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KSE Institute Russia Chartbook

Economy Avoids Technical Recession; Budget Targets Revised Once Again

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Executive Summary

1. **Economy avoids technical recession; outlook bleak.** The Russian economy grew by 0.4% q-o-q in Q2 following the 0.6% contraction in Q1 and full-year growth will likely by around 1%. Growth prospects remains seriously constrained and no substantial pick-up is expected for the following years. While the CBR has managed to reduce inflation meaningfully—to 8.1% y-o-y in Aug. from close to or above 10% in Jan.-May with tight monetary policy, this has weighed heavily on businesses and households' ability to borrow and, thus, economic activity. Despite recent rate cuts—from 21% to 17%—real interest rates remain high. Some of the fundamental issues behind inflationary pressures are still in place, including elevated budget deficits and a tight labor market. In addition, recent Ukrainian attacks on the Russian refining sector are creating problems in the internal fuel market—and may lead to rising prices. Consequently, the objectives of the central bank (i.e., price stability) and the government (i.e., financing the war and boosting the economy) will continue to collide.
2. **Budget proposals reveal serious challenges.** Over Jan.-Aug., Russia's budget recorded a deficit of 4.2 trillion rubles—a moderate improvement over the number reported for Jan.-Jul. (4.8 trillion). Oil and gas revenues dropped 20% y-o-y, non-O&G revenues grew only 14%, and expenditures rose by 21%. Authorities increased the full-year deficit plan to 5.7 trillion rubles due to weaker revenues but left planned spending unchanged. Given the year-to-date performance and past patterns, it is likely that Russia will also break through the new target. For 2026, MinFin proposes an increase and expansion of the VAT, indicating that replacing weak O&G revenues with other sources appears an important priority. While budget plans in this area are often subject to revision due to war needs, Russia is planning to keep military and security spending broadly stable, which is a noticeable departure from sharply rising expenditures in recent years.
3. **NWF under pressure but debt issuance robust.** In Aug., the NWF's liquid portion remained broadly stable at 4.0 trillion rubles (or $49 billion) and accounted for 30% of total NWF assets (compared to 75% in February 2022). In the absence of fiscal consolidation, the regime could be forced to rely heavily on the NWF towards the end of the year when deficits tend to be large, leading to the liquid portion being fully used up. Alternatively, authorities could continue to step up domestic borrowing, which has already been the case this year. To finance larger deficits, OFZ issuance of 3.3 trillion rubles over Jan.-Aug. represents a 104% increase y-o-y and 68% of the original plan. While yields remain relatively moderate, the flat curve indicates growing concerns over the medium-term outlook. Russia will likely be able to finance its growing deficit as banks can be incentivized to absorb additional issuance, including through further repo schemes.

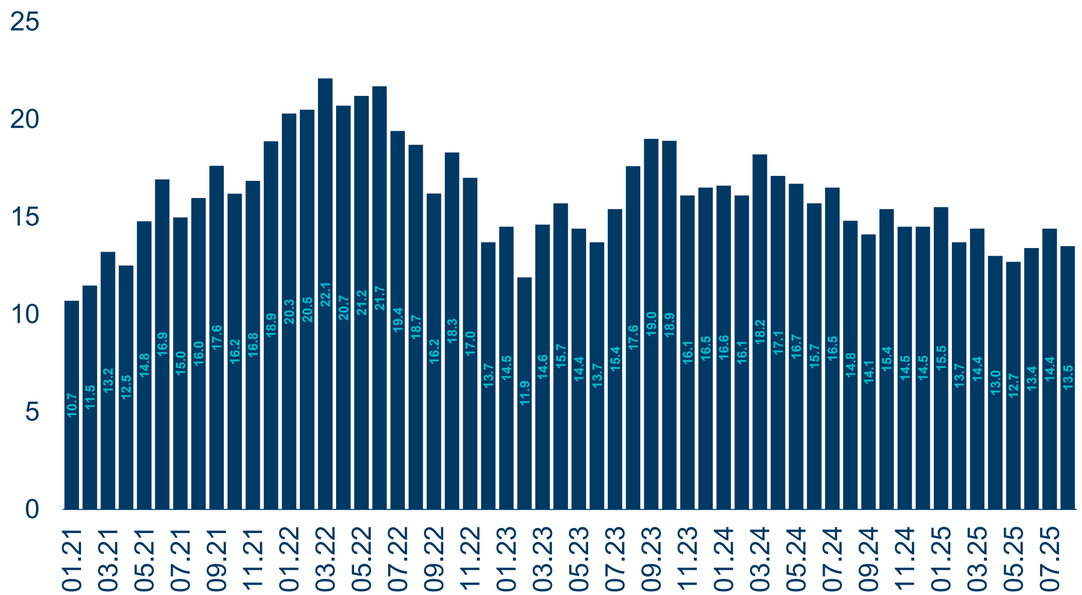
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Oil export earnings declined in August.

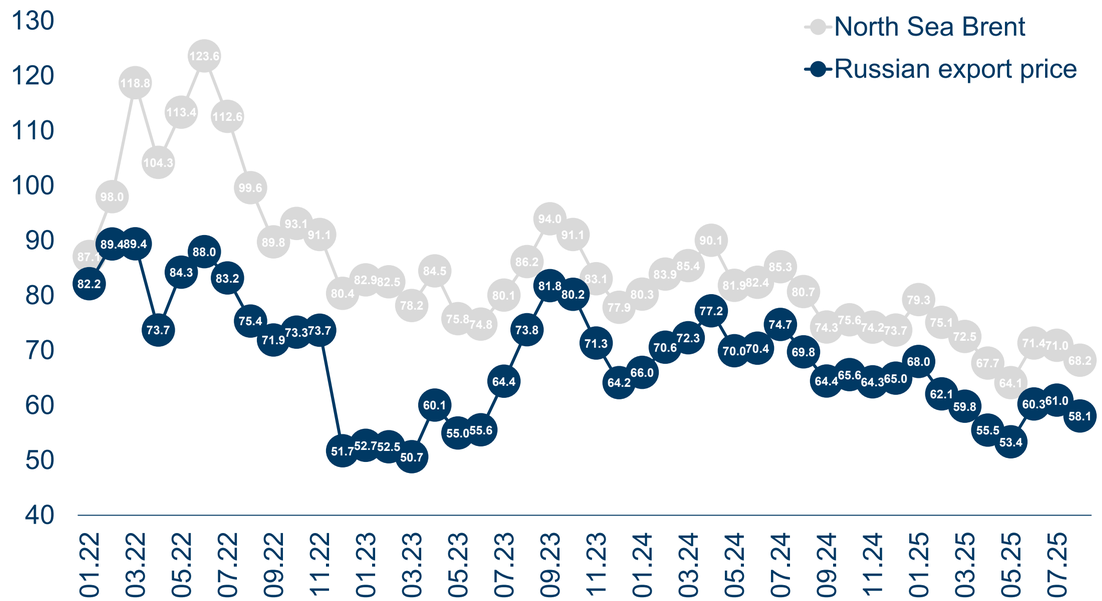
- Oil export earnings fell from $14.4 billion in July to $13.5 billion in August 2025 due to somewhat lower prices.
- With the discount on Russian oil broadly stable, export prices stood at ~$58/barrel—slightly below the price cap.
- Global prices have trended down once again in recent weeks, which will weigh on Russian earnings going forward.

Oil export earnings, in U.S. dollar billion



Source: Federal Customs Service, International Energy Agency, KSE Institute
*2021 data from Russian customs service, 2022-23 data from IEA

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



Source: International Energy Agency, KSE Institute

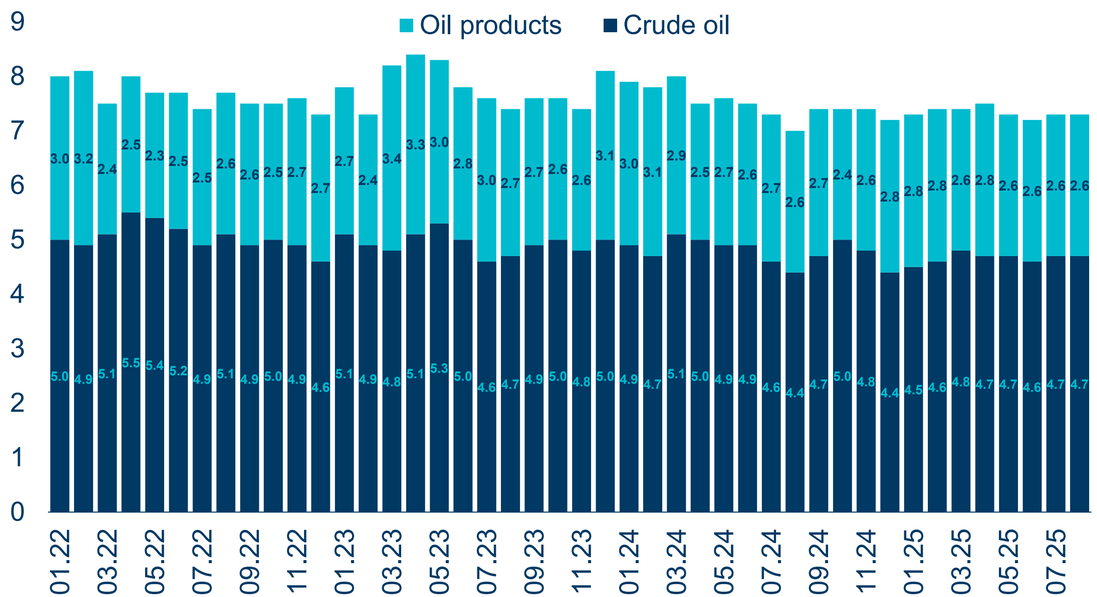
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Supply of Russian oil remains stable.

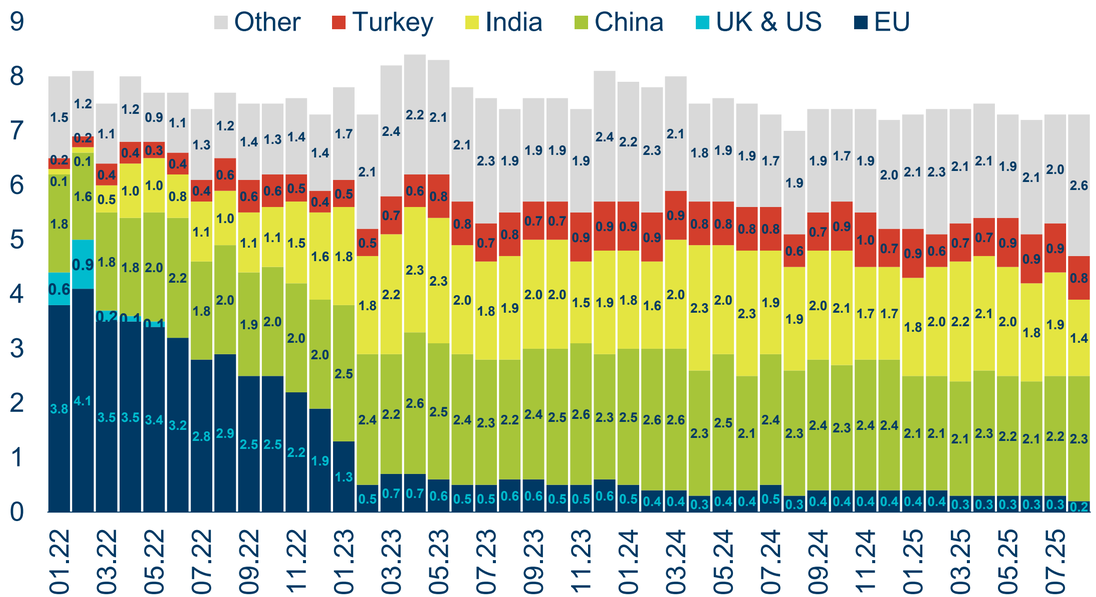
- Russian oil export volumes have been remarkably steady over the last 3.5 years.
- Overall, the G7+ oil price cap has succeeded at keeping Russian oil on the market.
- China, India, and Turkey are the most important buyers (~65-70% of oil exports).

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

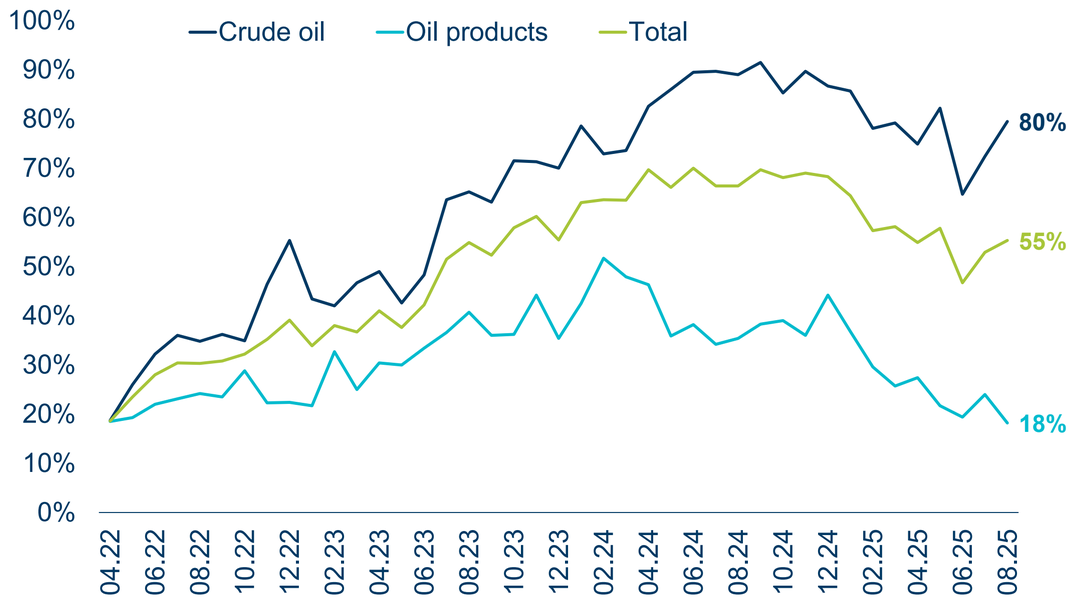
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Stepped-up shadow tanker sanctions require tighter enforcement.

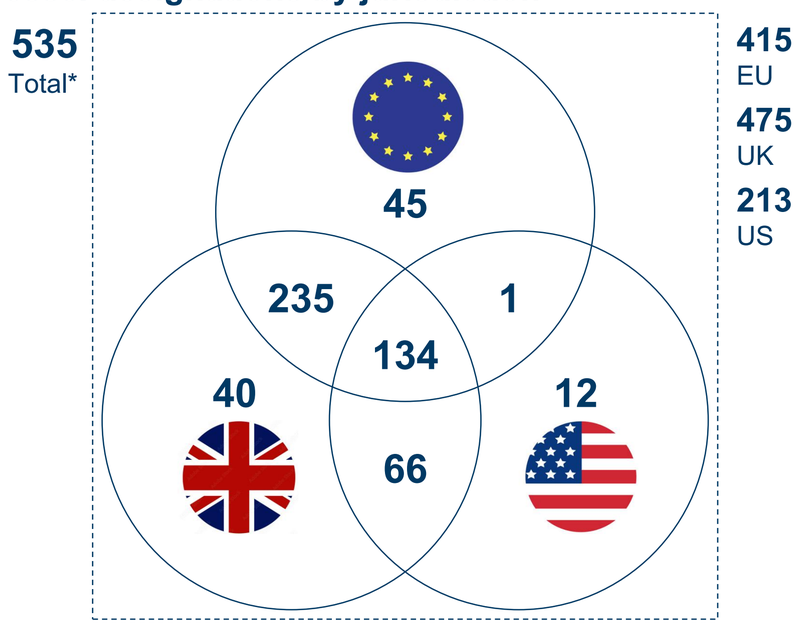
- The total number of sanctioned shadow tankers has reached 535, with 134 listed by the EU, UK, and US.
- With listings reaching ~66% of the shadow fleet, more effective enforcement will need to be in the focus.
- The shadow fleet's share in Russian oil exports picked up in July-August, likely due to higher crude prices.

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.
* Includes 2 tankers sanctioned by Canada only; visualization does not show details about vessel designations by Australia (60 vessels), Canada (275), and New Zealand (43).

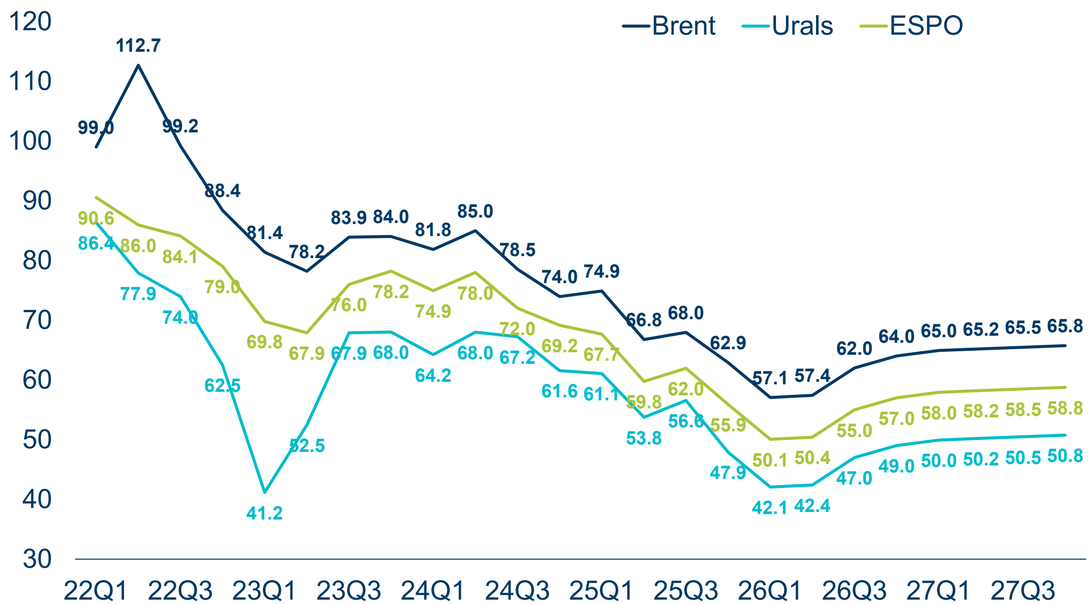
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Challenging outlook for Russian oil and gas exports.

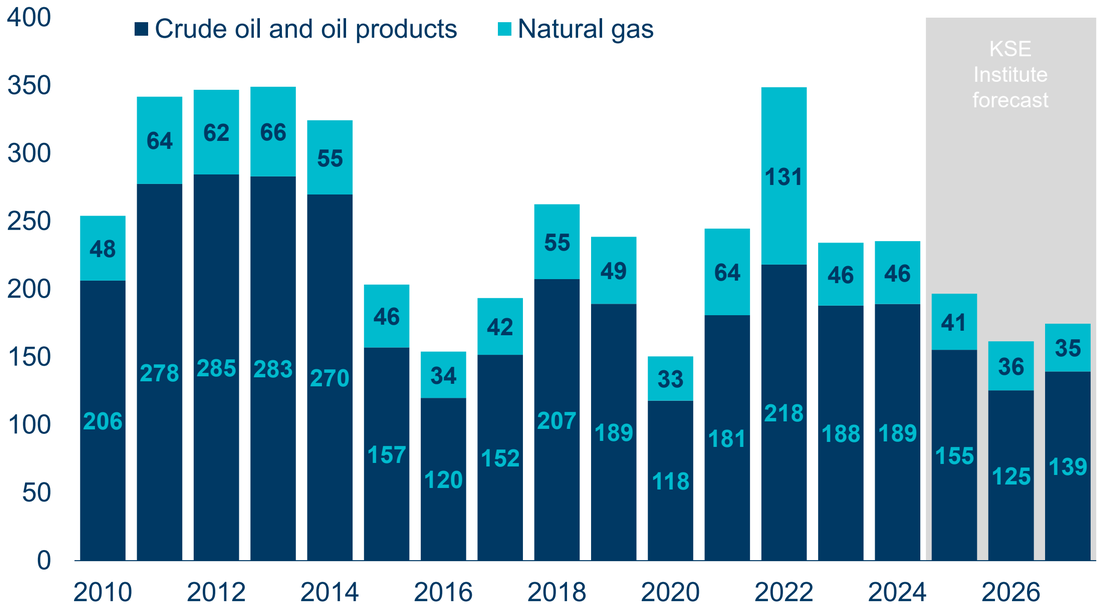
- Markets expect global oil prices to weaken to below $60/bbl in H1 2026 before recovering to ~$65/bbl.
- At a discount of $15/barrel (slightly higher than right now), this would drive Urals to around $42/barrel.
- Oil exports are projected to drop from $189 billion in 2024 to $155 billion in 2025 and $125 billion in 2026.

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



Source: Bank of Russia, KSE Institute *scenario based on current sanctions

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



Source: Bank of Russia, KSE Institute

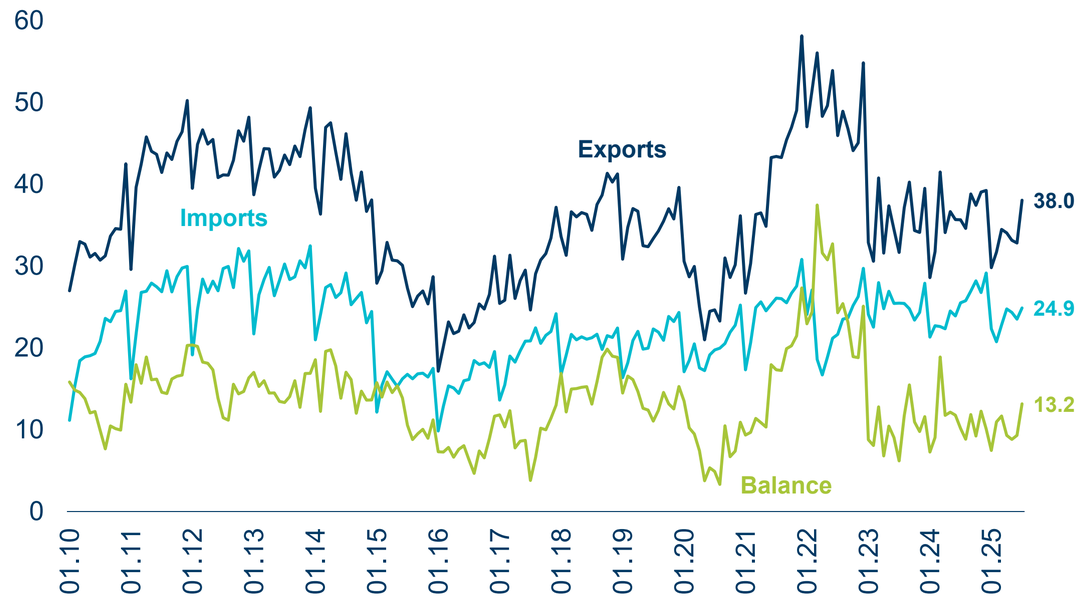
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Exports pick back up in July; overall external environment still challenging.

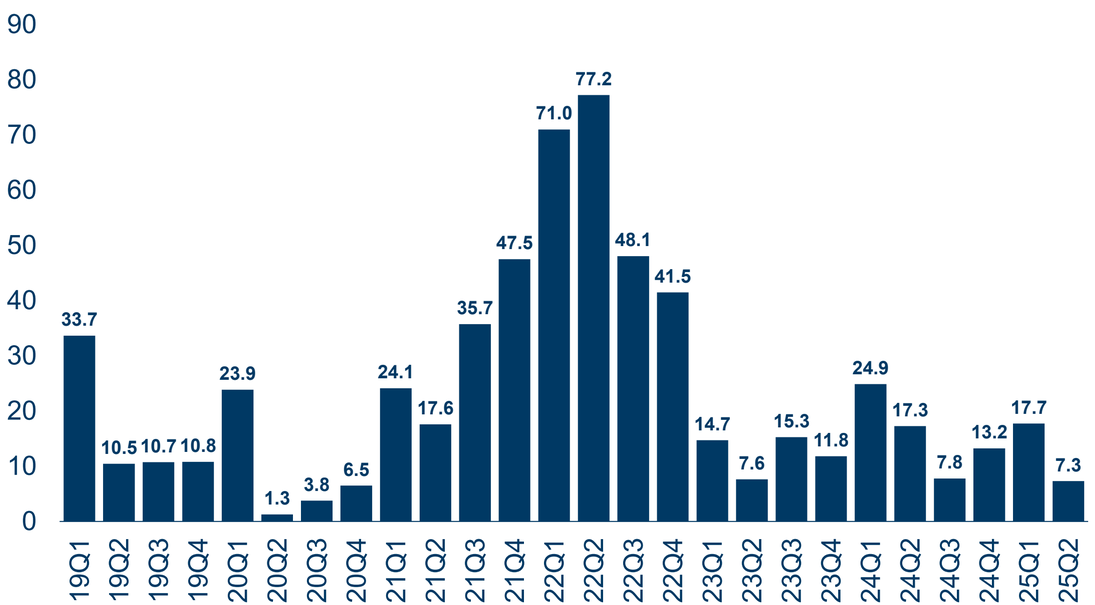
- Russia's exports increased noticeably in July while imports remained subdued, leading to a higher trade surplus.
- Larger services and income/transfers deficits drove down the current account surplus to $7.3 billion in Q2 2025.
- Monthly fluctuations aside, the external environment remains challenging but not enough to erode macro stability.

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

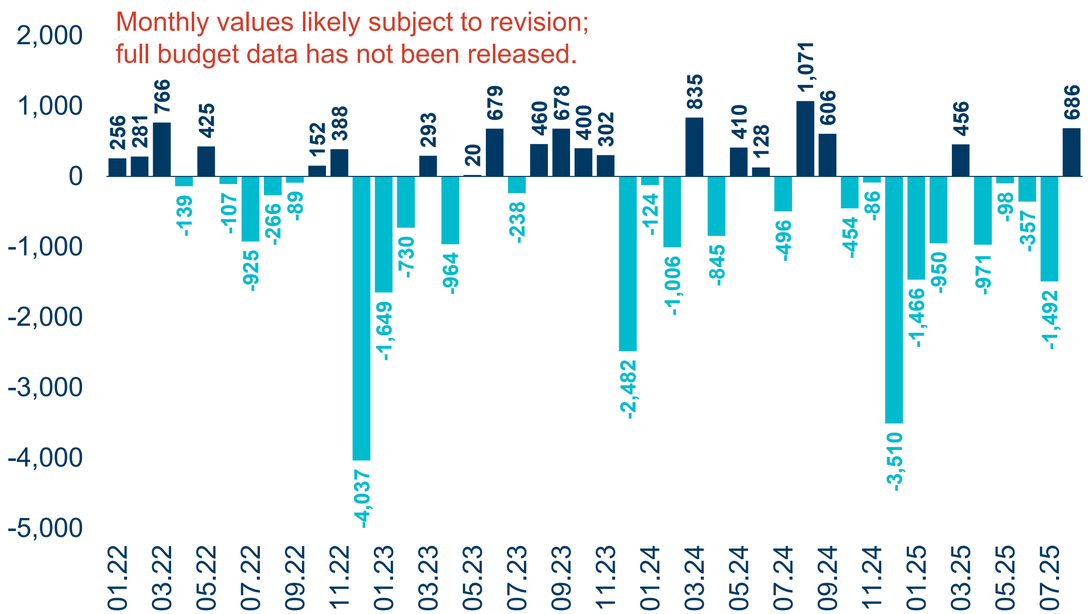


Source: Bank of Russia, KSE Institute

Budget deficit revised further; new target also unlikely to be reached.

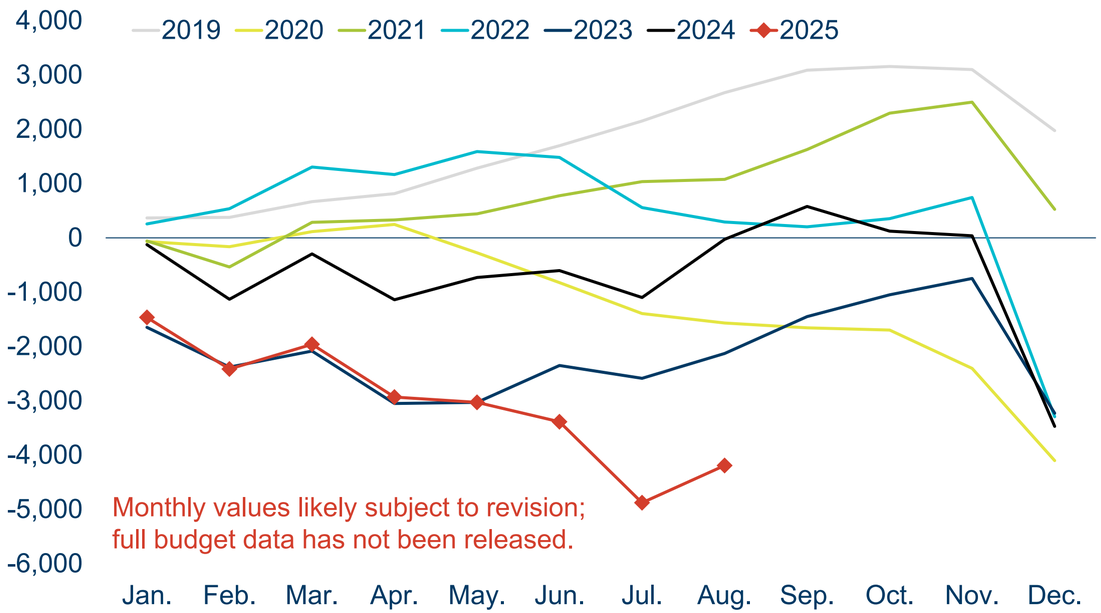
- The budget deficit over Jan.-Aug. reached 4.2 trillion rubles—a small decrease compared to Jan.-Jul. (4.8 trillion).
- Over the first eight months of the year, the deficit reached 74% of the, once again, revised target of 5.7 trillion.
- Based on past-years' budget execution patterns, it is likely that Russia will also be unable to reach the new target.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Cumulative federal budget balance, in ruble billion

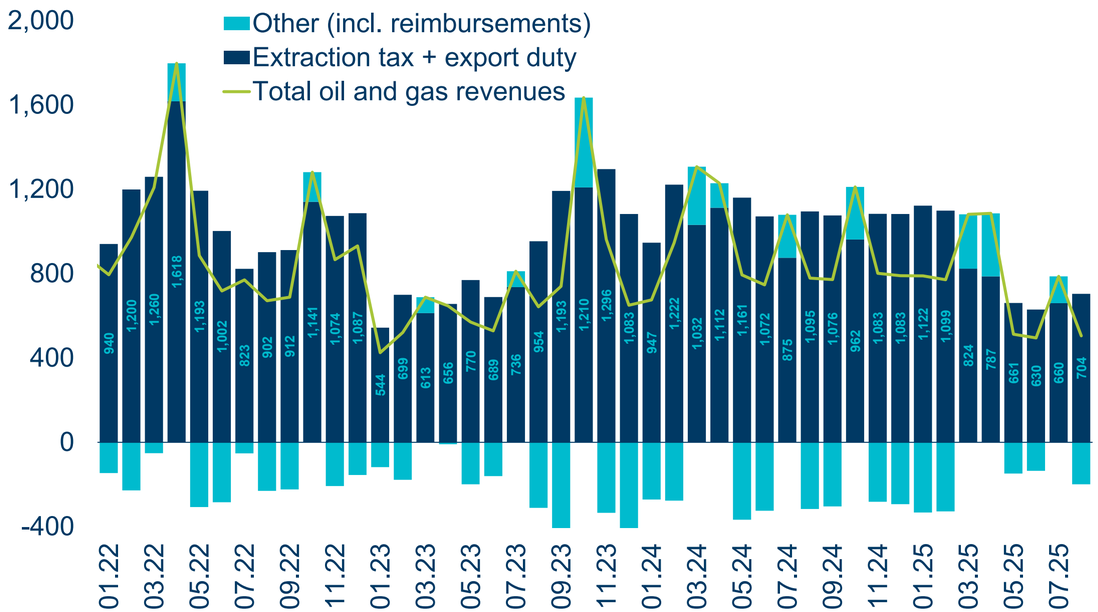


Source: Ministry of Finance, KSE Institute

Weak oil and gas revenues, higher expenditures are behind budget challenges.

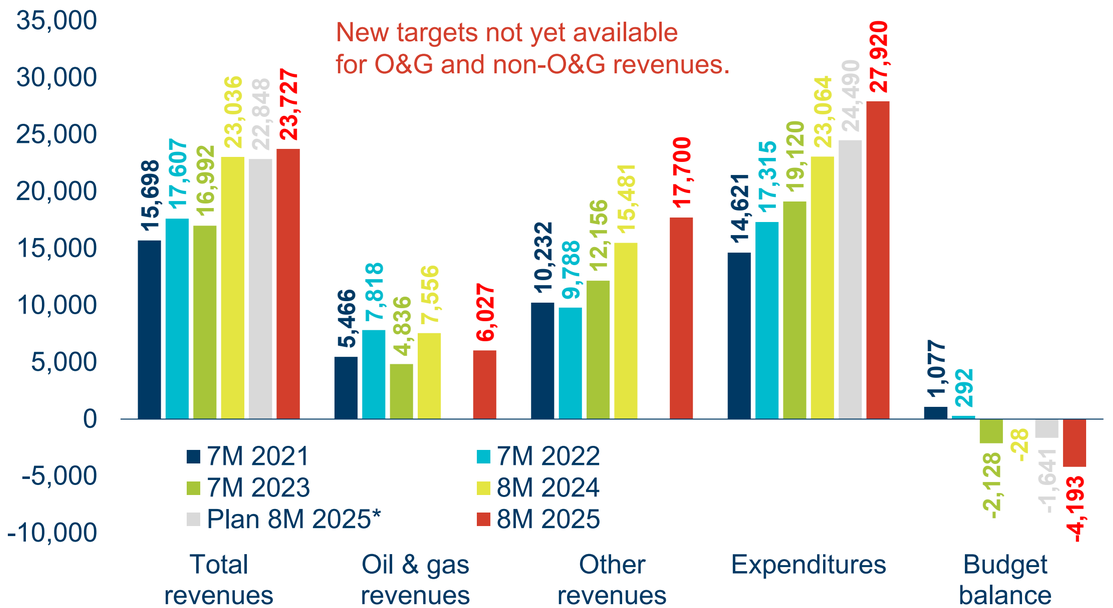
- Oil and gas revenues were 20% weaker year-over-year, non-O&G revenues 14% stronger, and expenditures 21% higher.
- In the absence of additional tax payments, O&G revenues weakened again in Aug. and remain noticeably suppressed.
- Based on preliminary budget data, it appears that the Aug. surplus was largely driven by a sharp drop in expenditures.

Federal oil and gas revenues, in ruble billion



Source: Ministry of Finance, KSE Institute

Revenues and expenditures, in ruble billion

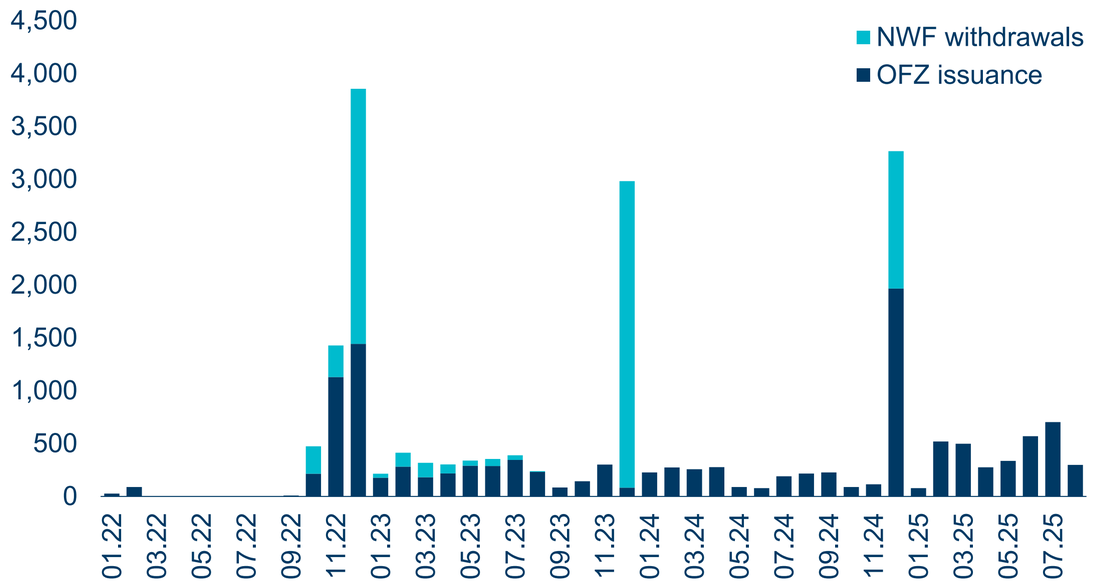


Source: Ministry of Finance, KSE Institute *based on avg. 2019-24 within-year distribution.

Domestic debt issuance increased to finance larger deficit.

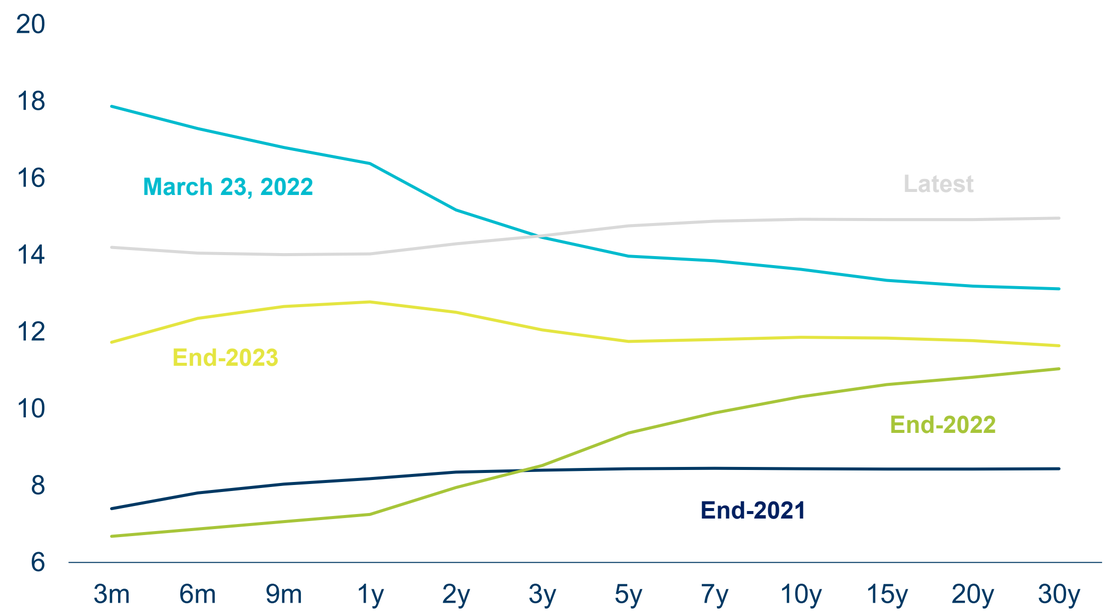
- Due to the larger deficit, OFZ issuance in Jan.-Aug. was 104% higher than in Jan.-Aug. 2024.
- Total issuance in 2025 reached 3.3 trillion rubles—68% of the planned issuance for the year.
- The flat yield curve indicates expectations of further rate cuts and medium-term economic concerns.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

OFZ yield curves, in %

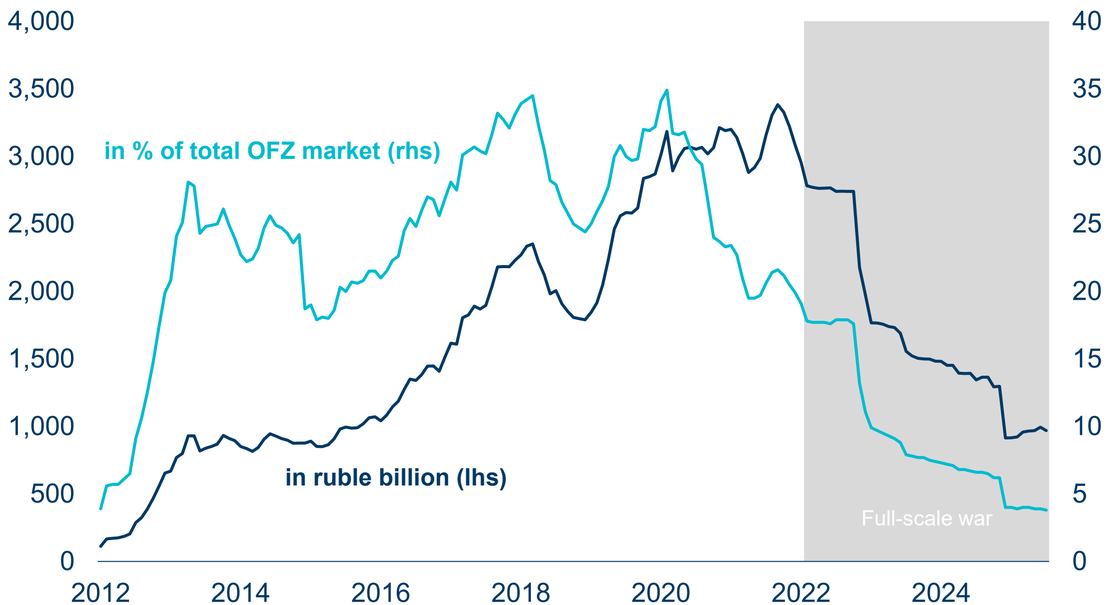


Source: Bank of Russia, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

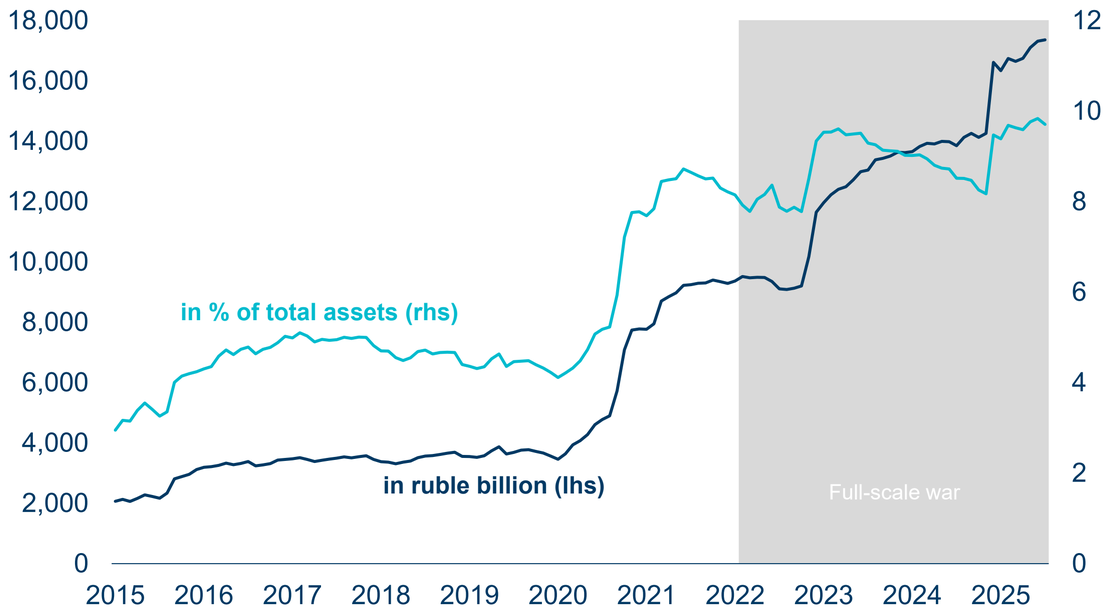
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2.0 trillion rubles (or 67%) since Jan. 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

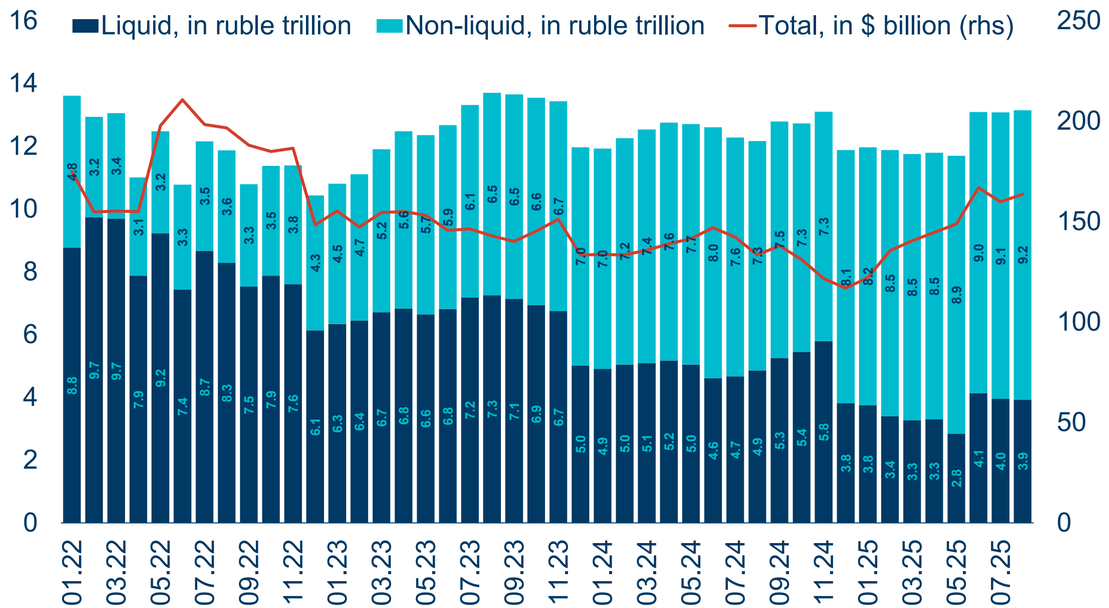


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

Liquid NWF assets could be used up in 6-12 months.

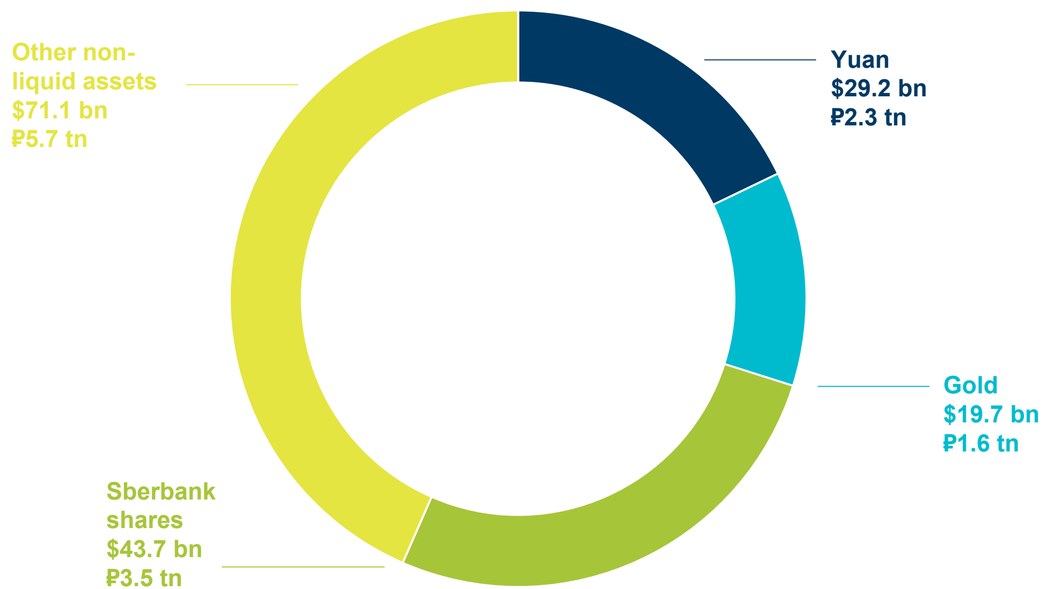
- Total assets of the National Welfare Fund stood at 13.1 trillion rubles ($164 billion, 5.9% of GDP) in August 2025.
- Liquid assets have declined by 60% since early-2022 and only account for 30% of the total (vs. 75% in Feb. 2022).
- Based on current budget dynamics, this critical macro buffer could be used up fully within the next 6-12 months.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of September 1, 2025*



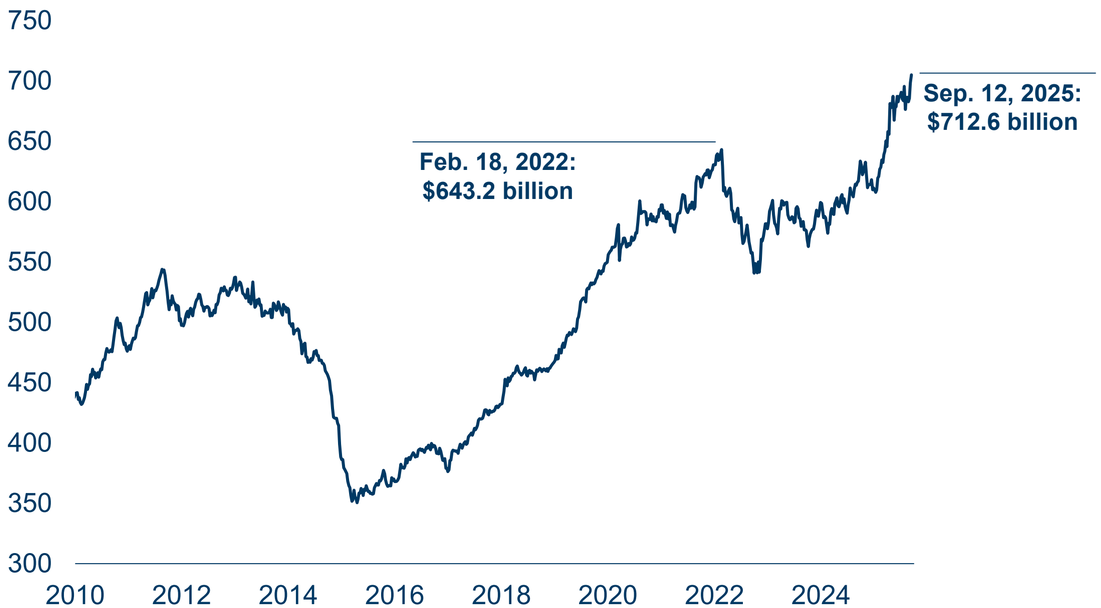
Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

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Large share of reserves remains immobilized.

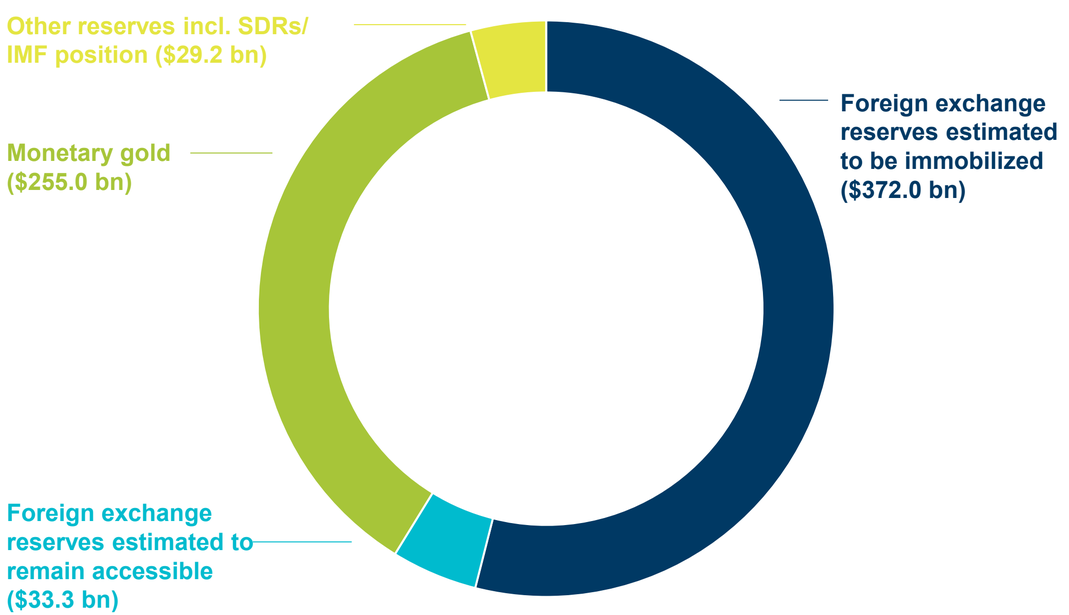
- Russia's total international reserves stand at $713 billion vs. $643 billion before the start of the full-scale war.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves had a value of ~$372 billion at end-Aug.
- This left Russia with $33 billion of foreign exchange, $255 billion of gold, and $29 billion of other assets.

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

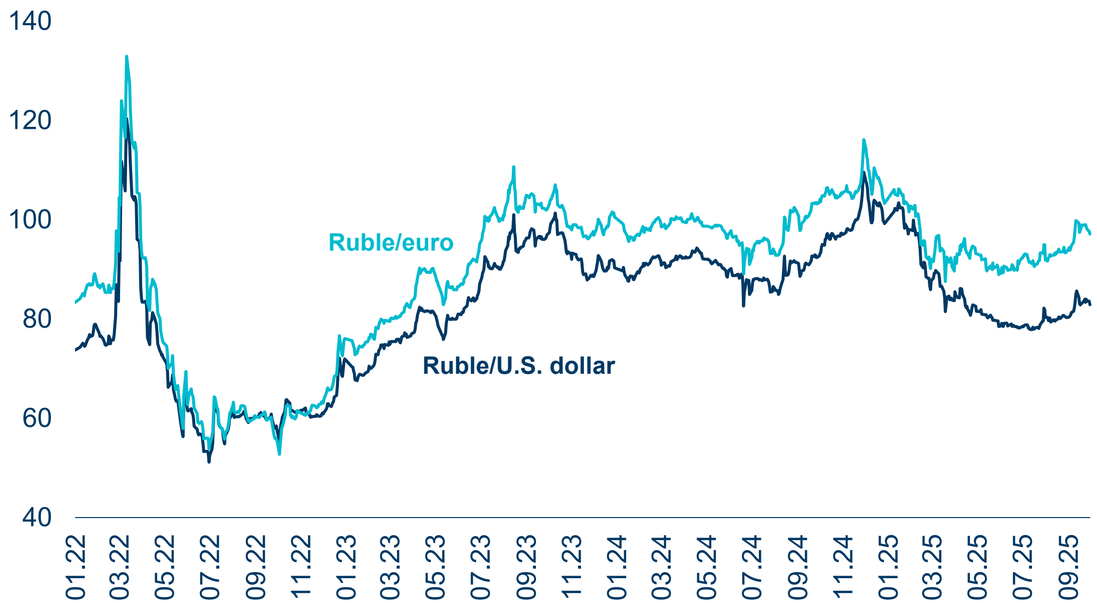


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

Ruble is falling again; inflation continues to decline.

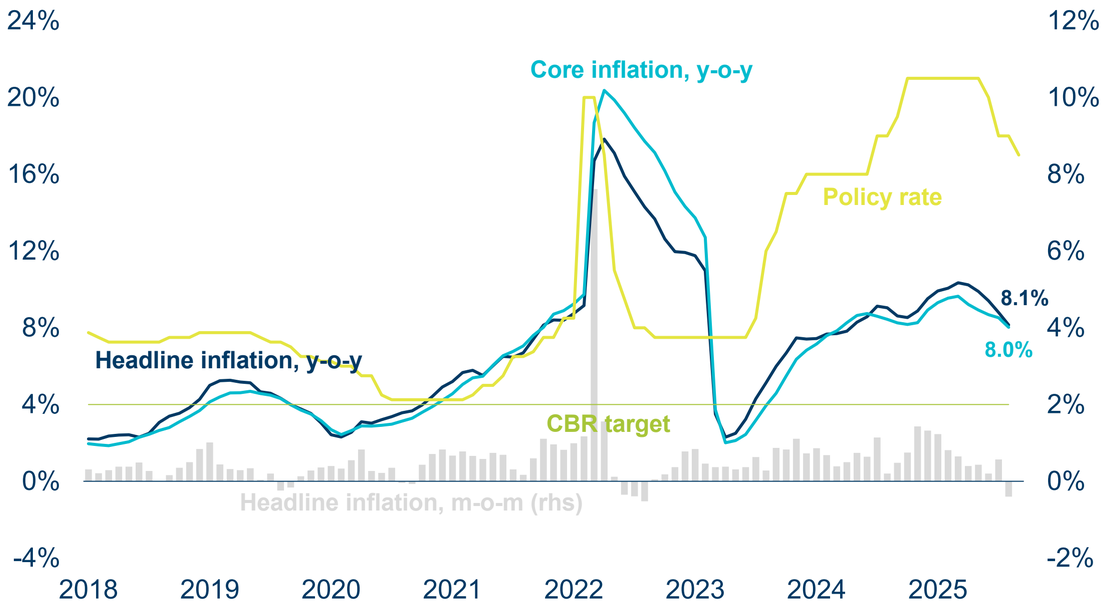
- Following gradual appreciation since the start of the year, the ruble has lost significant value in recent weeks.
- Inflation continues to moderate, falling from 8.8% year-over-year in June to 8.1% July (8.0% for core inflation).
- The CBR's tight monetary policy is finally showing results, albeit at the high cost of slowing down the economy.

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



Source: Bank of Russia, KSE Institute

Inflation and CBR policy rate, in %



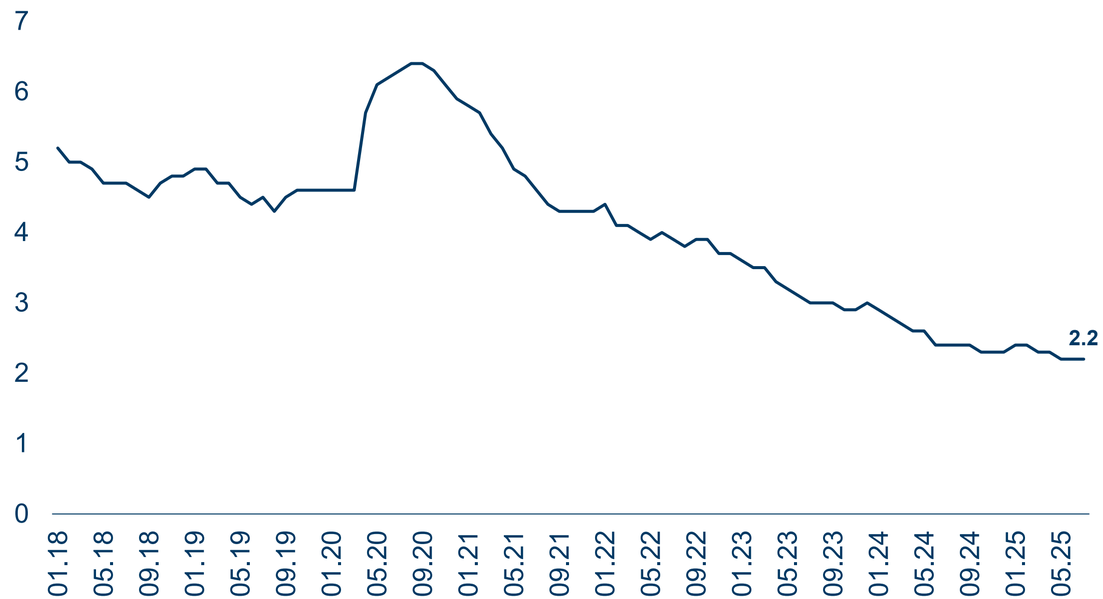
Source: Bank of Russia, KSE Institute

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Russia’s economy has little room to grow.

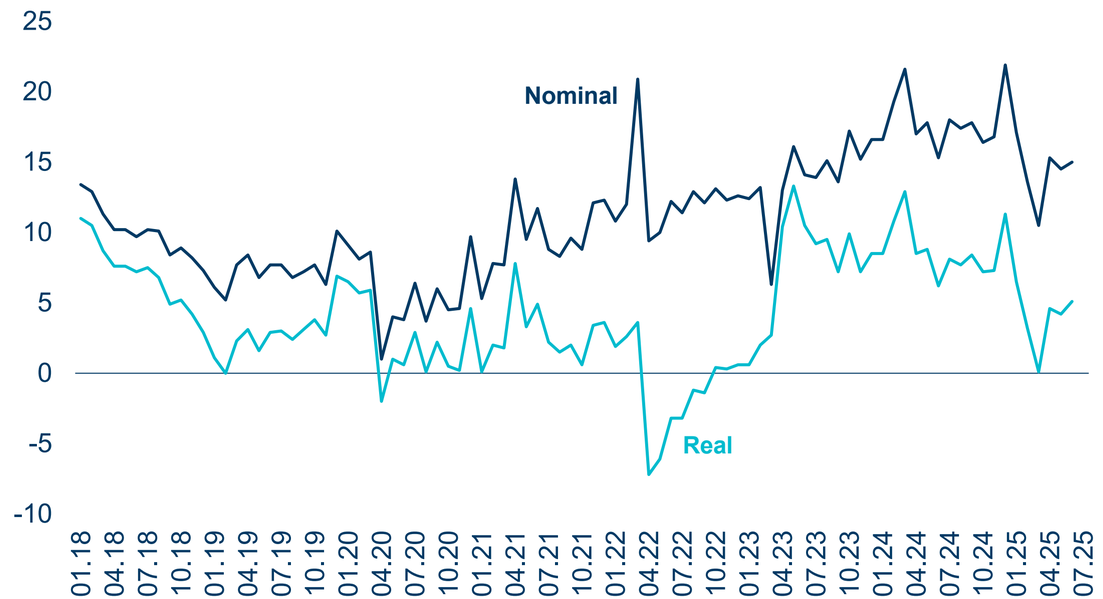
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from now.
- Wage growth slowed in early 2025 amid tight monetary policy but bounced back somewhat in April-June.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year

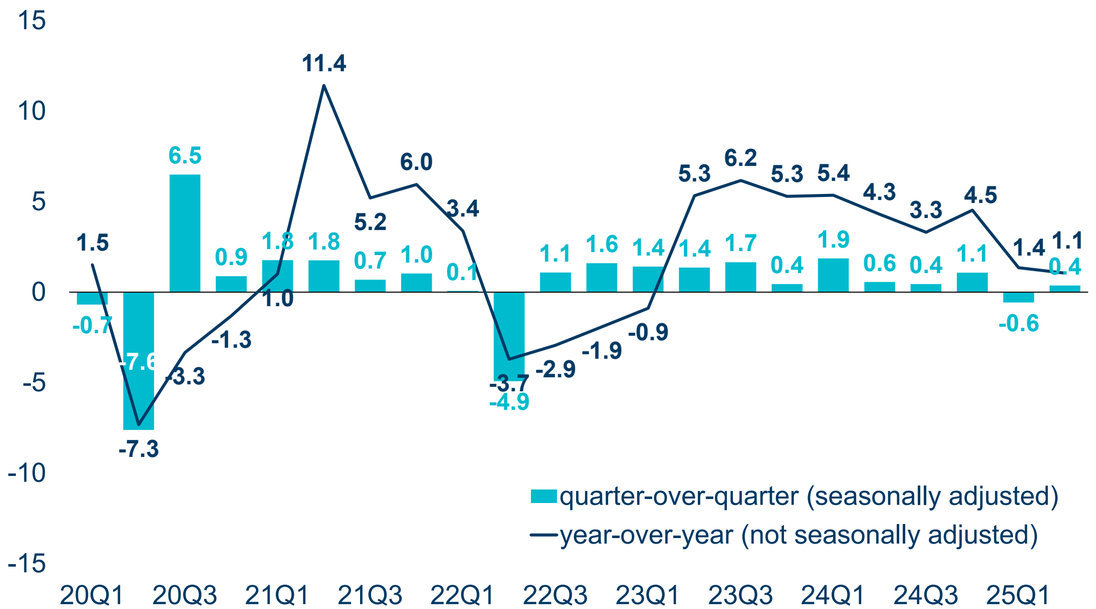


Source: Rosstat

Economy did not fully rebound from Q1 contraction in Q2.

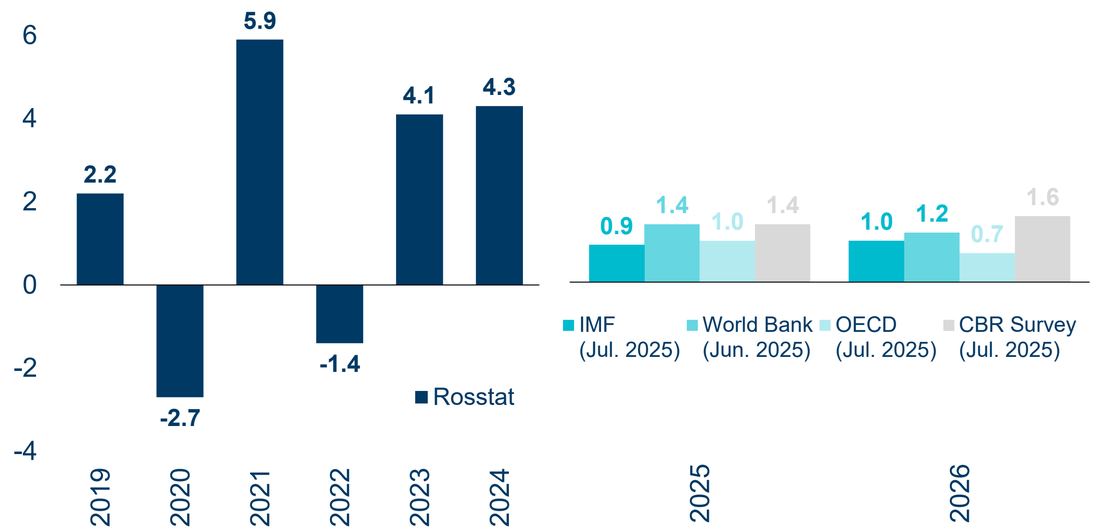
- Growth slowed further in Q2 according to Rosstat's first estimate—from 1.4% to 1.1% year-over-year.
- It appears that the economy grew somewhat in Q2 (0.4% q-o-q) following the 0.6% contraction in Q1.
- The official forecast of the Ministry of Economy was revised down to 1.0% in 2025 and 1.3% in 2026.

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute
*Rosstat first estimate

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



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

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