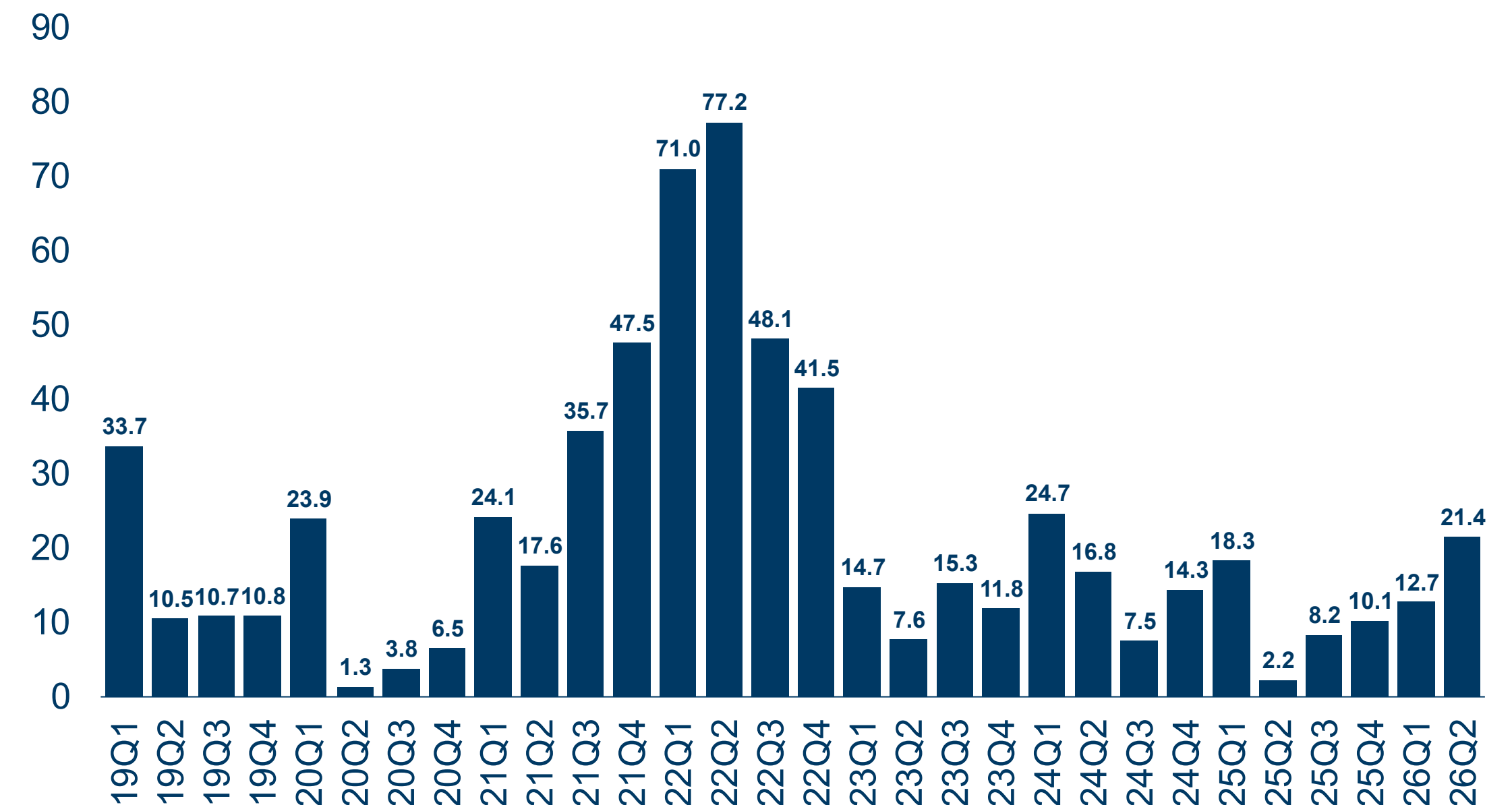
- The Q2 current account balance reached \$21.4 billion, growing \$8.7 billion (69%) q-o-q and \$19.2 billion y-o-y.
- This robust growth was fueled by oil export windfalls linked to the ongoing Middle East conflict.
- The trade balance widened slightly in Jul., as a modest increase in exports outpaced a minor rise in imports.

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

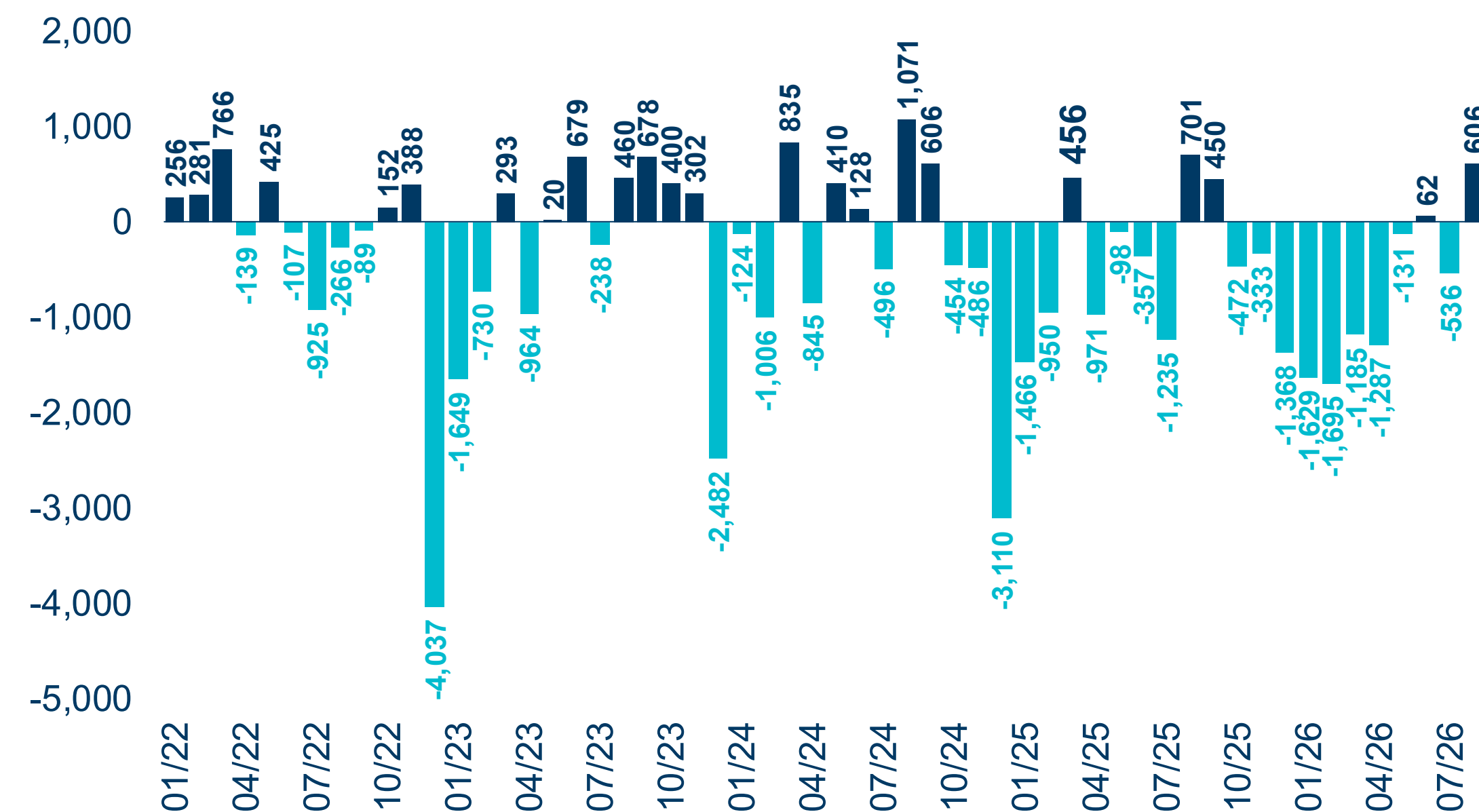


Source: Bank of Russia, KSE Institute

Budget deficit shrinks in August but remains well above the annual target.

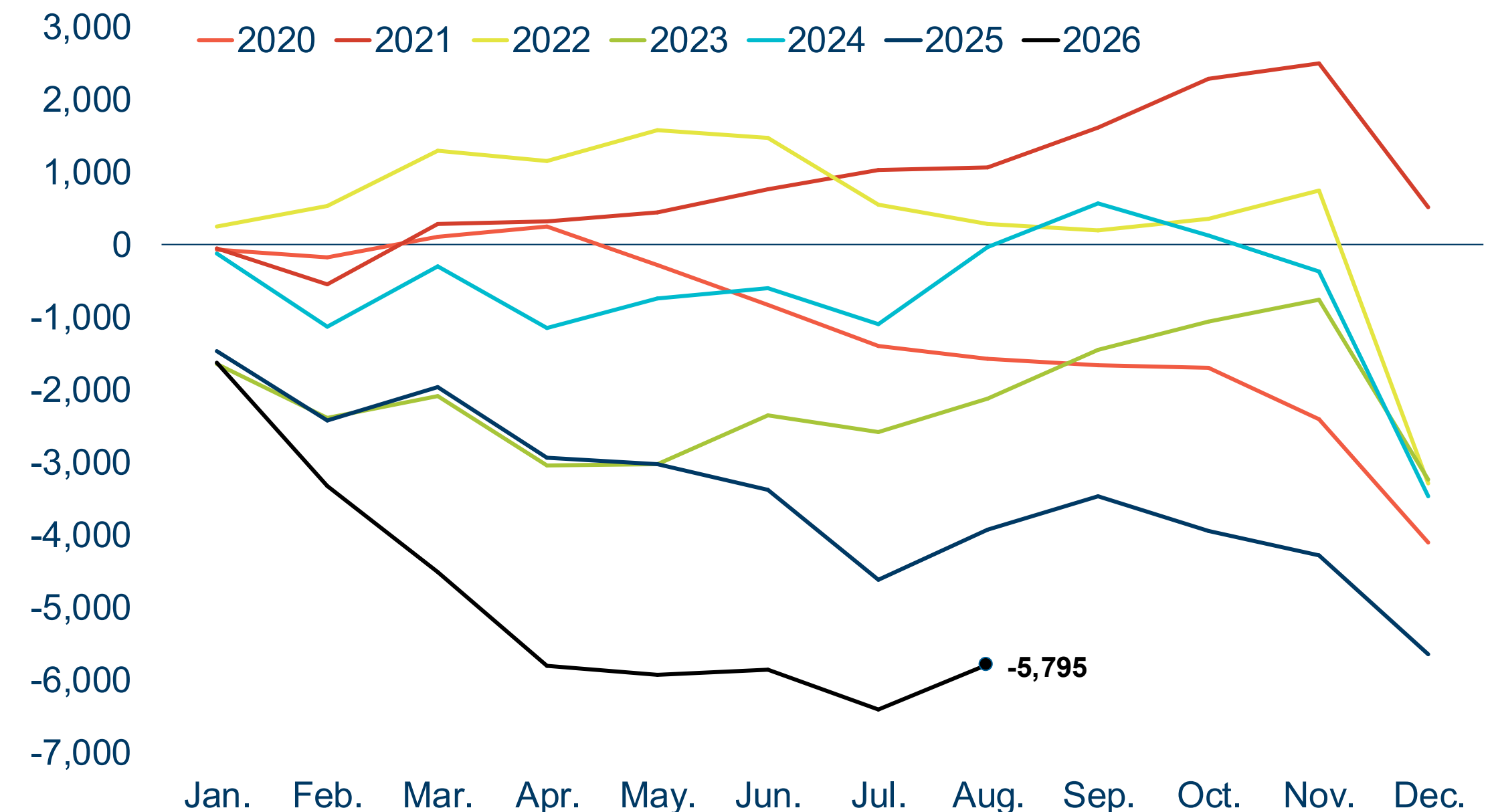
- The cumulative deficit shrank to 5.8 trillion rubles in Aug., in line with August surpluses in recent years.
- The Aug. surplus was driven by a 23% m-o-m drop in expenditures and a 31% m-o-m increase in non-O&G revenues.
- The deficit is 48% larger year-over-year and already exceeds MinFin's revised annual target of 4.8 trillion.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

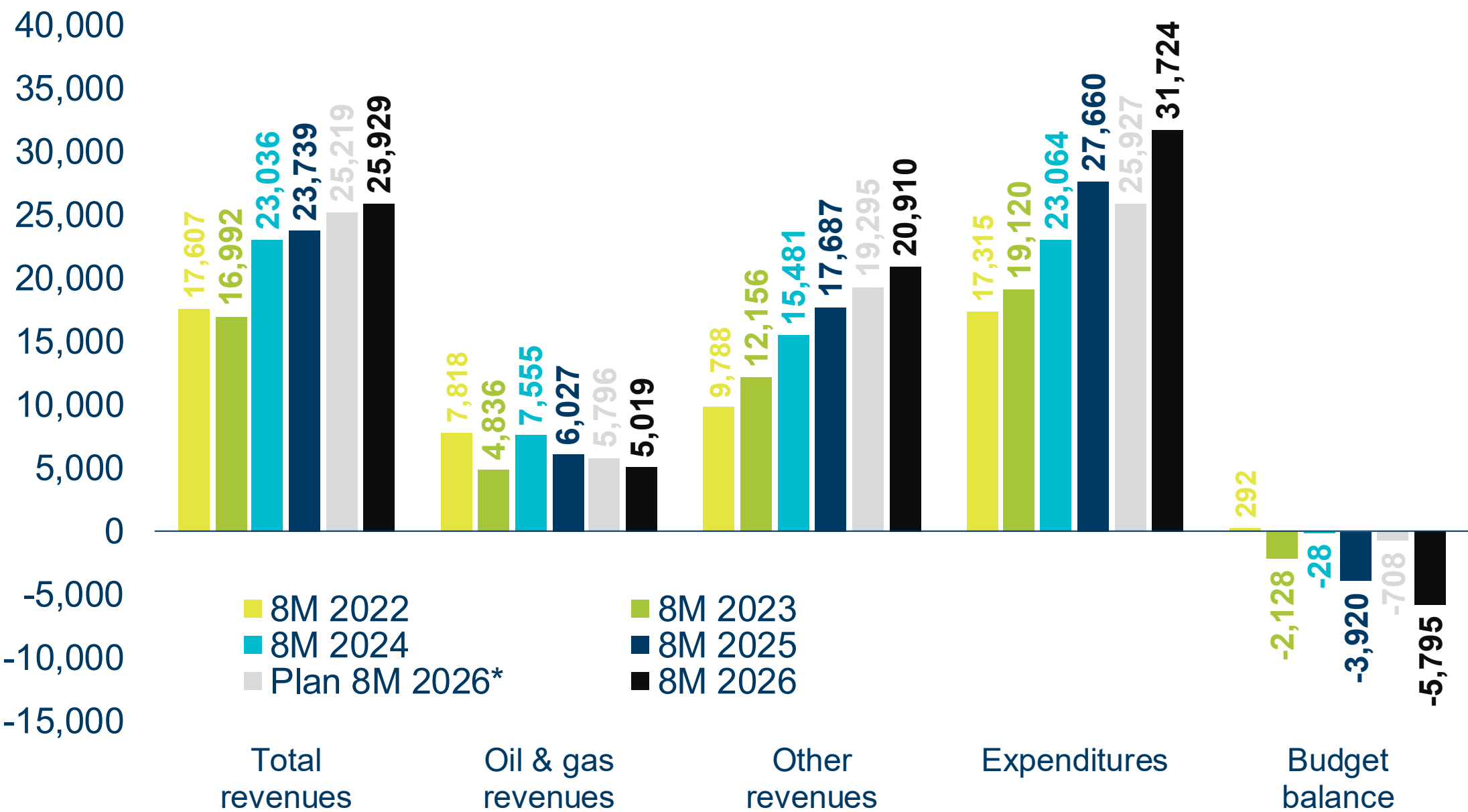


Source: Ministry of Finance, KSE Institute

O&G revenues remain subdued as high prices inflate damper payments.

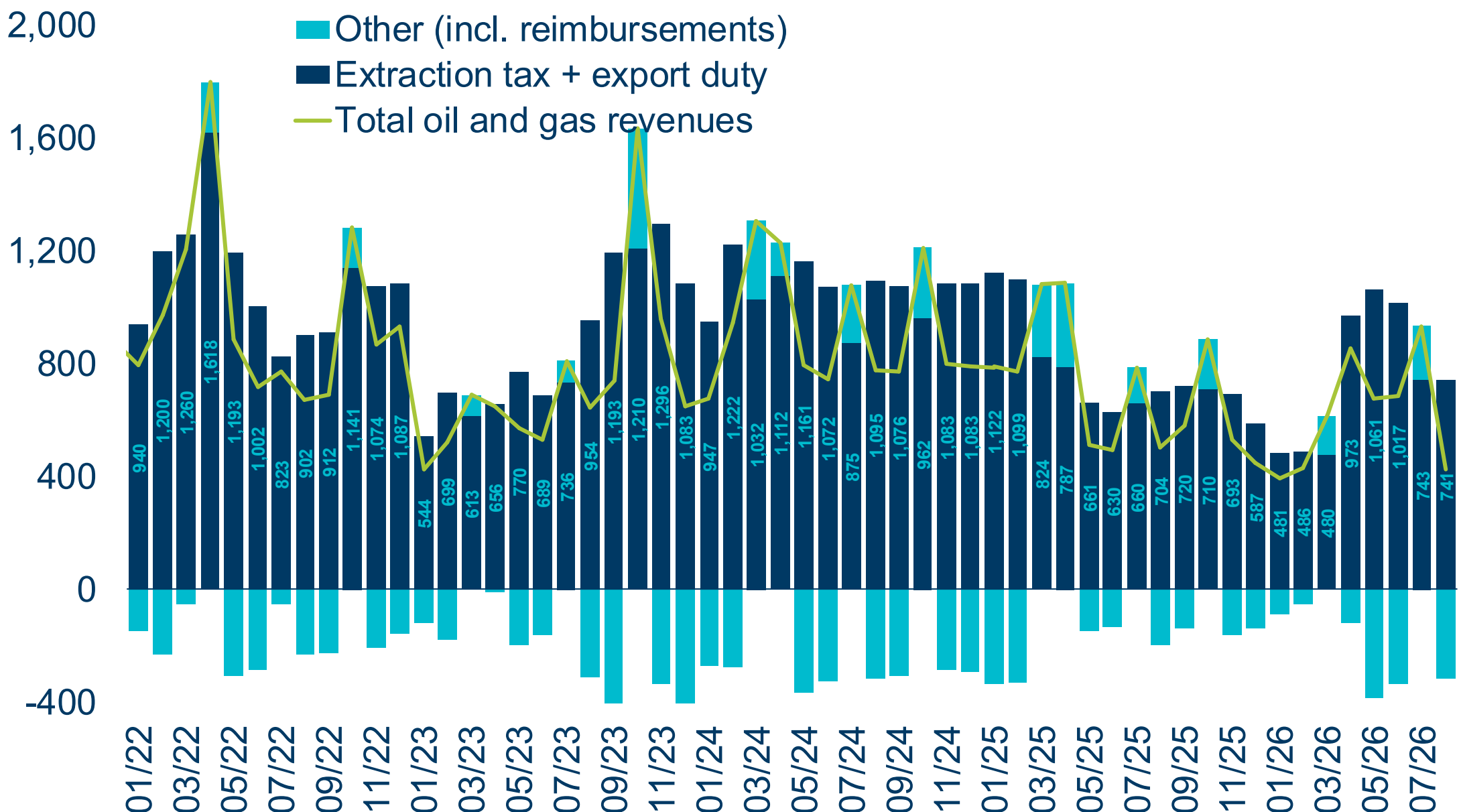
- In Jan.–Aug., O&G revenues were 17% weaker y-o-y, non-O&G revenues 18% stronger, and expenditures 15% higher.
- Higher energy prices drove up damper payments, pushing total reimbursements to 300 billion rubles in Aug.
- With disruptions to energy flows in the Middle East persisting, revenues will receive further support in the coming months.

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

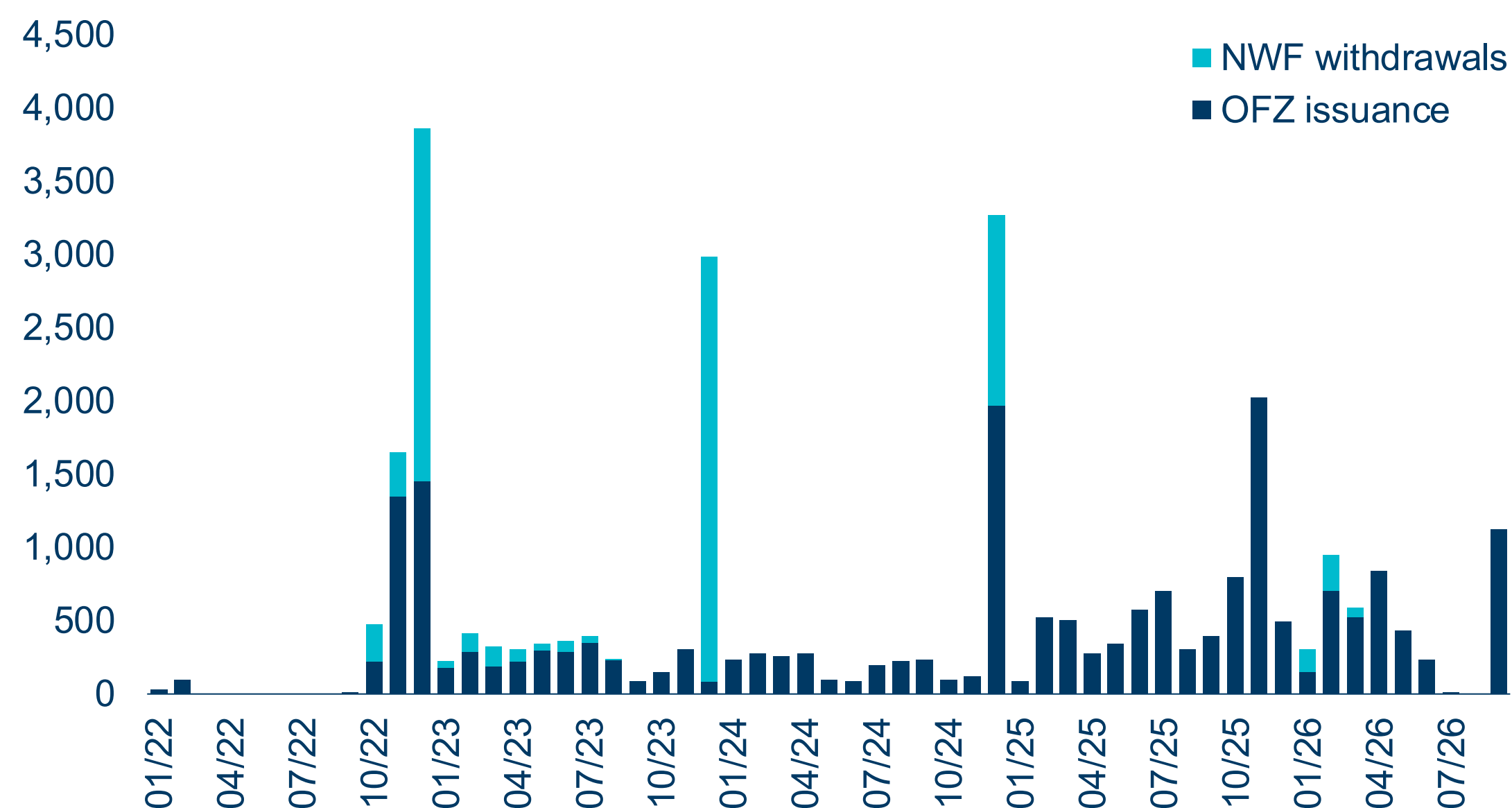


Source: Ministry of Finance, KSE Institute

MinFin resumed domestic borrowing after a two-month pause.

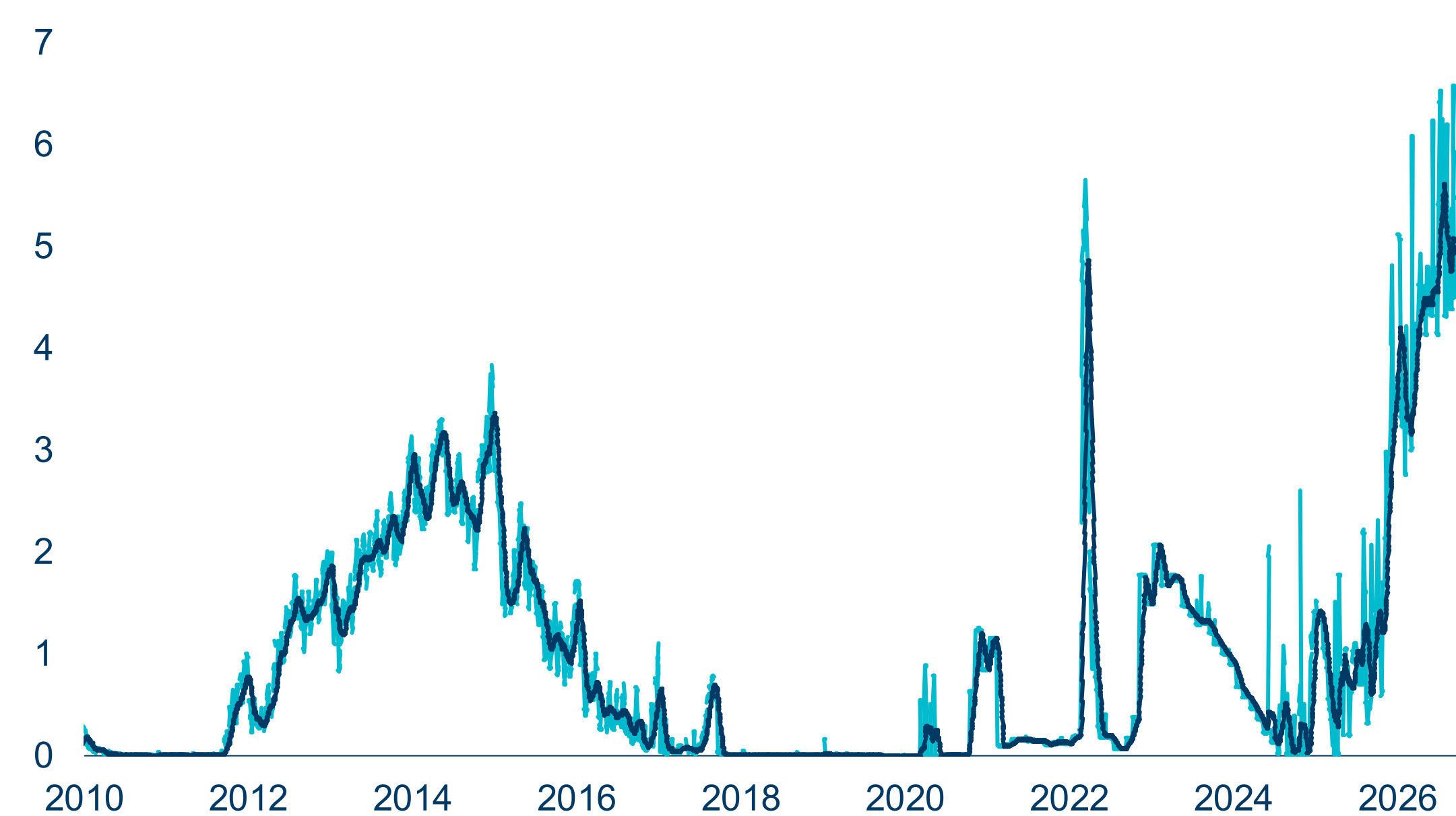
- As of Sep. 23, borrowing reached 1.3 trillion rubles, marking the highest level since Nov. 2025.
- Following this recent surge, 75% of the 2026 domestic borrowing plan has now been fulfilled.
- As banks increase OFZ purchases, CBR repo operations are also rising, exceeding 6 trillion rubles near auction days.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

Total outstanding repo loans, in trillion rubles

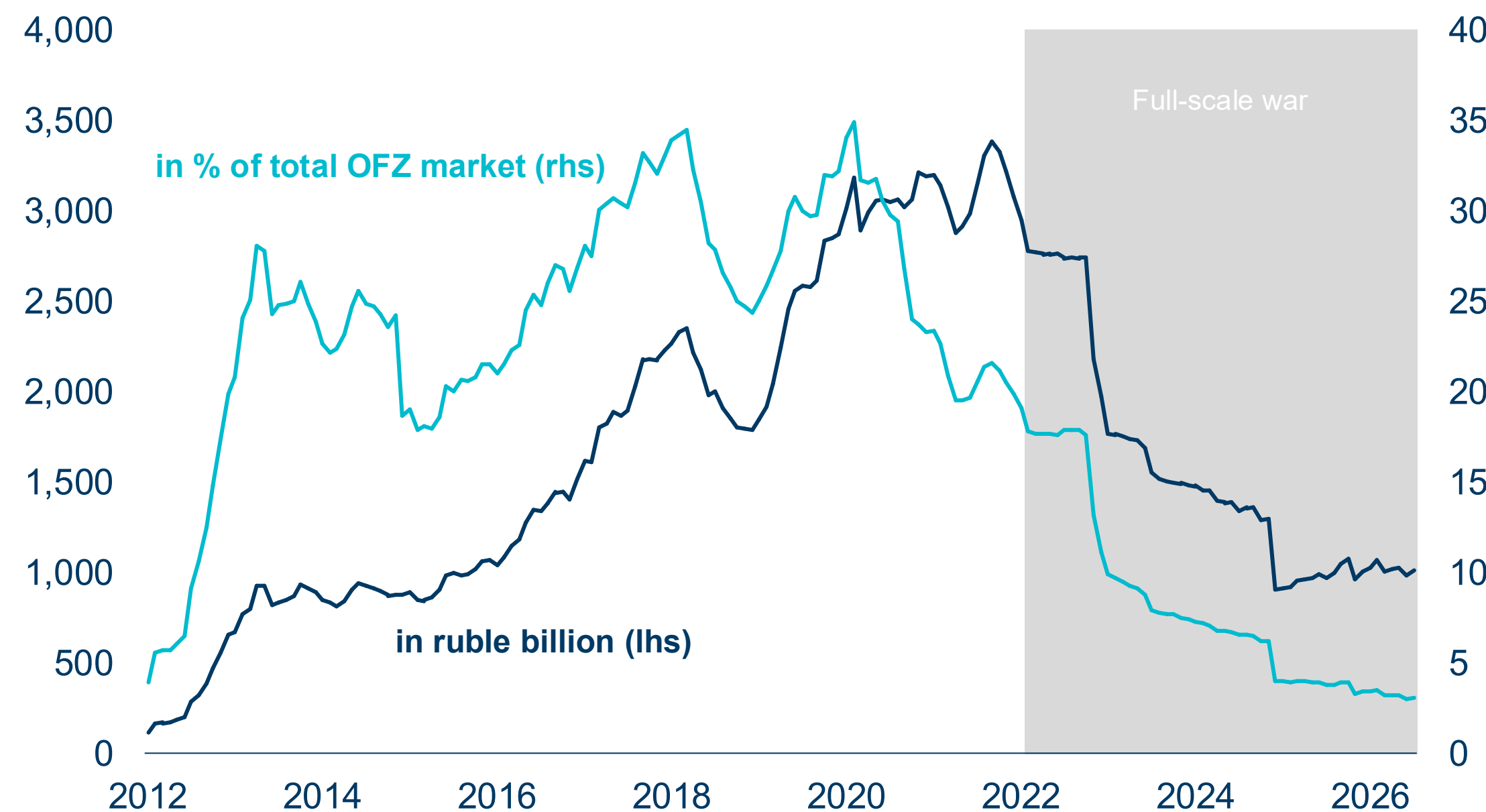


Source: Bank of Russia, KSE Institute

Domestic banks are the only remaining major buyer of OFZs.

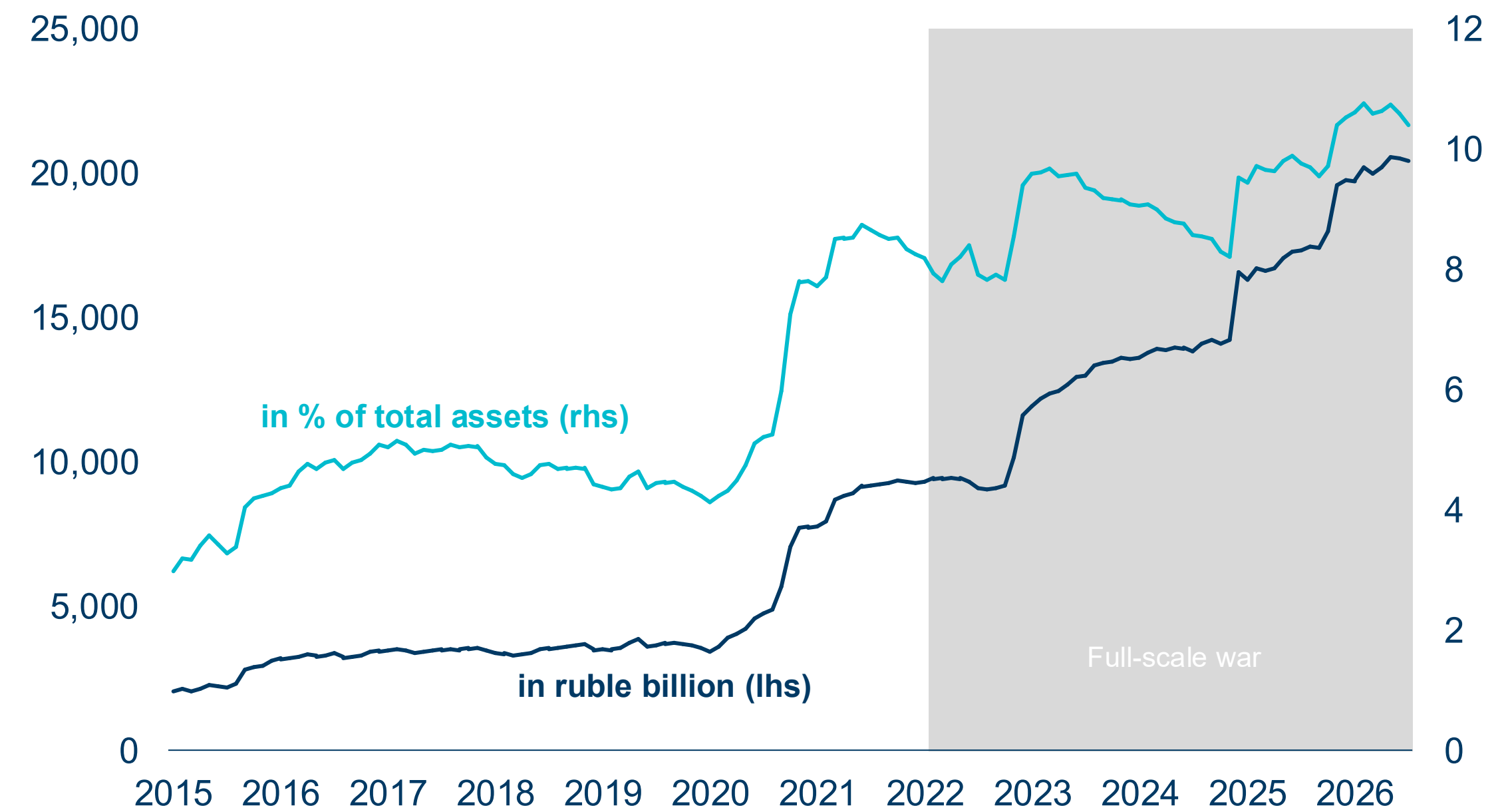
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 1.8 trillion rubles (or 65%) since January 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

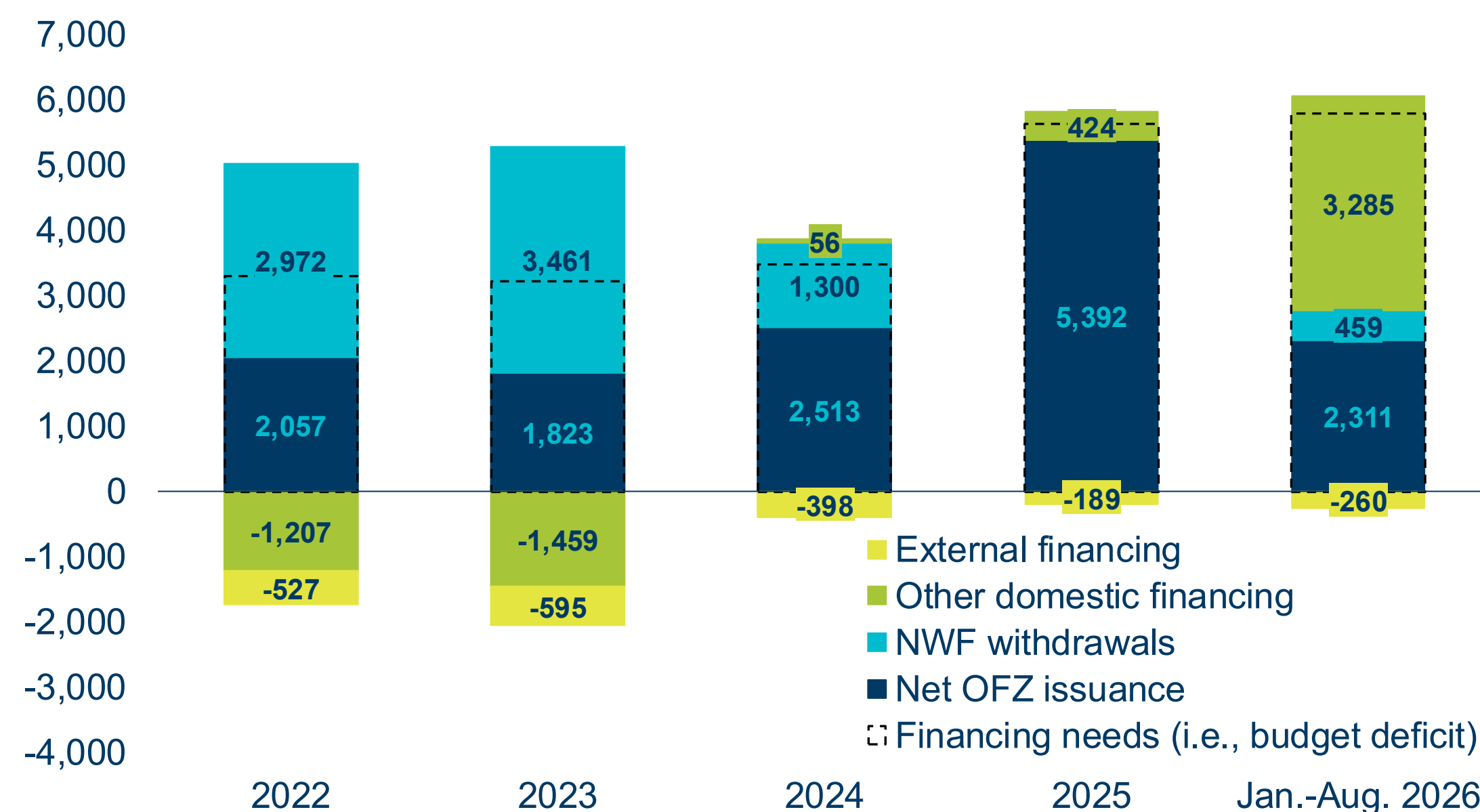


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

Budget underfinancing has put pressure on the Treasury's cash balance.

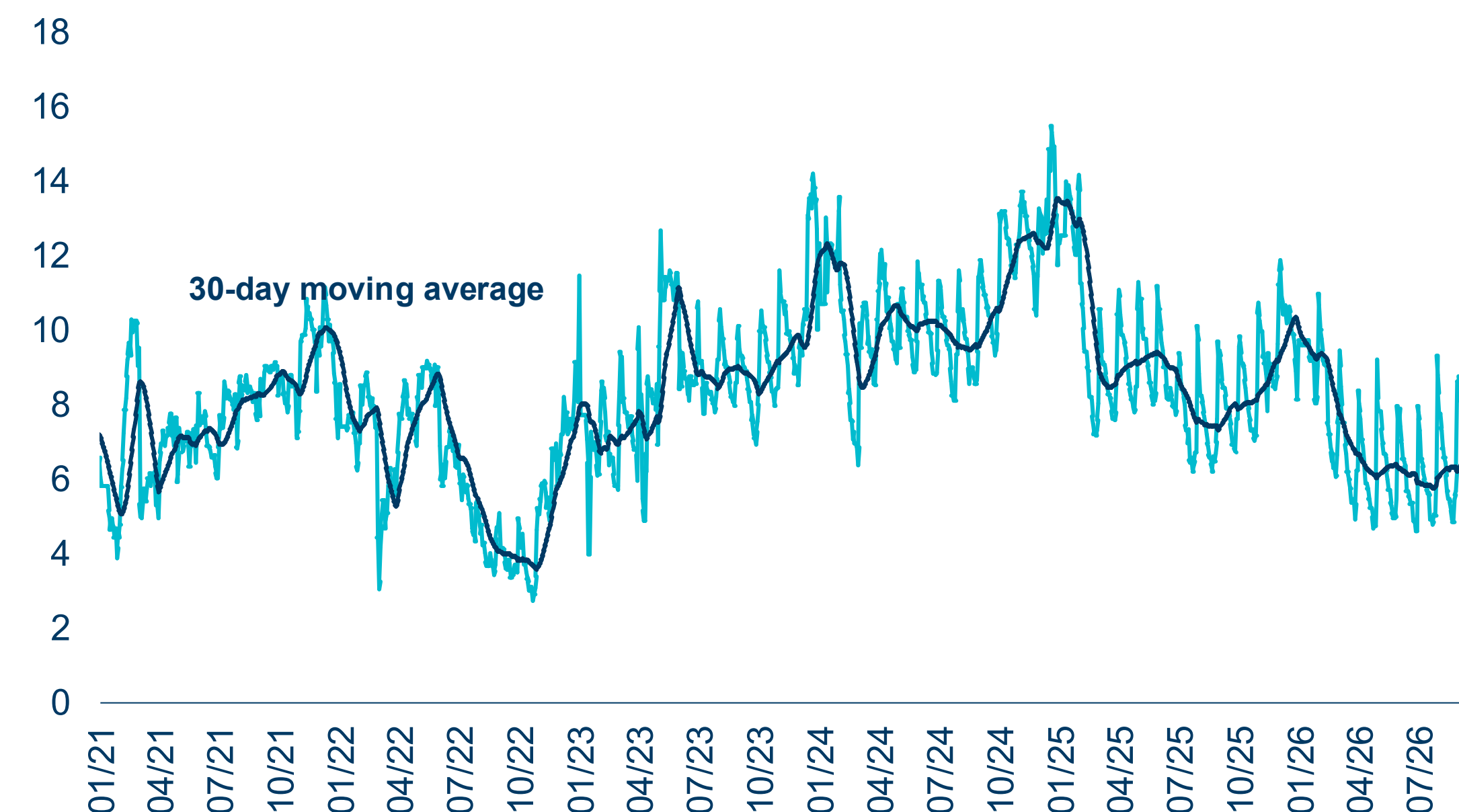
- Net OFZ issuance and NWF withdrawals fell 3.0 trillion rubles (\$39 billion) short of the deficit in Jan.-Aug.
- Russia relied on Treasury cash, which declined by 3.7 trillion rubles from December to Aug. (monthly avg.).
- In the absence of fiscal improvements, continued high domestic borrowing and NWF utilization will be required.

Budget financing needs vs. sources, in ruble billion



Source: Ministry of Finance, KSE Institute

Treasury cash balance, in ruble trillion*

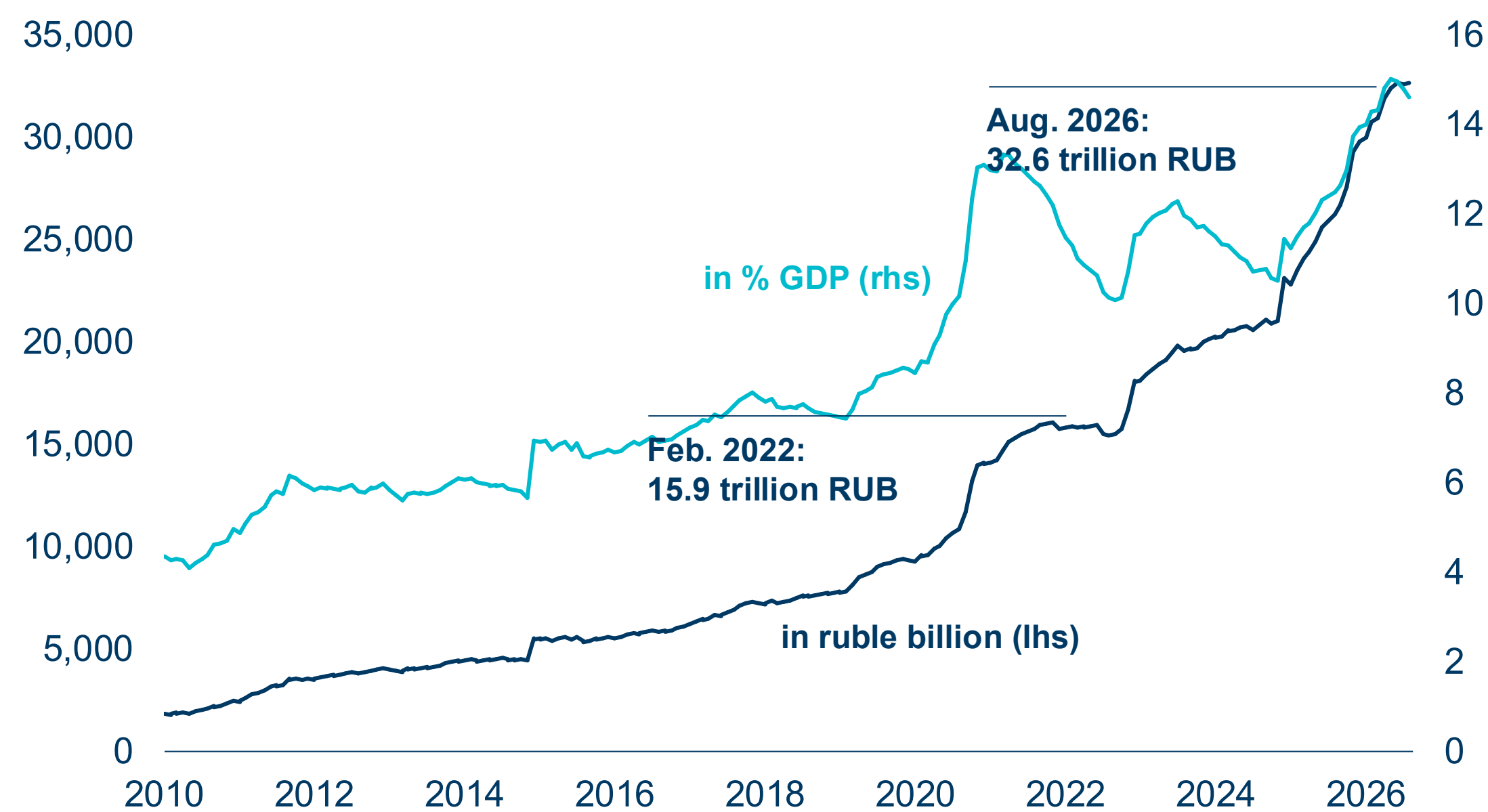


Source: Bank of Russia, Russian Treasury, KSE Institute *includes deposits with the CBR, commercial banks, and the central counterparts, as well as Treasury repo operations.

Domestic debt temporarily stabilizes in August before further growth.

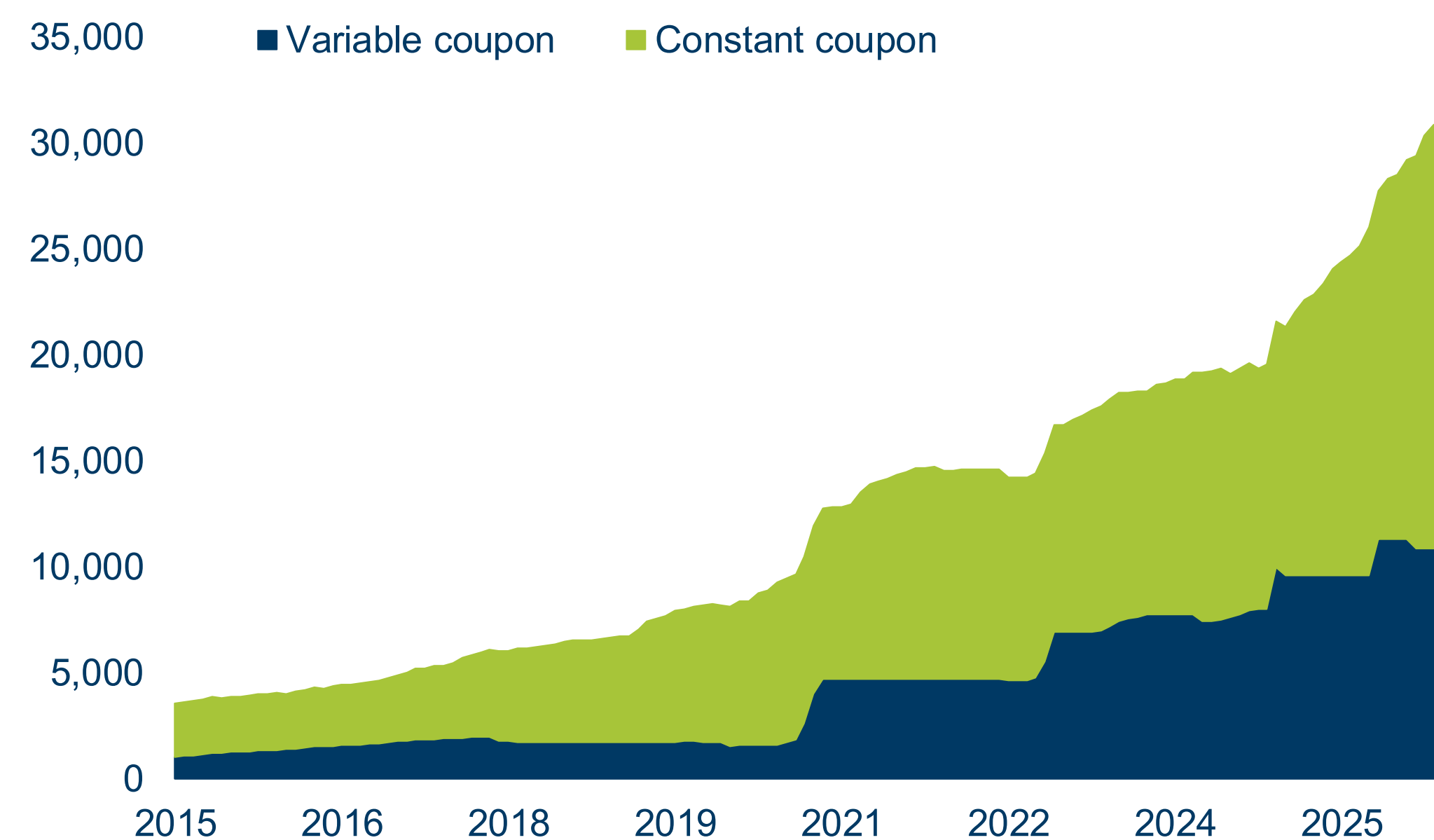
- Federal domestic debt has doubled since Feb. 2022 to 32.6 trillion rubles in Aug. 2026 and stands at ~15% of GDP.
- Total debt remained virtually unchanged in Aug., as MinFin did not conduct any new borrowing during the month.
- However, debt will continue to grow in the coming months, as MinFin returned to the domestic market in Sep.

Federal government domestic debt



Source: Ministry of Finance, KSE Institute

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

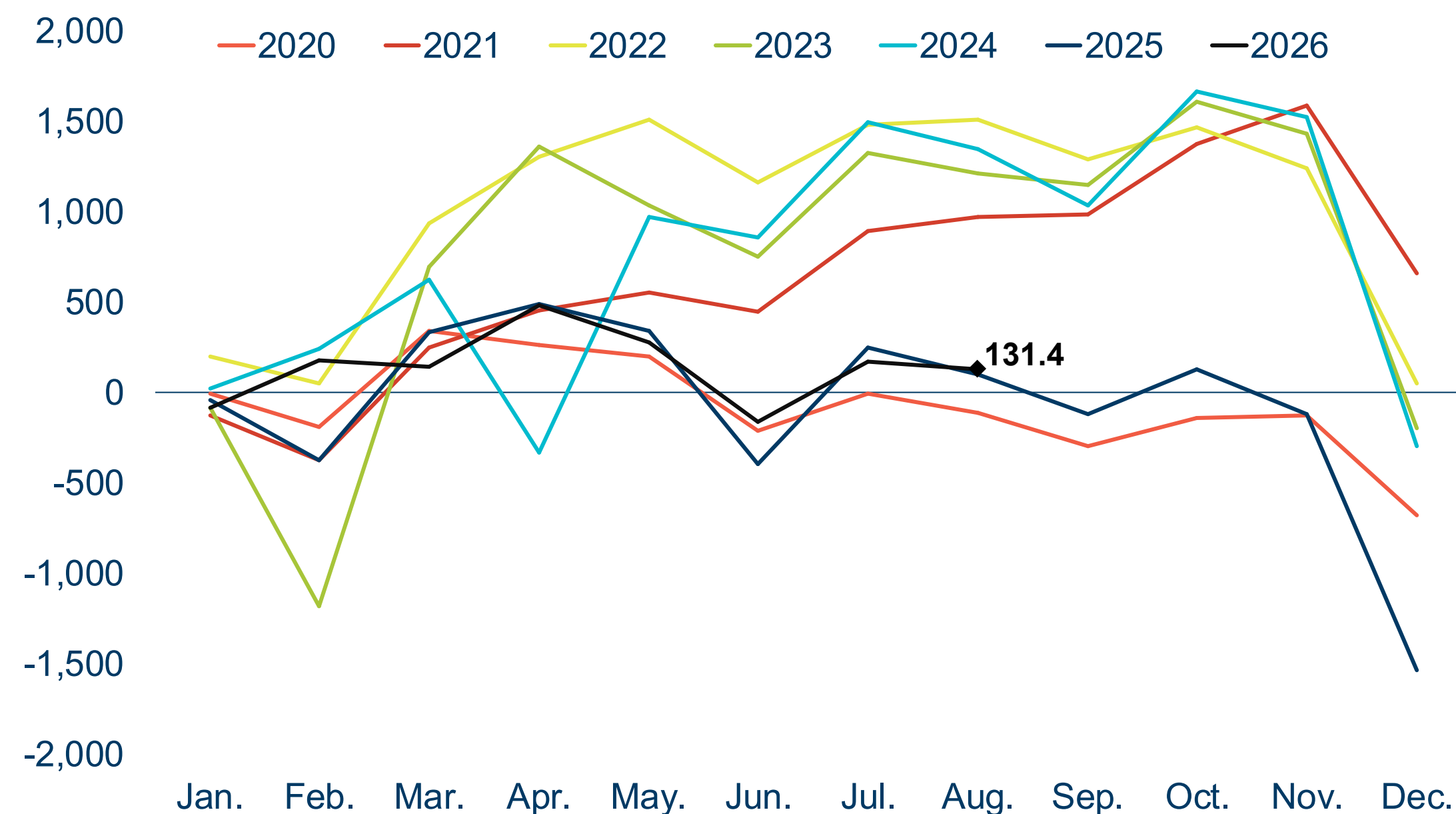


Source: Ministry of Finance, KSE Institute

Regional budgets under strain; federal bailouts ease debt pressures.

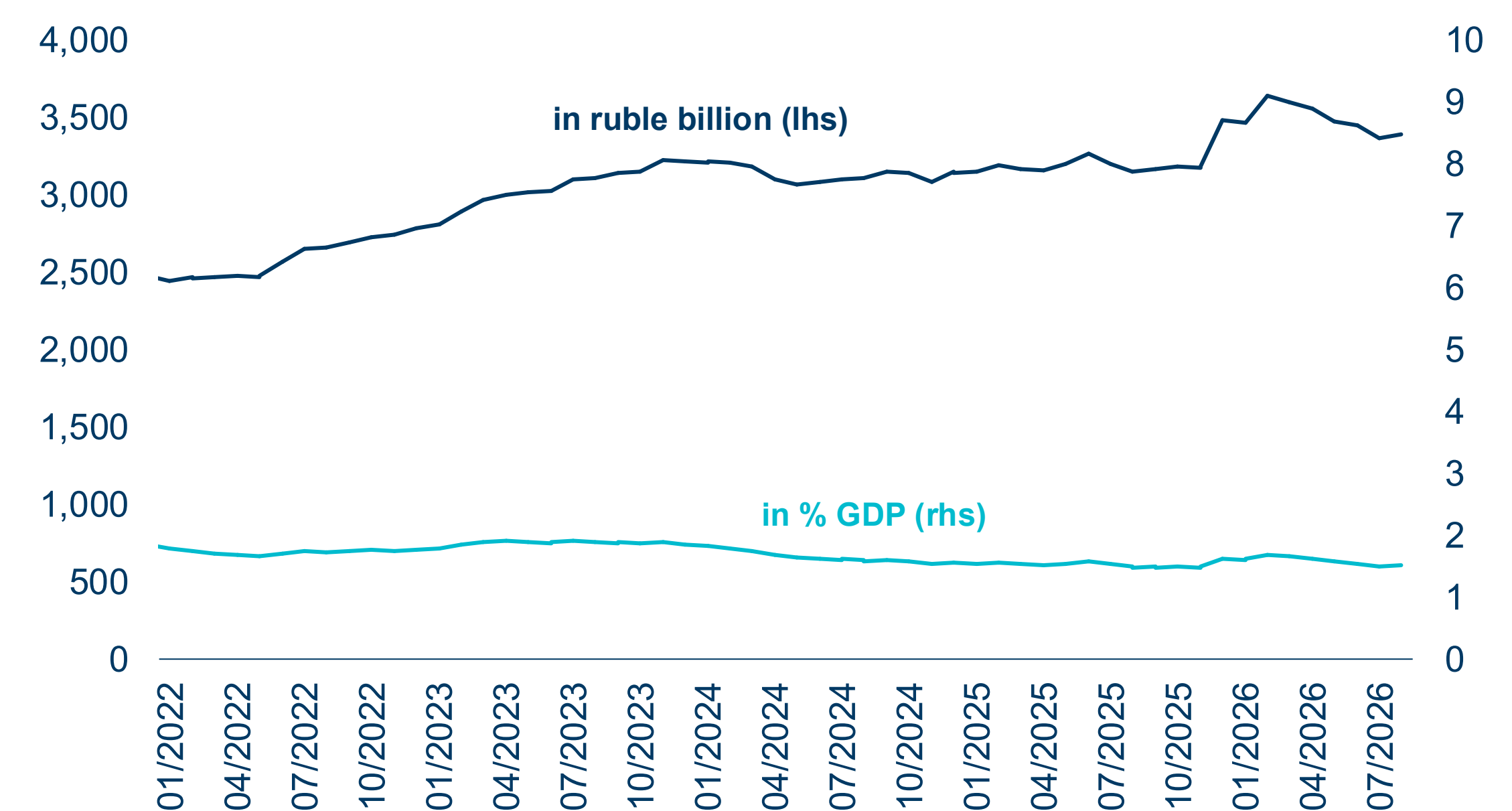
- Over Jan.-Aug. 2026, the cumulative budget of the regions was in line with the 2025 path (at ~130 billion rubles).
- To ease the debt burden, 2/3 of regional loans were written off by the government, with the rest being postponed to 2030.
- A federal write-off scheme covers ~1.1 trillion rubles in regional debt, with >277 billion already forgiven for 68 regions in 2026.

Cumulative consolidated regional budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Regional government debt

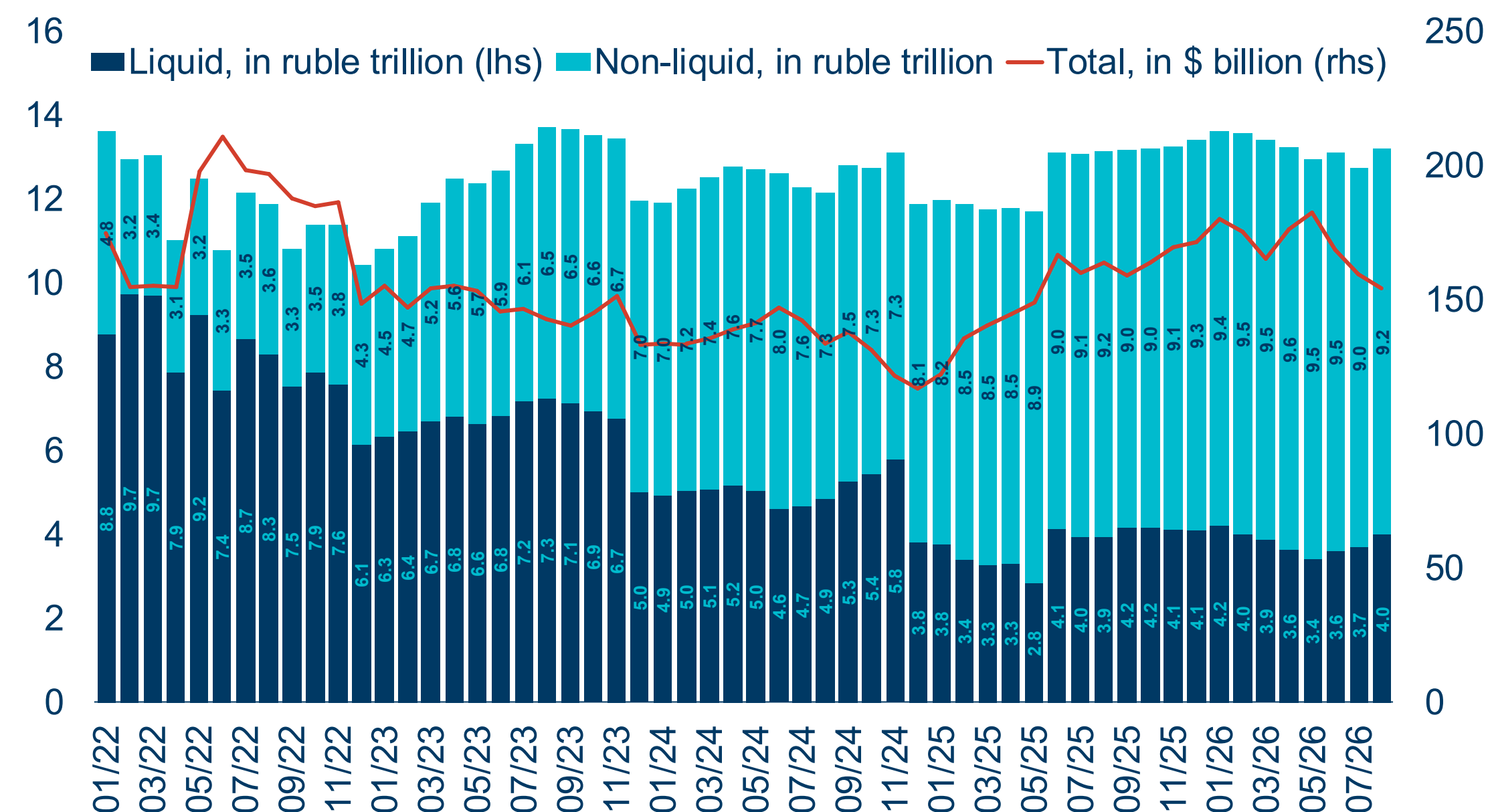


Source: Ministry of Finance, KSE Institute

Rising gold prices boost the liquid portion of NWF assets.

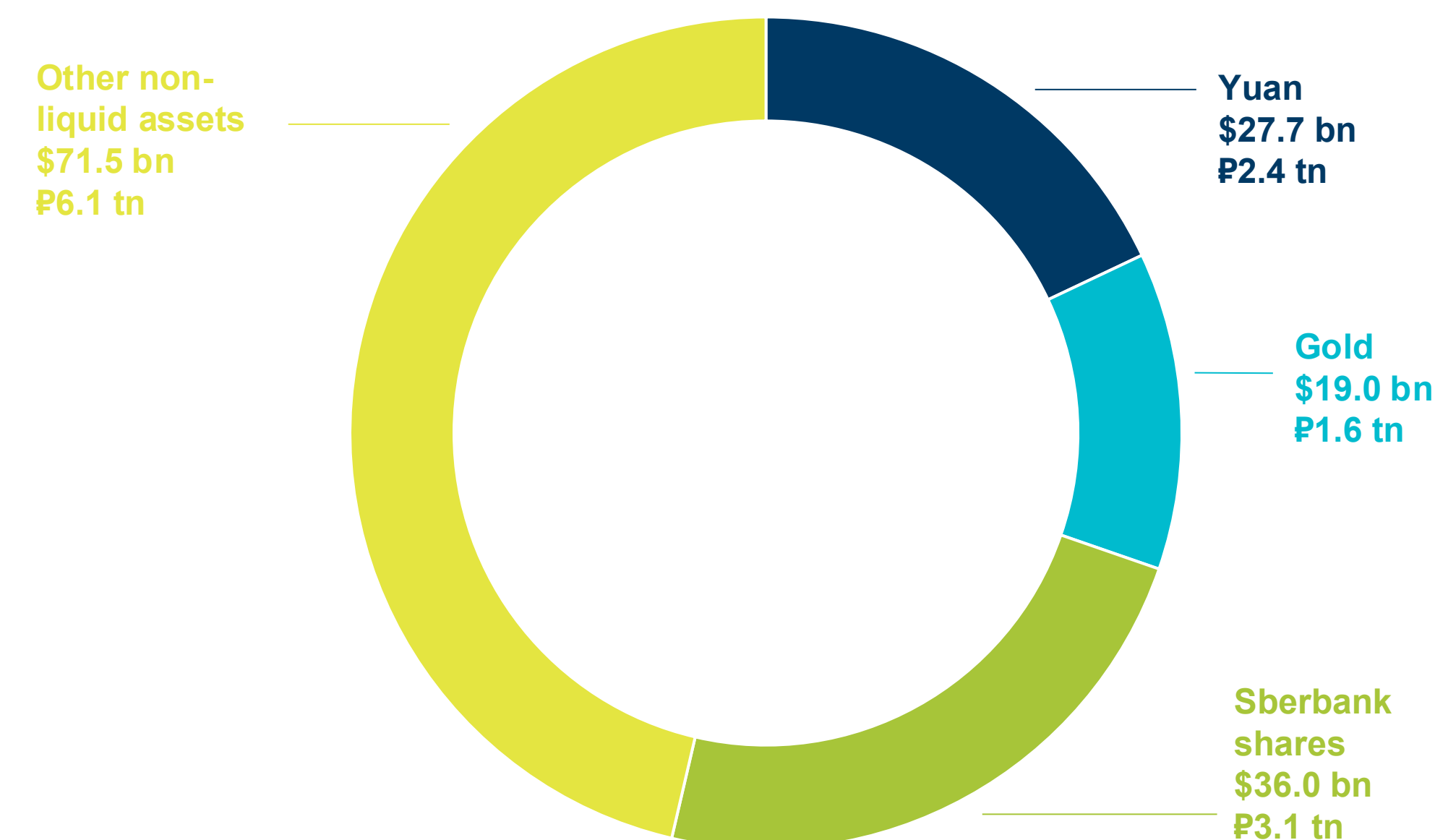
- Total assets of the National Welfare Fund stood at 13.2 trillion rubles (\$154.1 billion, 5.6% of GDP) in Aug. 2026.
- Liquid assets have shrunk by 60% since early 2022 and only accounted for 30% of the total in Jul. (vs. 75%).
- The liquid portion of the fund grew, primarily driven by a 9% m-o-m increase in the price of gold.

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*

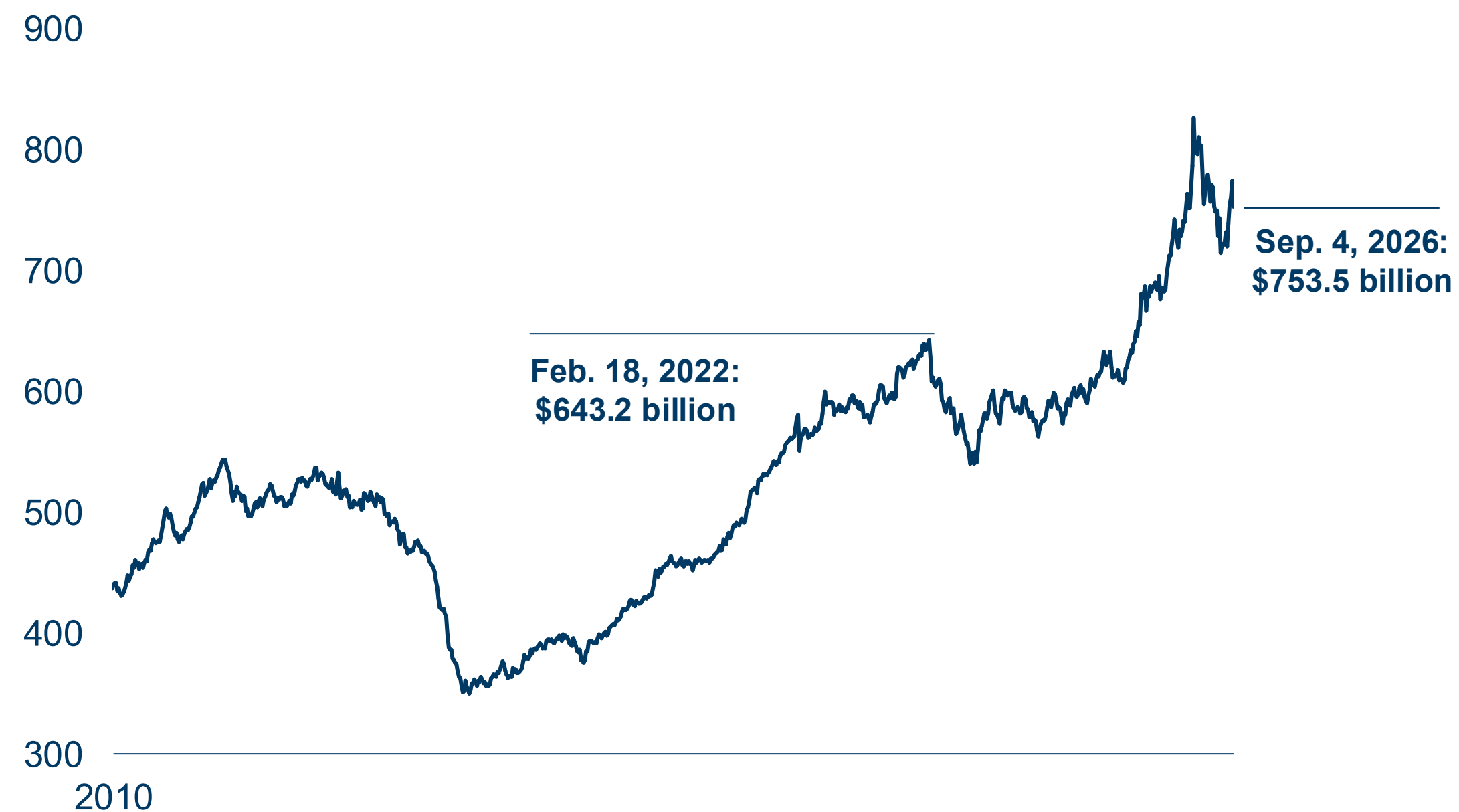


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

Reserves grow as gold prices rise; FX reserves are broadly stable.

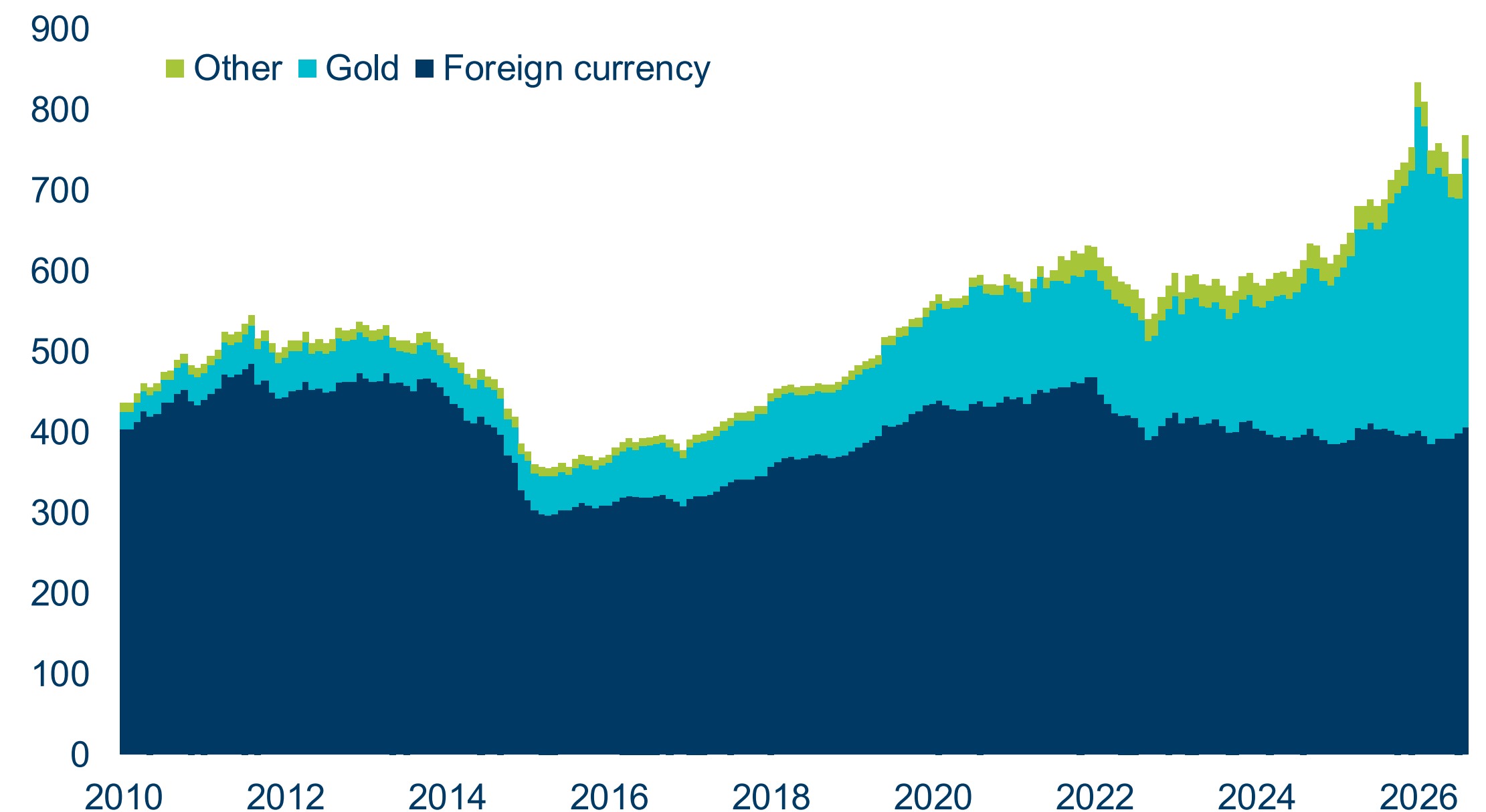
- Russia's total international reserves stand at \$754 billion vs. \$643 billion before the start of the full-scale war.
- Foreign currency reserves have been broadly stable for 4+ years as a large share is immobilized due to sanctions.
- Changes in the total value of Russian reserves are largely driven 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

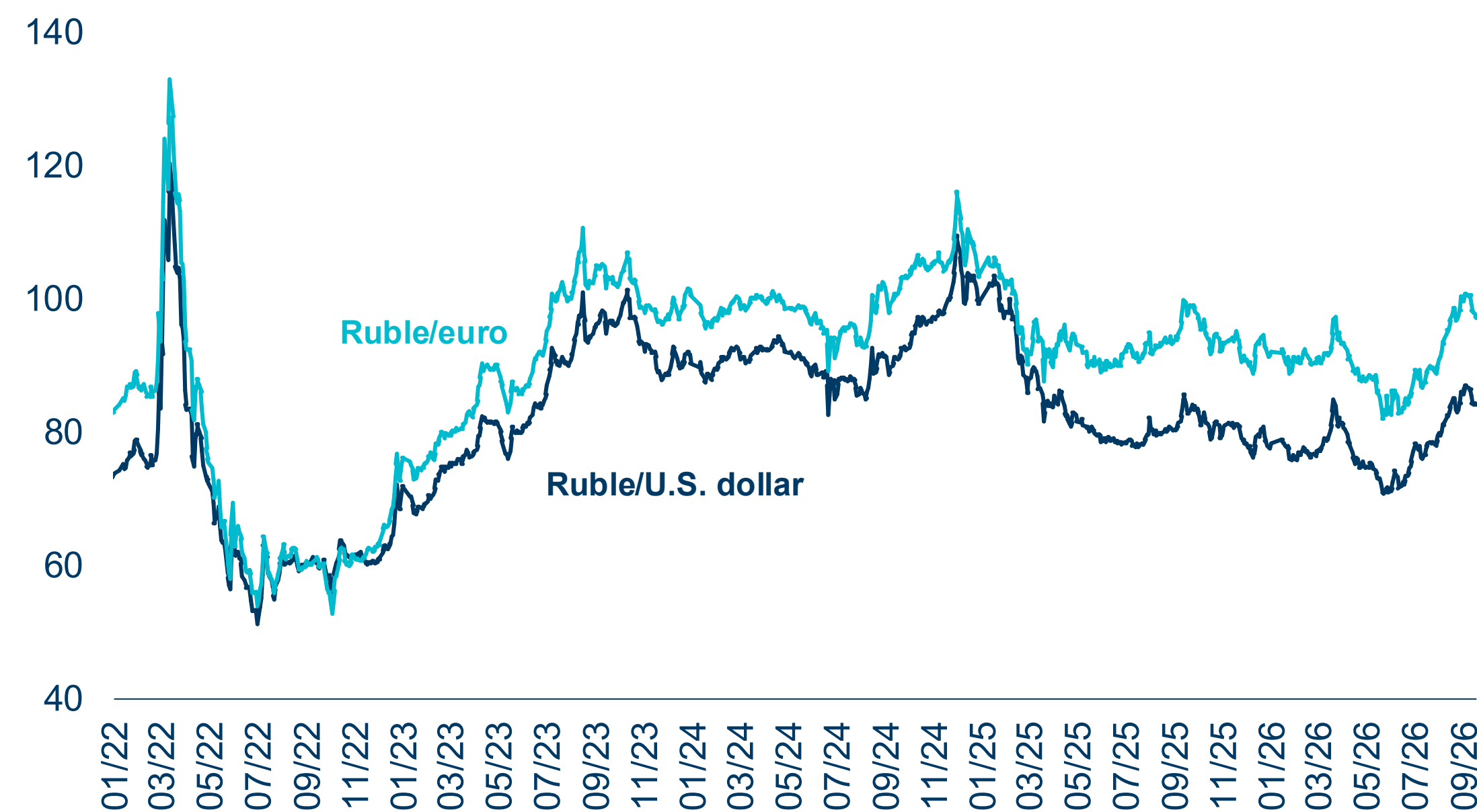


Source: Bank of Russia, KSE Institute

Inflation persists as the ruble slightly recovers from its highs.

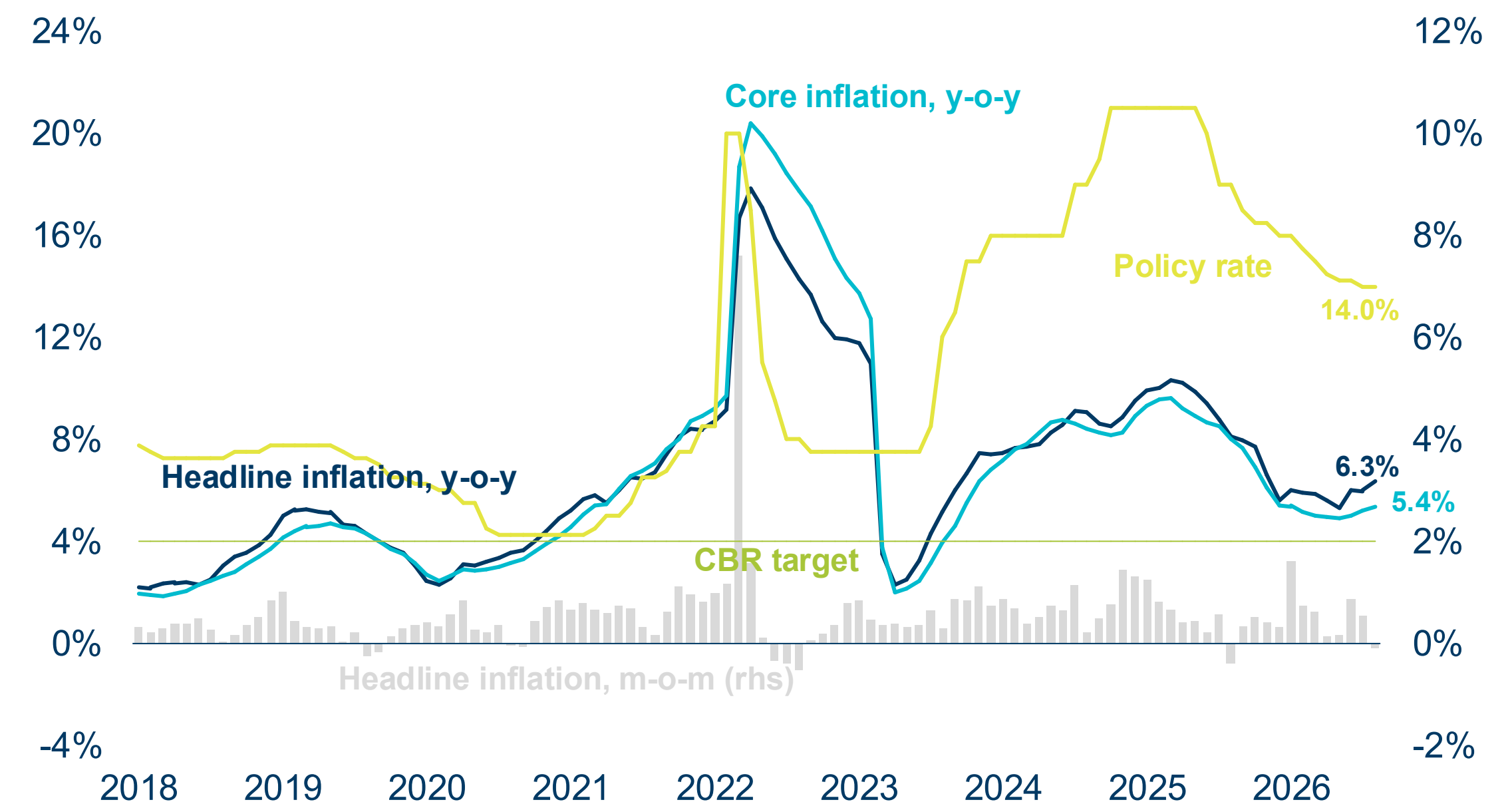
- After a period of sustained weakness, the ruble has slightly strengthened, retreating from its year-to-date highs.
- Headline inflation accelerated to 6.3% y-o-y in Jul., remaining well above the CBR's 4.0% target.
- Fearing a further rise in inflation, the CBR will likely be more reluctant to ease further despite political pressure.

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



Source: Bank of Russia, KSE Institute

Inflation and CBR policy rate, in %

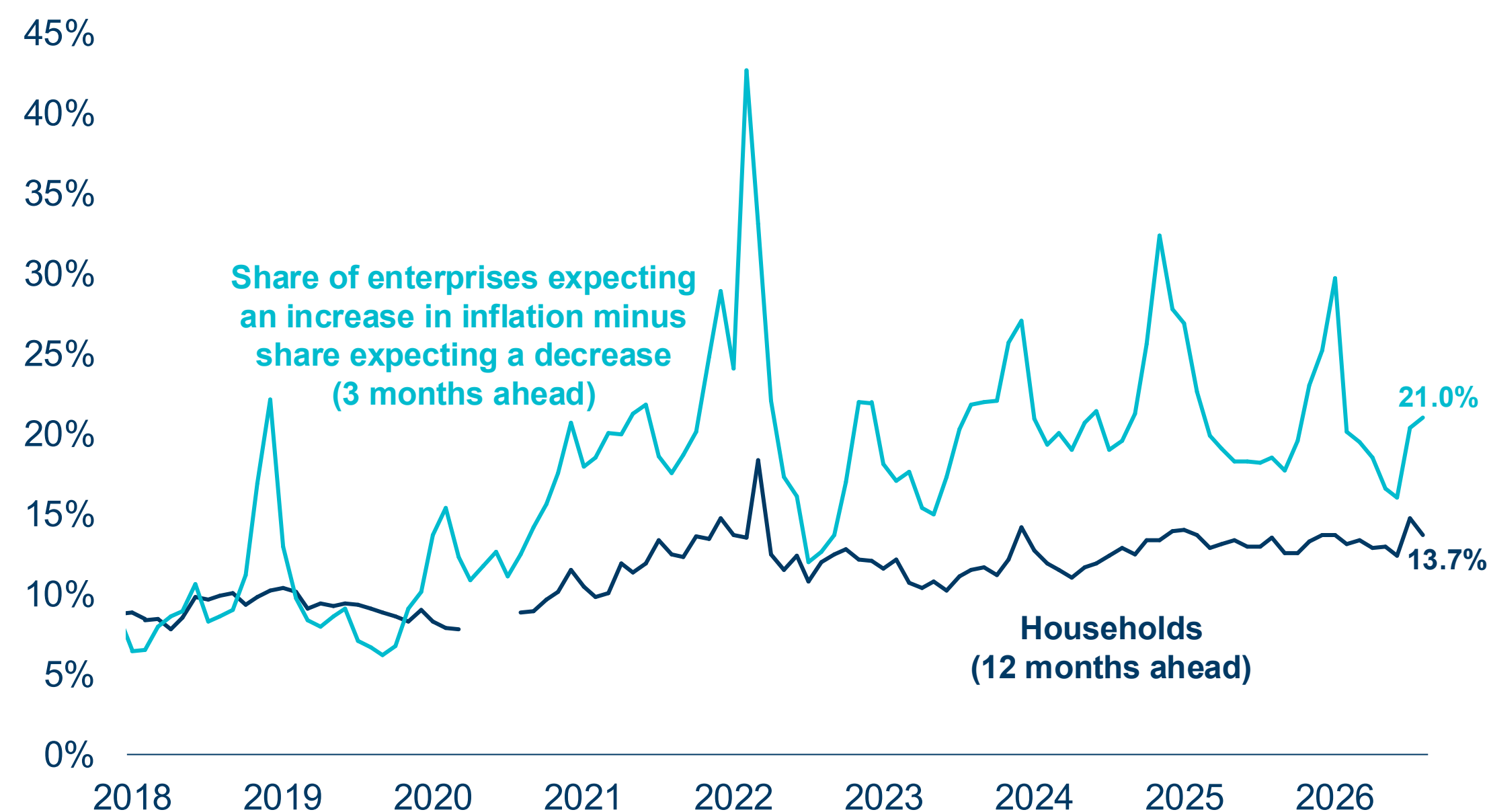


Source: Bank of Russia, KSE Institute

Underlying inflation risks persist despite seasonal stabilization in August.

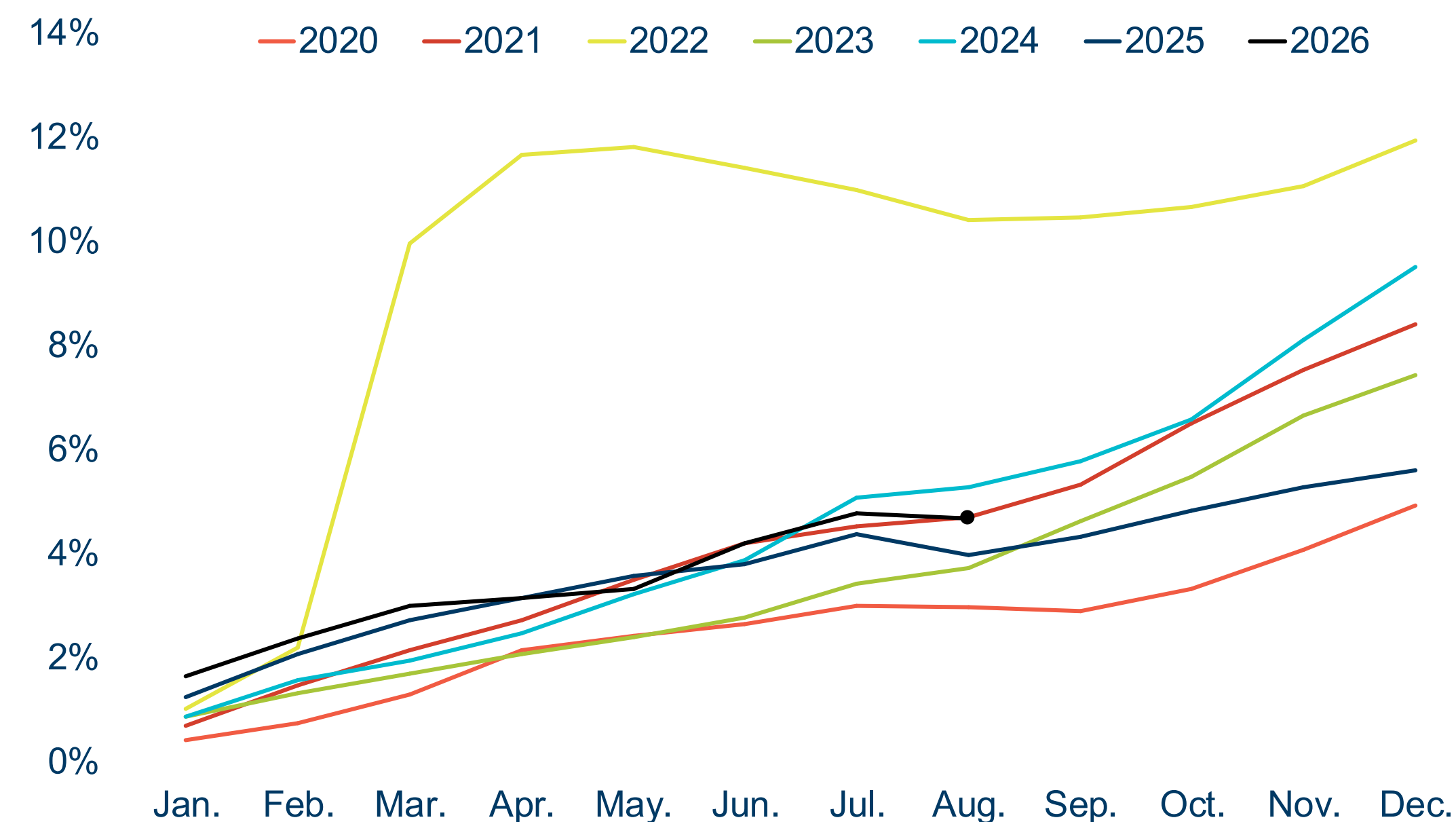
- Inflation expectations diverged: household expectations slowed down, while those of enterprises continued to grow.
- Cumulative headline inflation reached 4.7% in Aug. (vs. 4.8% in Jul), aligning with typical seasonal patterns for this month.
- Ongoing strikes on refineries, logistics, and other key facilities will likely drive up price growth in the coming months.

Inflation expectations, %



Source: Bank of Russia, KSE Institute

Cumulative inflation, in %

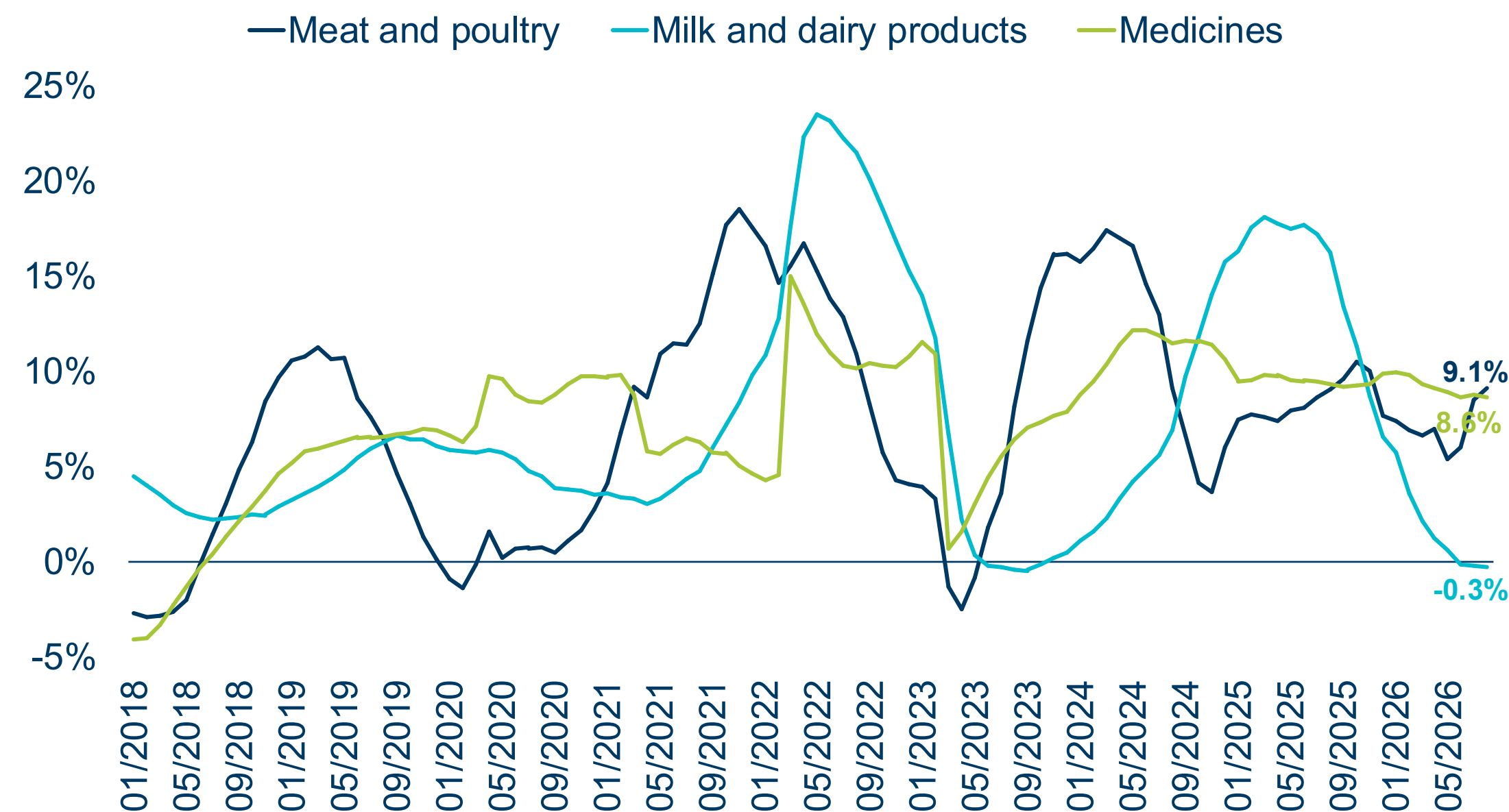


Source: Bank of Russia, KSE Institute

Price growth slows across most categories in August due to seasonal factors.

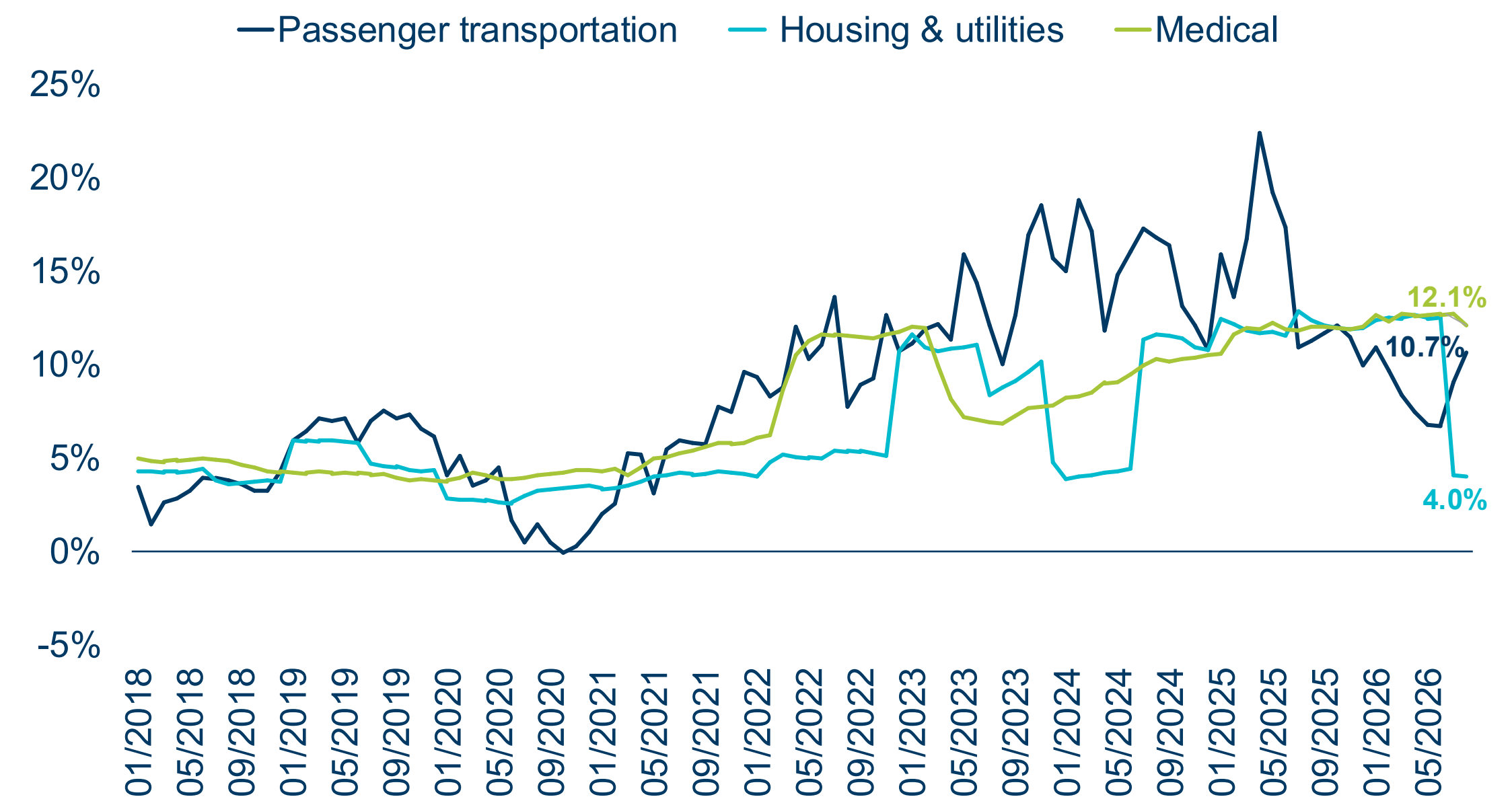
- In Aug., price growth slowed across 4 of the 6 tracked consumer categories, aligning with seasonal trends for this month.
- Price pressures remain concentrated in meat (9.1% y-o-y) and medicines (8.6%), while dairy prices fell by 0.3%.
- Among services, passenger transportation continued to grow (10.7%) driven by ongoing fuel supply issues.

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



Source: Rosstat

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

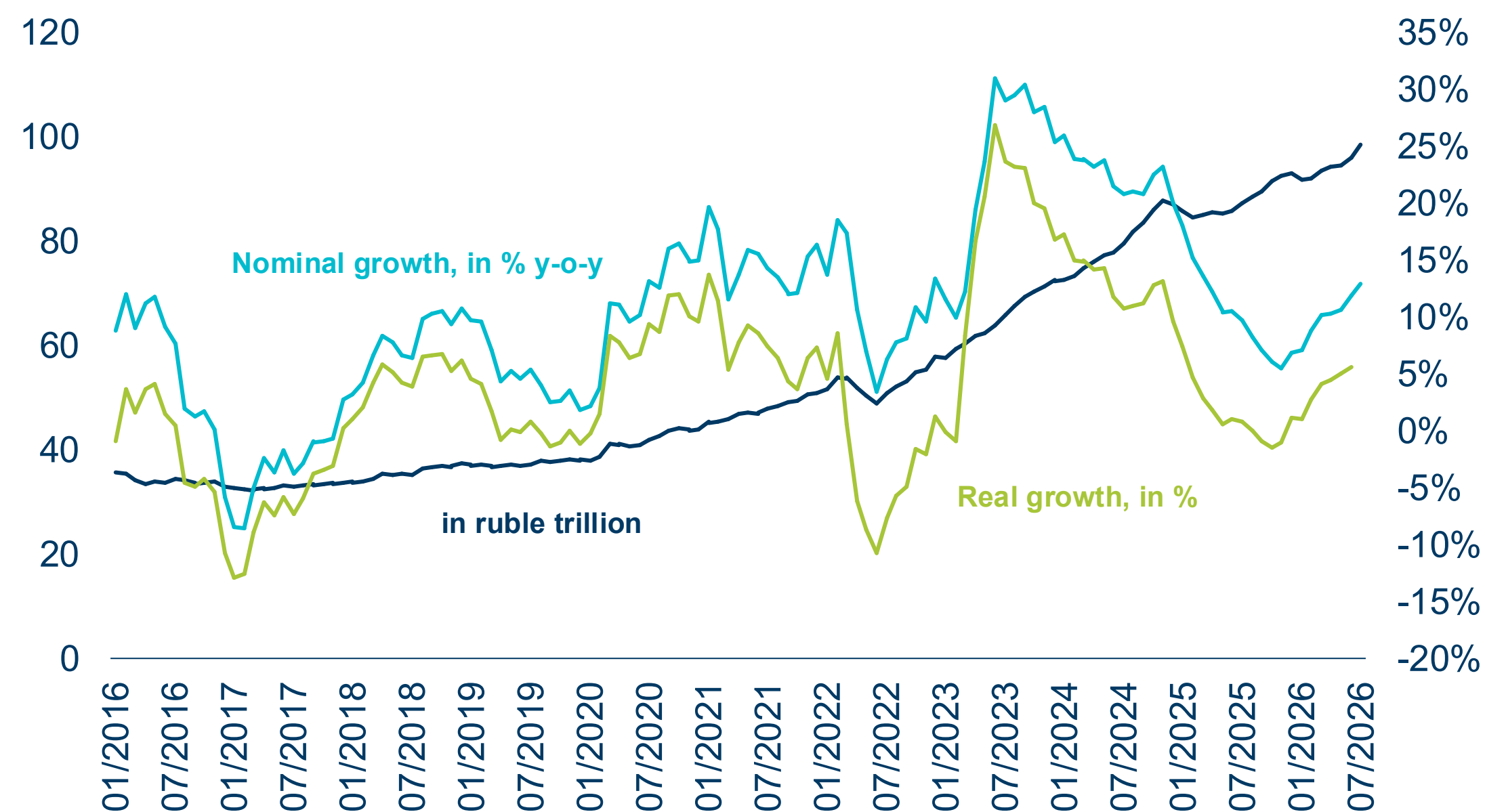


Source: Rosstat

Corporate lending gradually recovers despite elevated borrowing costs.

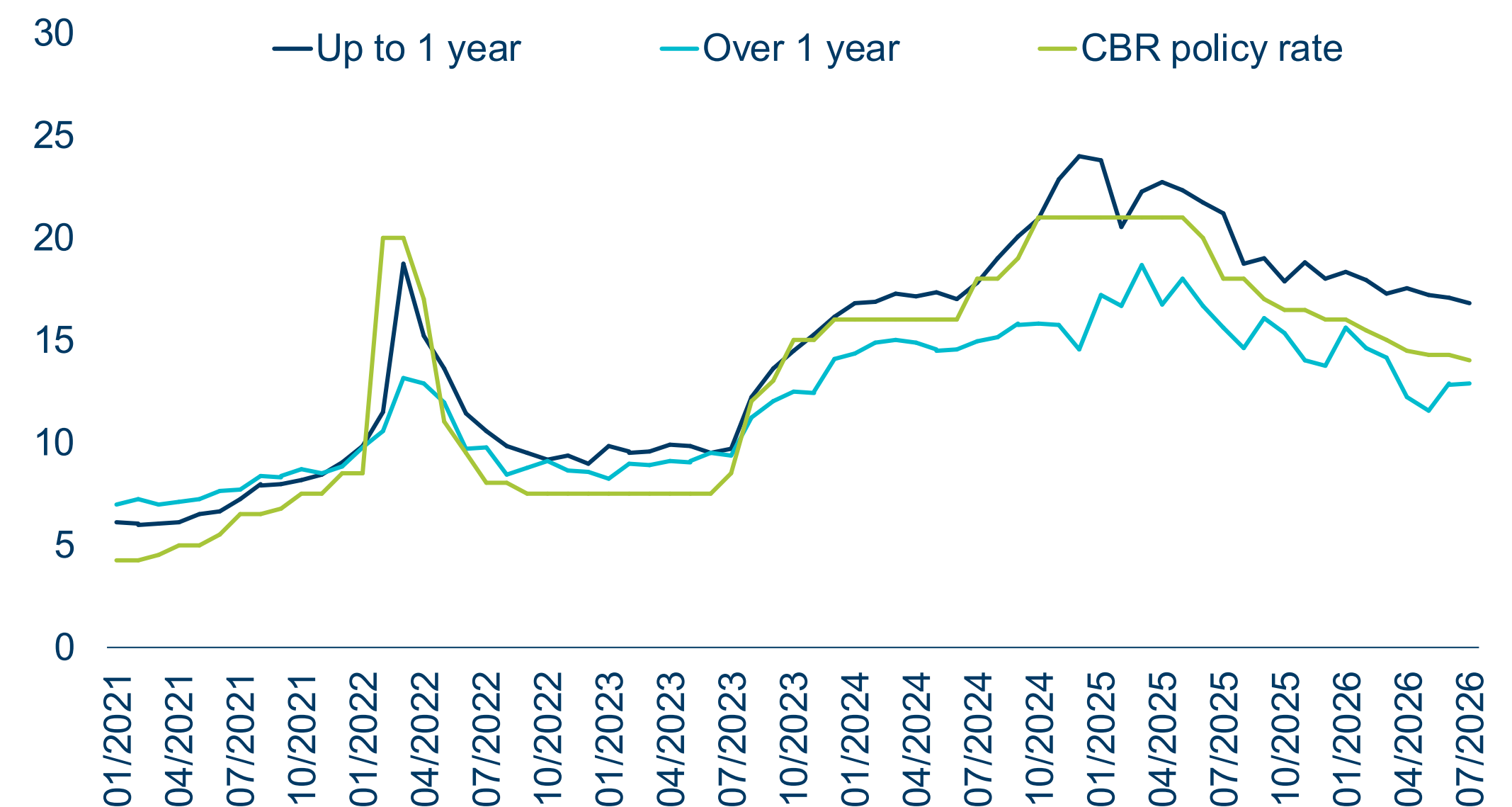
- Borrowing is gradually recovering in nominal and real terms from the collapse in 2025, while remaining subdued.
- Borrowing costs remain historically elevated as corporate loan rates closely track the CBR's tight monetary policy.
- The cost of short-term borrowing is higher than long-term rates, illustrating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

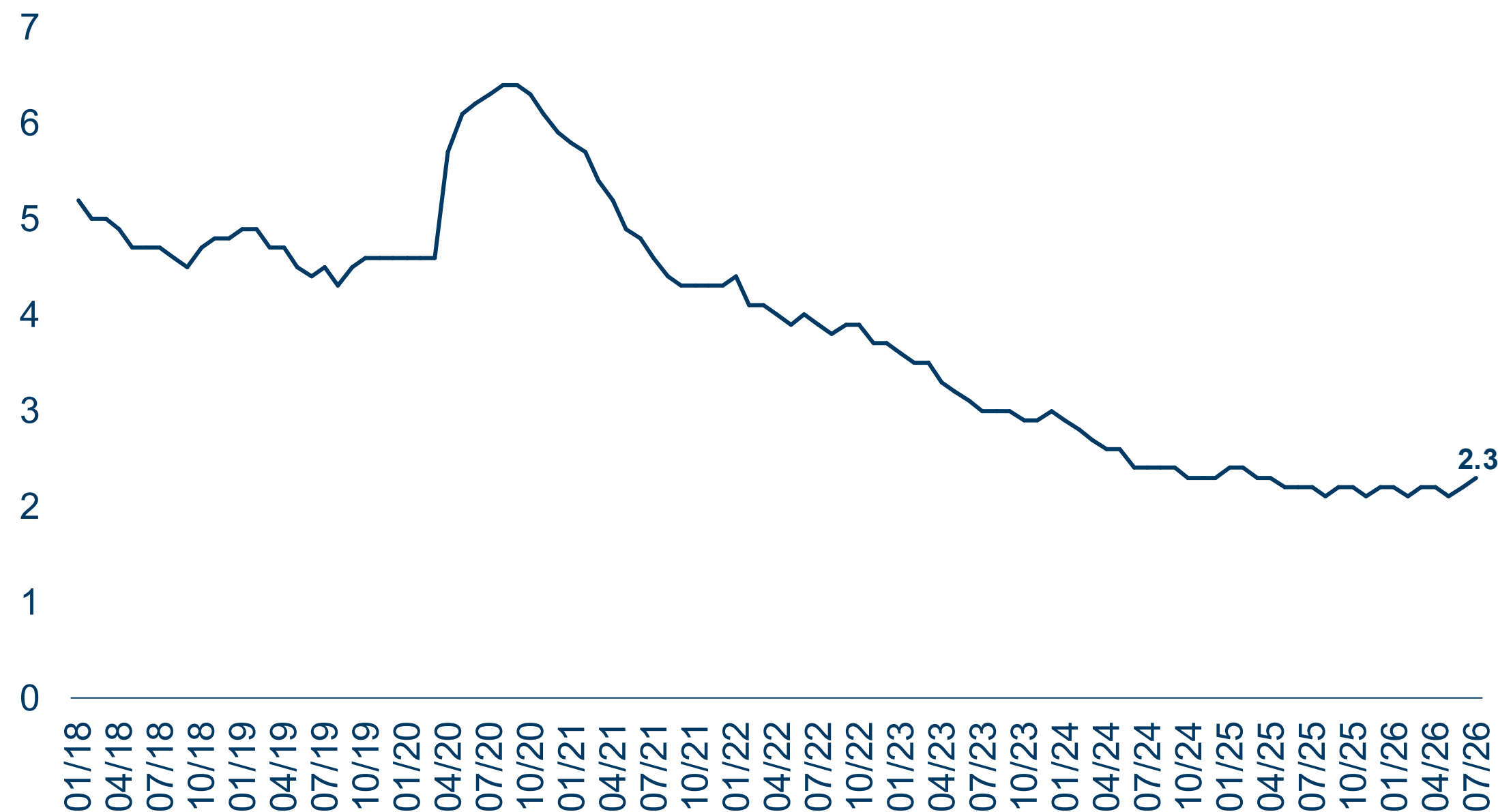


Source: Bank of Russia, KSE Institute

Labor shortages persist, while wage growth cools.

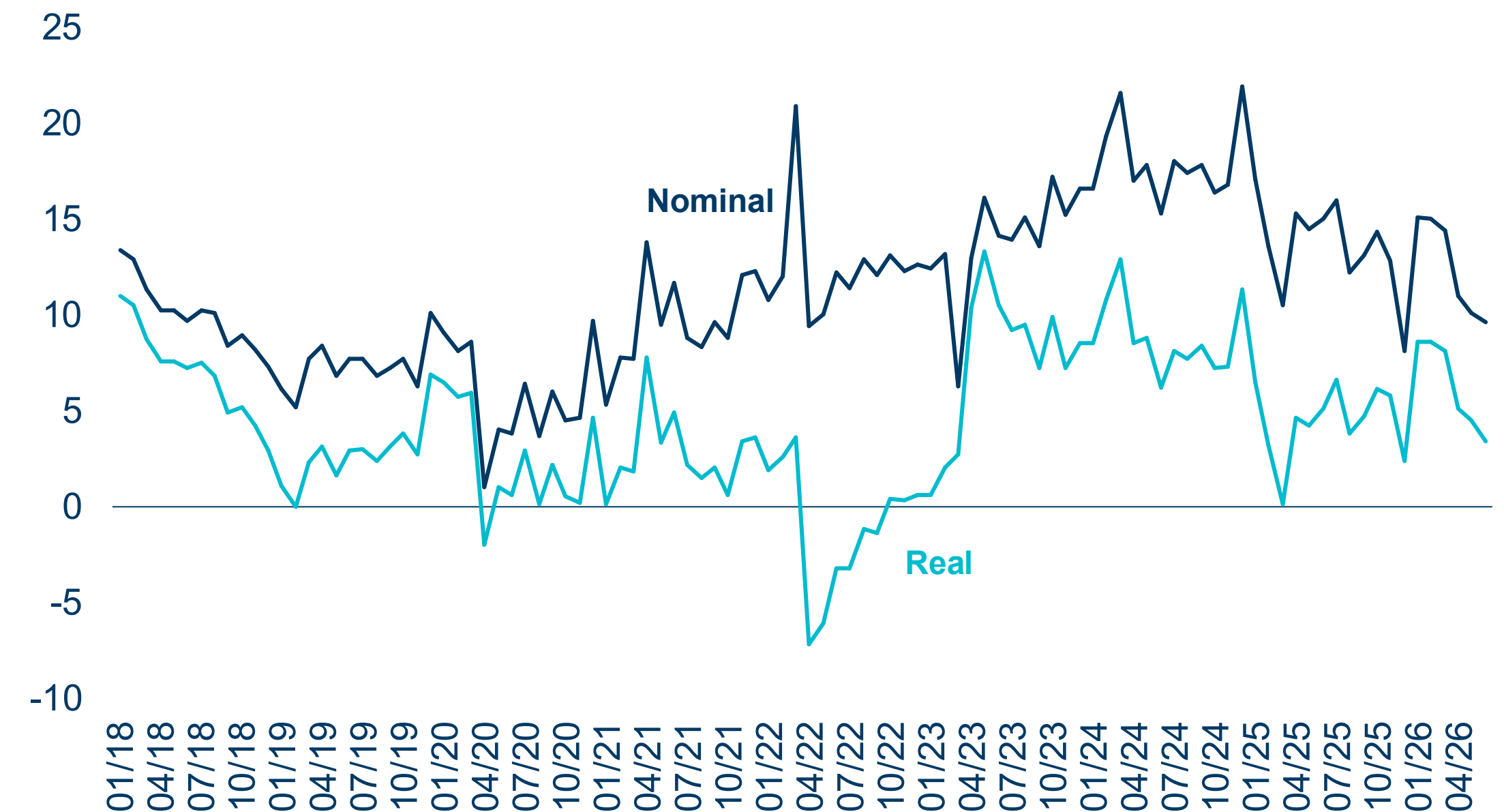
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- Nominal wage growth declined further to 9.6% in Jun along with real wage growth (+3.4%).
- Wage growth has been decelerating since the start of the year, reflecting a gradual cooling.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

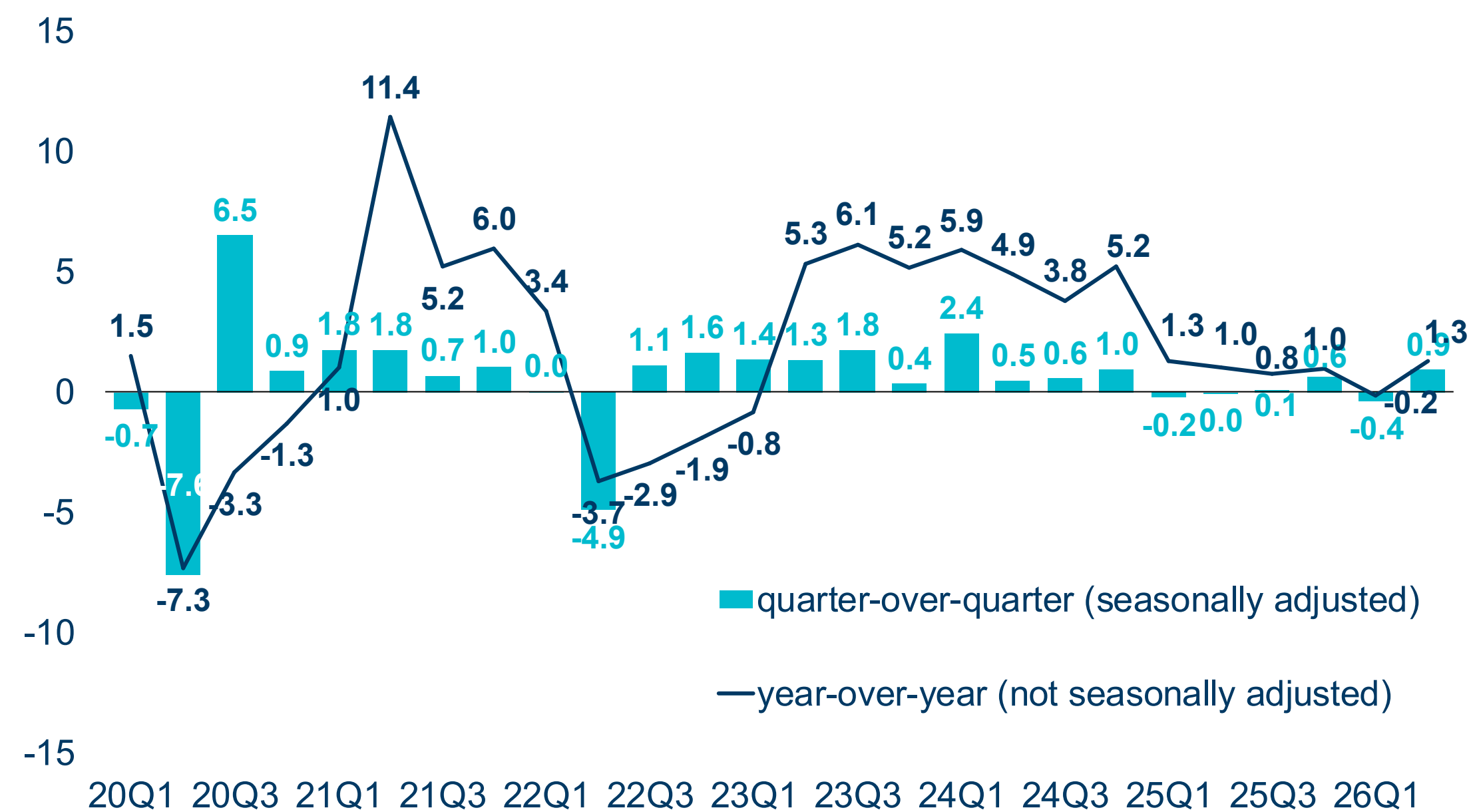


Source: Rosstat

Q2 2026 GDP rebounds; outlook for 2026–27 remains bleak.

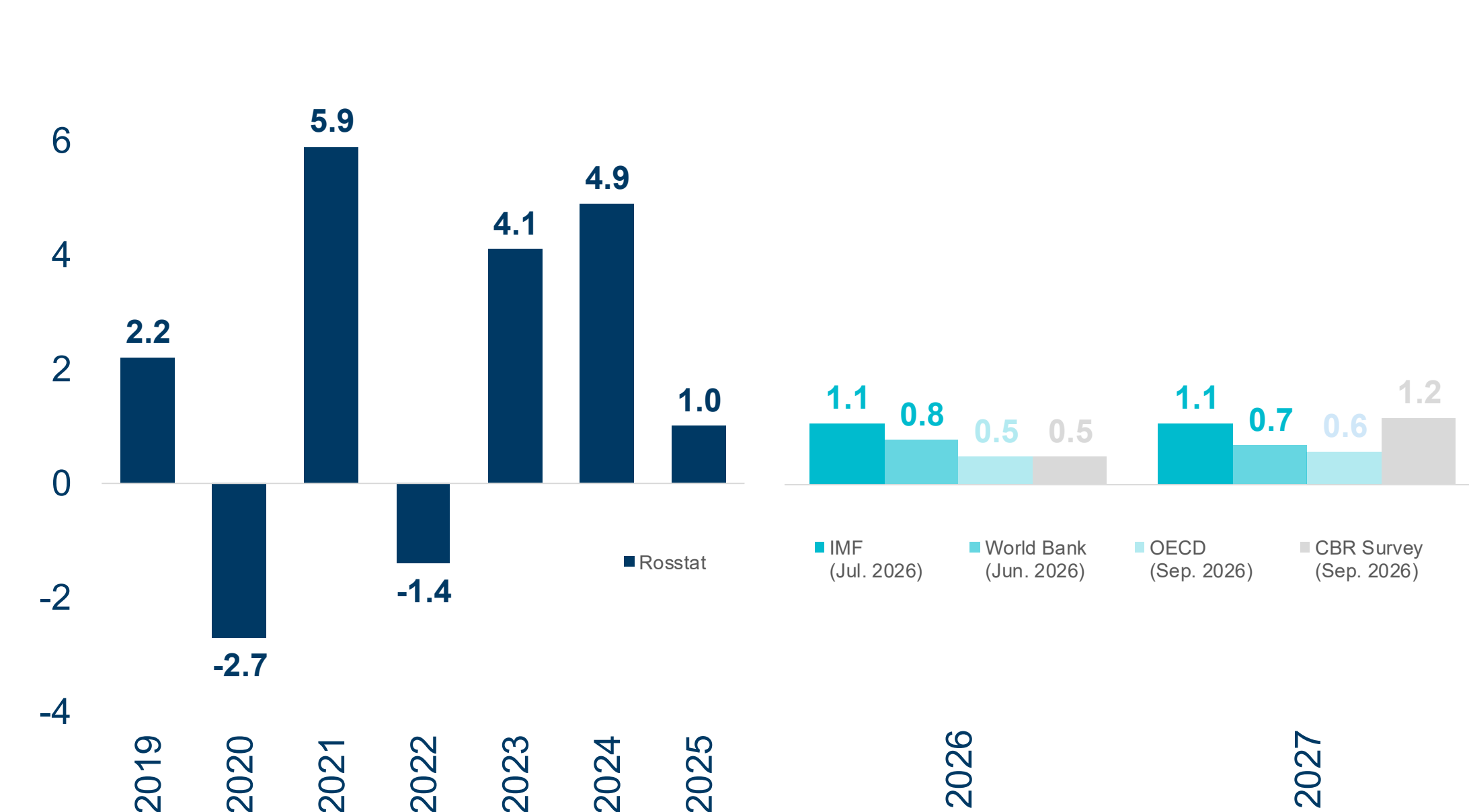
- Q2 2026 GDP grew by 1.3% y-o-y, rebounding from the 0.2% contraction recorded in the first quarter.
- Growth was likely driven by high energy prices, but Russian GDP is often subject to later revisions.
- International institutions expect weak growth of ~1% or even below in 2026–27 despite the energy windfall.

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute

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

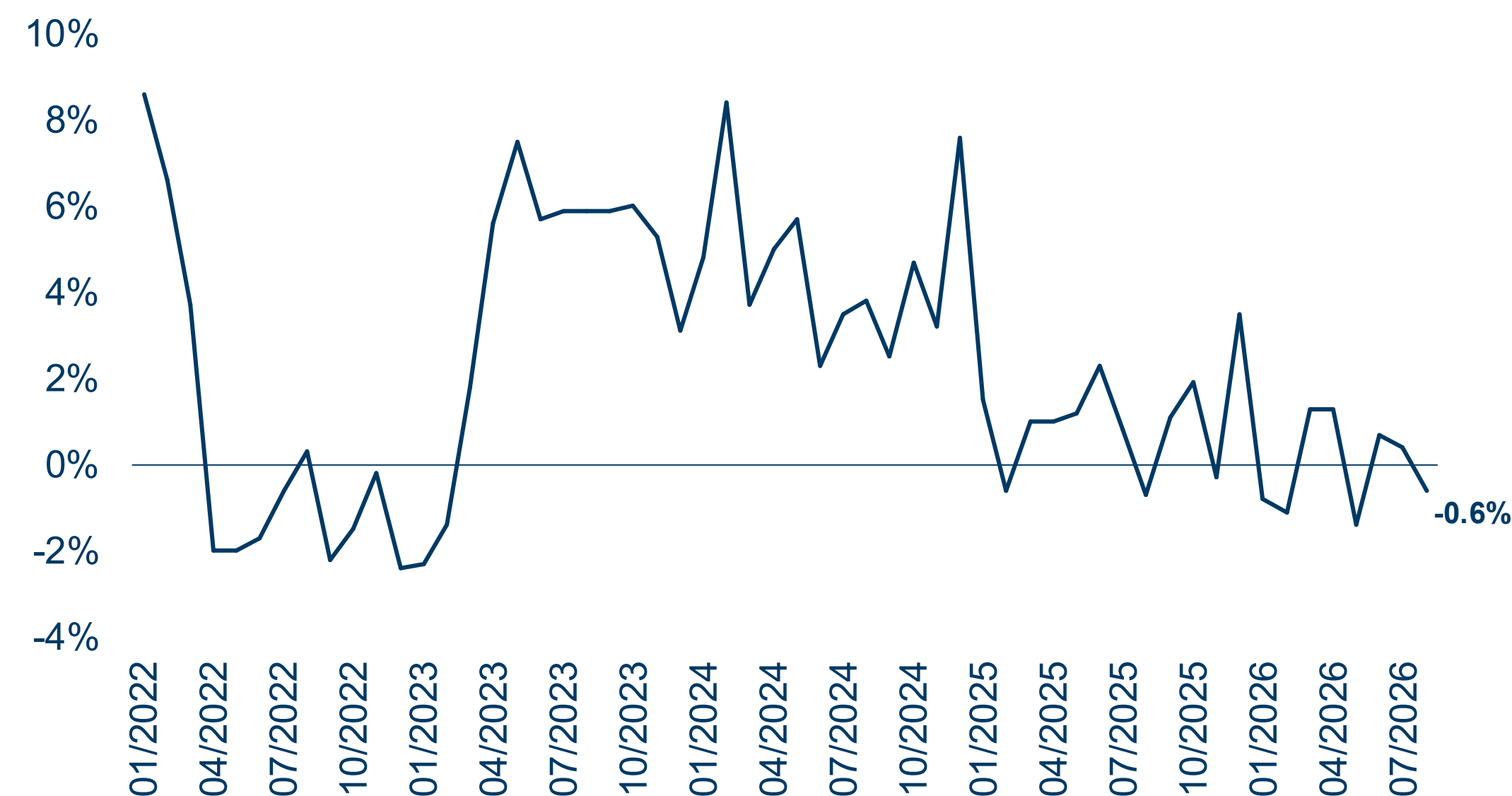


Source: Rosstat, Bank of Russia, IMF, OECD, World Bank

Industrial production contracts as capacity utilization continues to decline.

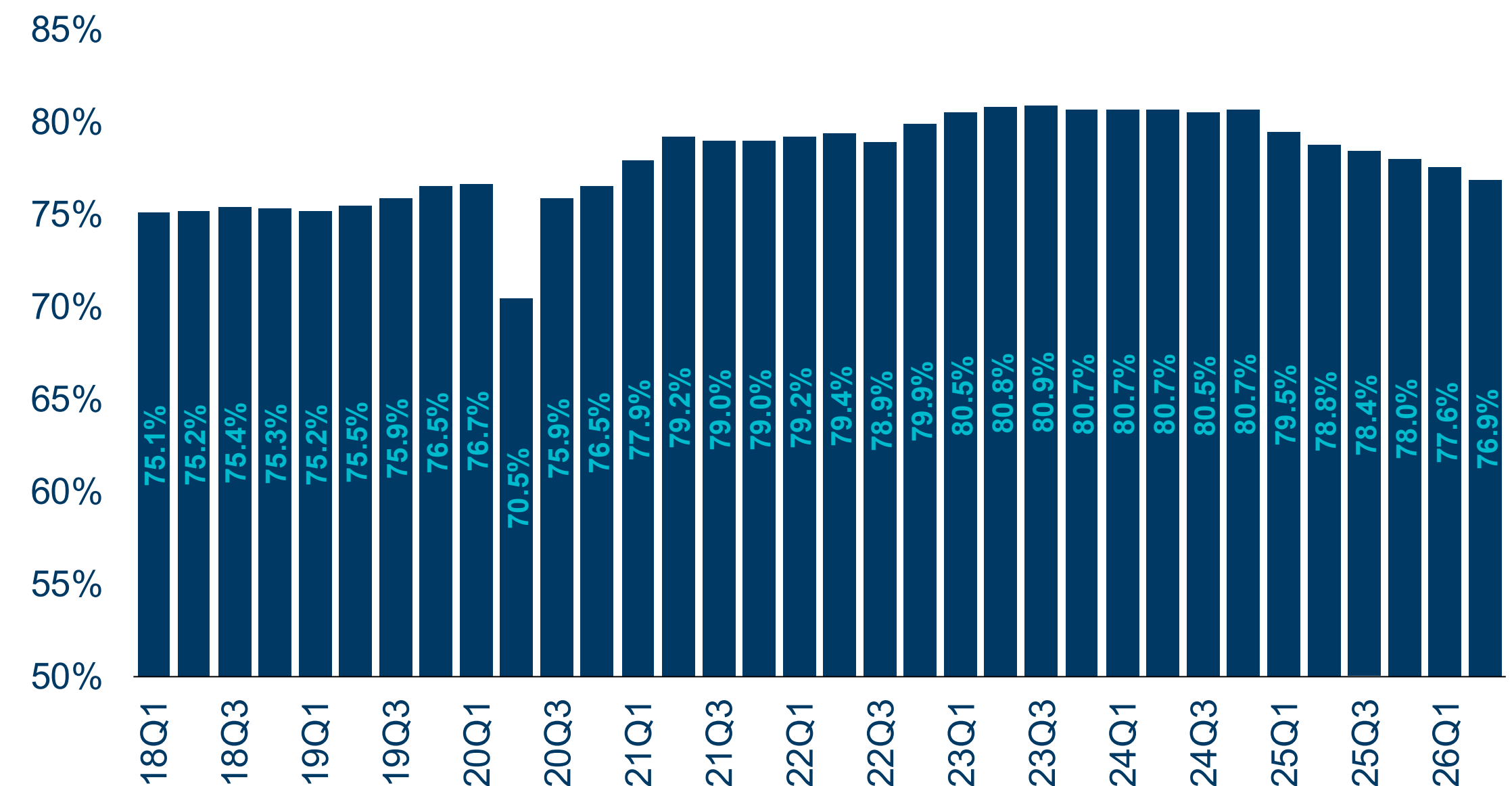
- Industrial production fell by 0.6% y-o-y in Aug. (vs. +0.4% in Jul.), marking its first decline since May.
- At the same time, capacity utilization is falling from its historic highs, dropping to 76.9% in Q2 2026.
- This signals that structural constraints (e.g., tight labor market, high borrowing costs) continue to weigh on the economy.

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



Source: Bank of Russia, KSE Institute

Capacity utilization, in %

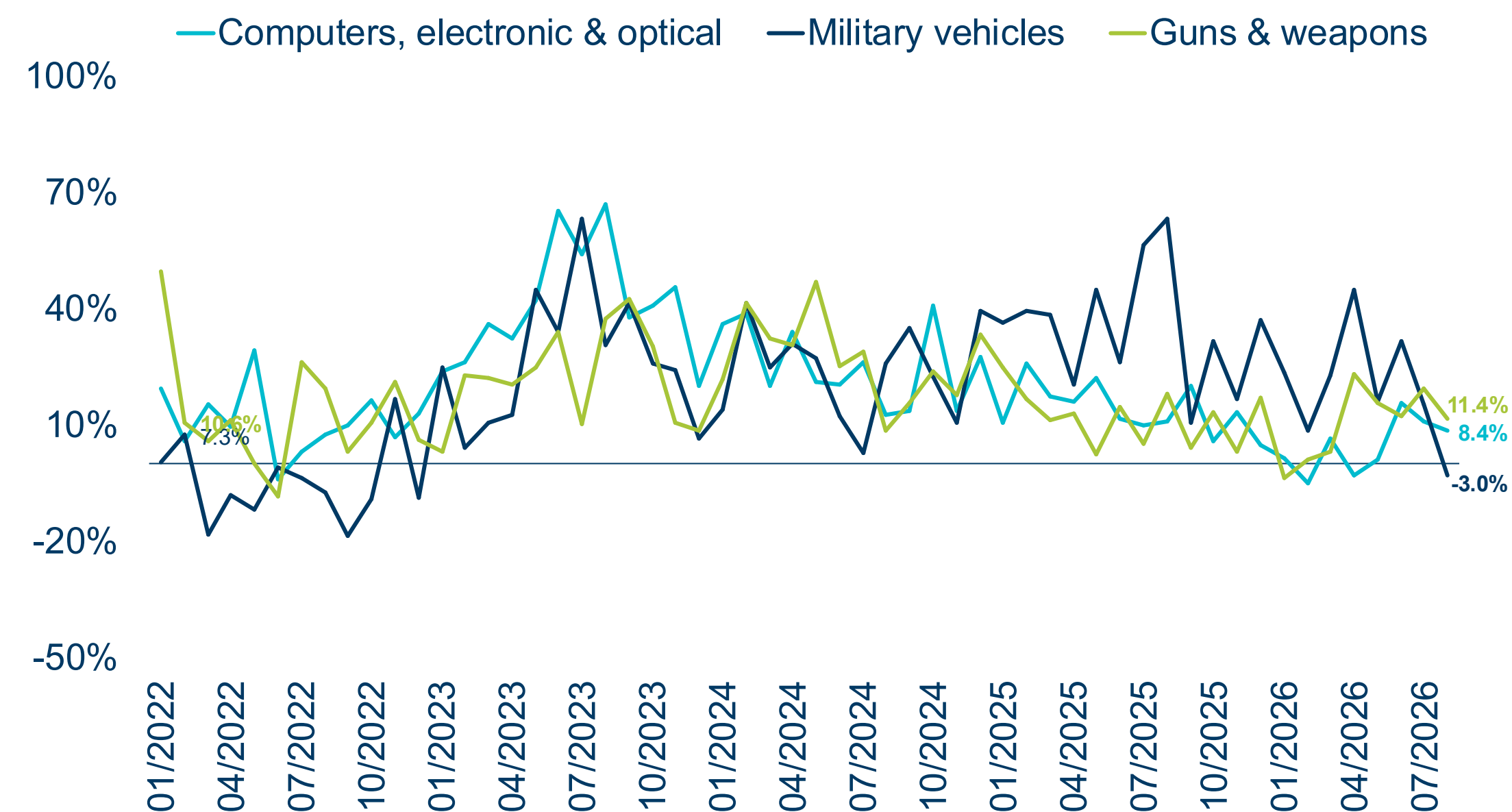


Source: Bank of Russia, KSE Institute

Military sector growth slows, exposing limits of the war-driven boom.

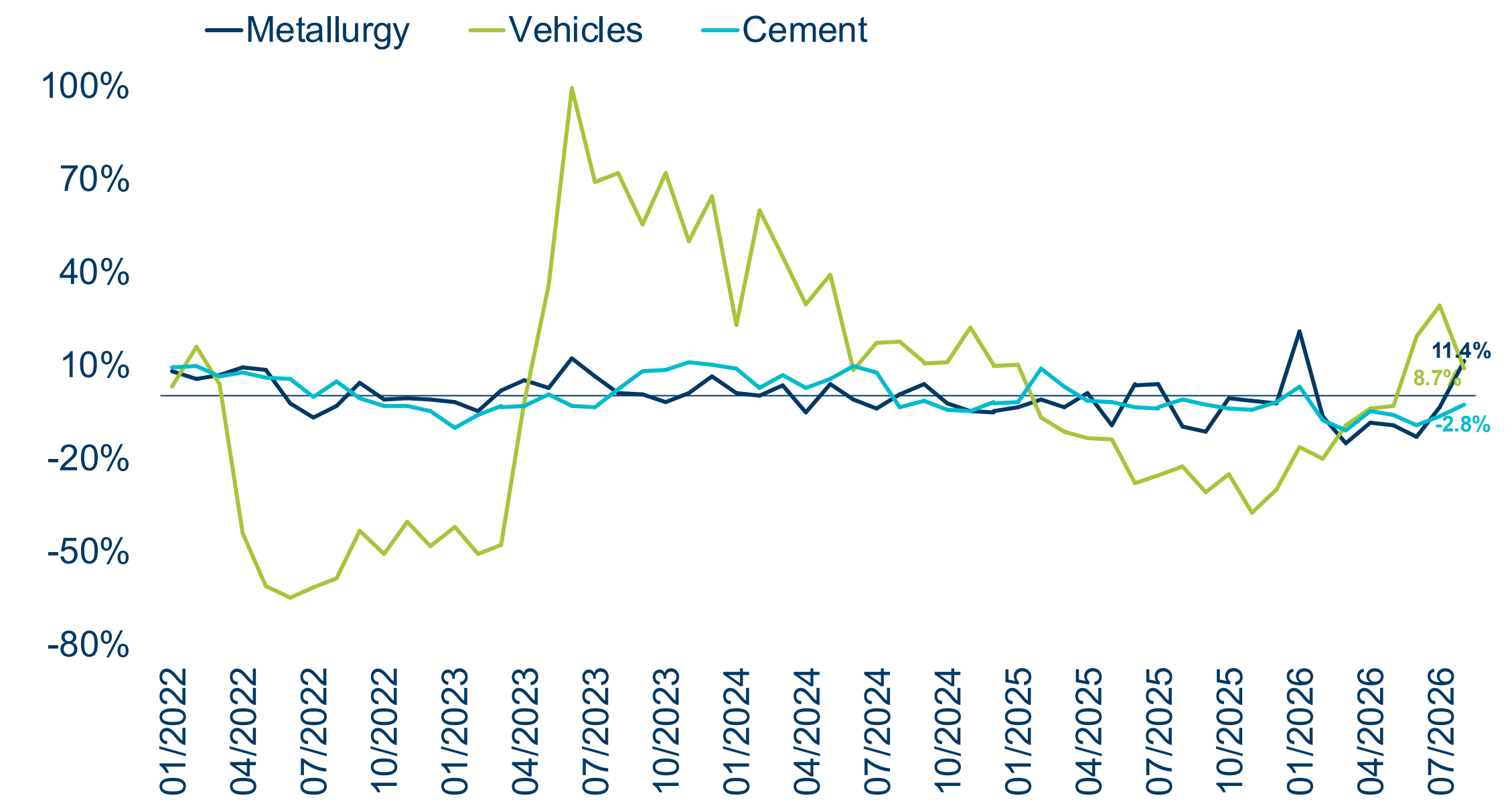
- All tracked military sectors slowed in Aug., with military vehicle production turning negative (-3.0% y-o-y).
- Key sectors of the civilian economy are contracting, driven by steep drops in transport, construction, and metallurgy.
- Deceleration across most defense sectors may signal that Russia's military-industrial boom is running out of steam.

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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- [April 2023](#)
- [March 2023](#)
- [February 2023](#)
- [December 2022](#)