KSE | Institute

# KSE Institute Russia Chartbook

## Macroeconomic Fundamentals Unchanged; Budget Deficit Points to Growing Challenges

March 2025




**Benjamin Hilgenstock**
Head of Macroeconomic Research and Strategy
bhilgenstock@kse.org.ua



**Yuliia Pavytska**
Manager of the Sanctions Programme
ypavytska@kse.org.ua



**Matvii Talalaievskyi**
Junior Analyst
mtalalaievskyi@kse.org.ua

KSE | Institute

# Executive Summary

1. **External environment remains relatively supportive.** The CBR revised its data for Russia's current account in Q4 2024, resulting in a full-year surplus of $63.9 billion instead of the previously reported $53.8 billion. Key driver of the revision are higher goods exports ($16.6 billion), with the CBR stating that additional information from the Russian customs service led to the change. The current account surplus grew noticeably in Feb. (vs. Jan. and Dec.) on the back of weaker imports as well as smaller services and income deficits. With shadow fleet designations weighing on oil prices, earnings from oil declined to the lowest number in two years.
2. **Budget deficit is significantly higher than planned.** The federal budget registered a 2.7 trillion-ruble deficit in Jan.-Feb.—139% larger than in Jan.-Feb. 2024 and 2.3 times the deficit planned for the full year. While seasonal fluctuations are not unusual and Russia has been able to adjust before, this dynamic indicates that funding the war may have become more challenging. The deficit was caused by a significant year-over-year increase in expenditures (+31%), while oil and gas revenues declined by 4% and other revenues only grew by 11%. It was financed entirely by debt issuance, while the NWF remains untouched in 2025.
3. **Macro buffer are under pressure from war and sanctions.** The total value of liquid assets in the NWF stood at 3.4 trillion rubles in Feb.—a decline of 65% from before the full-scale invasion. Over the last three years, 7.7 trillion rubles have been used for budget financing and the remaining funds—entirely yuan-denominated assets and gold—will only cover deficits for one additional year. At the same time, more than $340 billion in Russia's foreign reserves remain immobilized due to the sanctions, which seriously limits policy space. Macro buffers under pressure make it much harder for authorities to manage conflicts between MinFin and CBR policies.
4. **Inflation continues to rise despite tight monetary policy.** Despite much tighter monetary policy—the CBR has increased its key rate by a cumulative 1,350 bps since mid-2023—inflation is still rising. In Feb., headline inflation came in at 10.1% year-over-year, the highest reading in two years. A persistently tight labor market, war-related fiscal stimulus, and a dramatic expansion of credit to the private sector make it difficult for the CBR to get price pressures under control. In addition, a double-digit real interest rate indicates that inflation is underreported—and that many actors in the economy are not paying interest rates close to the CBR's key rate.
5. **Economic growth will slow this year and beyond.** With the Russian economy hitting serious capacity constraints in terms of labor and capital, real GDP growth is expected to slow down considerably in 2025 and beyond—to 1-2%.

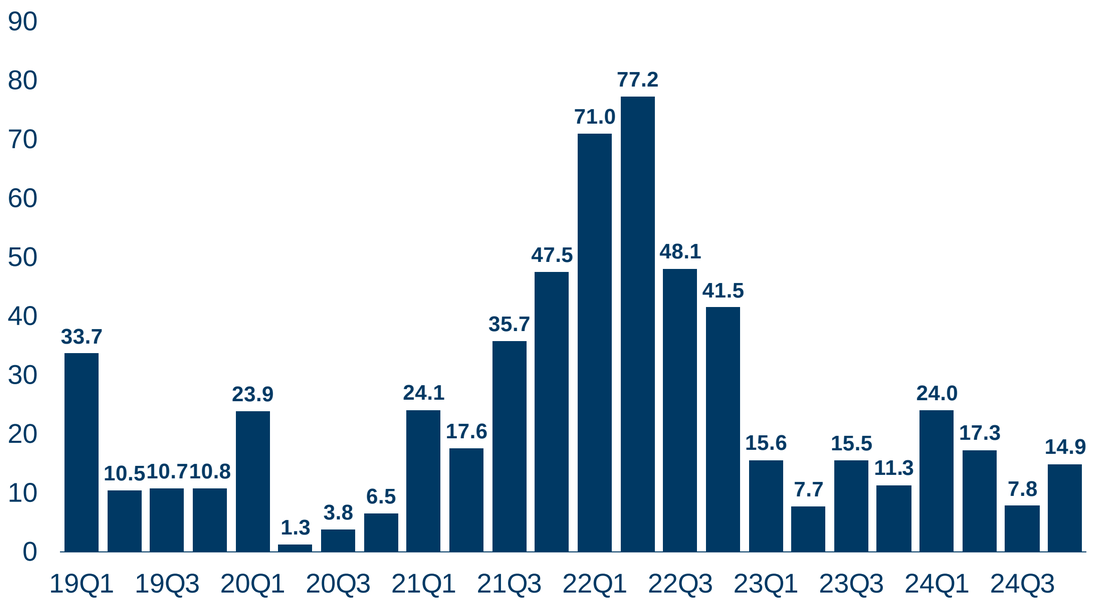
KSE | Institute

EXTERNAL

# Numbers for 2024 current account revised upward.

- The CBR revised its Q4 current account estimates, increasing the 2024 surplus to $63.9 billion from $53.8 billion).
- Key driver were higher goods exports (+$16.6 billion), while goods imports were also revised up (by $5.1 billion).
- The estimate for Feb. ($7.9 billion surplus) shows a marked improvement from previous months ($2.8 billion avg.)

**Quarterly current account balance, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

**Composition of the current account, in U.S. dollar billion**

| | | C/A | Goods | | | Services | | | Income & transfers | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Time period | Bal. | Bal. | Exp. | Imp | Bal. | Cred. | Deb. | Bal. | Cred. | Deb. |
| | Q1 2024 | 24.0 | 34.7 | 101.7 | 66.9 | -7.2 | 10.2 | 17.4 | -3.5 | 9.3 | 12.8 |
| | Q2 2024 | 17.3 | 35.6 | 106.3 | 70.7 | -9.3 | 9.9 | 19.2 | -9.0 | 8.5 | 17.6 |
| | Q3 2024 | 7.8 | 31.9 | 109.5 | 77.7 | -12.6 | 10.7 | 23.3 | -11.5 | 8.9 | 20.4 |
| | Q4 2024 | 14.9 | 32.0 | 116.2 | 84.2 | -9.9 | 11.1 | 21.0 | -7.2 | 9.5 | 16.7 |
| | December 2024 | 2.7 | 10.1 | 39.4 | 29.3 | -4.1 | 4.2 | 8.4 | -3.2 | 3.6 | 6.8 |
| | January 2025 | 2.9 | 7.2 | 29.2 | 22.1 | -2.8 | 3.2 | 6.0 | -1.5 | 2.9 | 4.4 |
| | February 2025 | 7.9 | 11.4 | 31.3 | 19.9 | -1.7 | 3.3 | 5.0 | -1.7 | 2.4 | 4.1 |
| | 2021 | 125.0 | 193.1 | 494.2 | 301.0 | -20.3 | 55.6 | 75.9 | -47.8 | 96.3 | 144.1 |
| | 2022 | 237.7 | 315.6 | 592.1 | 276.5 | -22.1 | 48.8 | 70.9 | -55.8 | 51.0 | 106.8 |
| | 2023 | 50.1 | 121.6 | 424.5 | 302.9 | -35.3 | 41.2 | 76.4 | -36.2 | 44.8 | 81.0 |
| | 2024 | 63.9 | 134.2 | 433.8 | 299.6 | -39.0 | 42.0 | 81.0 | -31.3 | 36.2 | 67.5 |
| Memorandum | Q1 2023 | 15.6 | 30.5 | 105.1 | 74.6 | -7.6 | 9.9 | 17.5 | -7.3 | 11.4 | 18.7 |
| Memorandum | Q2 2023 | 7.7 | 26.3 | 103.4 | 77.1 | -8.9 | 10.4 | 19.3 | -9.6 | 12.7 | 22.3 |
| Memorandum | Q3 2023 | 15.5 | 33.4 | 109.1 | 75.7 | -10.3 | 9.7 | 20.0 | -7.6 | 10.0 | 17.6 |
| Memorandum | Q4 2023 | 11.3 | 31.4 | 106.9 | 75.5 | -8.4 | 11.3 | 19.7 | -11.7 | 10.7 | 22.4 |
| Memorandum | Dec. 2023 | 0.6 | 10.9 | 38.7 | 27.8 | -4.2 | 4.6 | 8.8 | -6.2 | 4.4 | 10.6 |
| Memorandum | Jan. 2024 | 2.9 | 7.2 | 28.6 | 21.4 | -3.1 | 3.2 | 6.3 | -1.2 | 3.0 | 4.2 |
| Memorandum | Feb. 2024 | 5.7 | 8.8 | 31.6 | 22.8 | -1.6 | 3.6 | 5.2 | -1.5 | 2.7 | 4.2 |

Source: Bank of Russia, KSE Institute

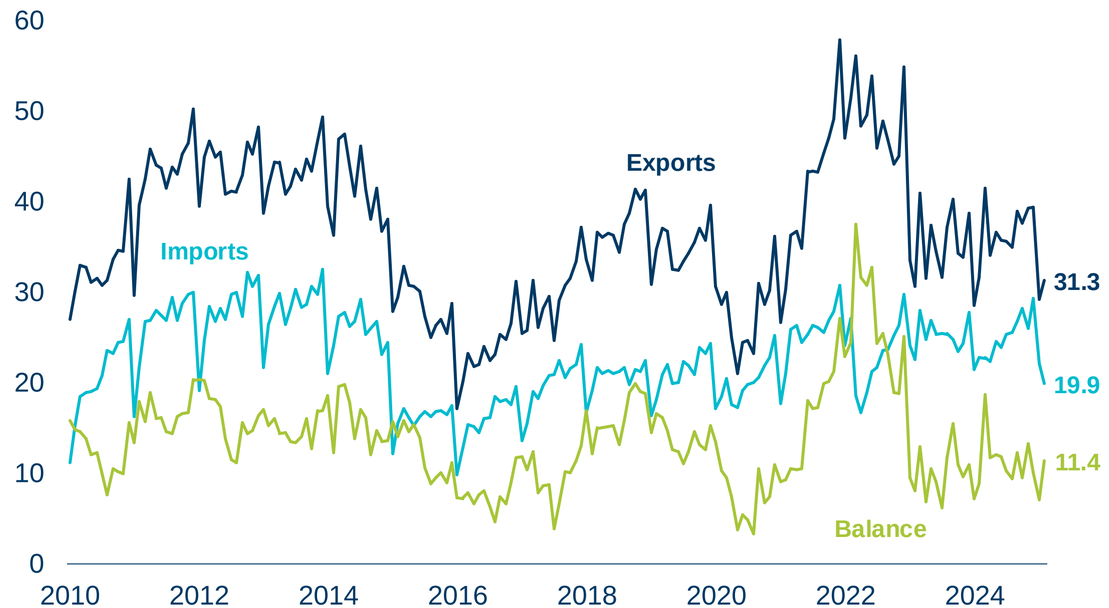
KSE | Institute

EXTERNAL

# Sharp drop in goods trade in 2025.

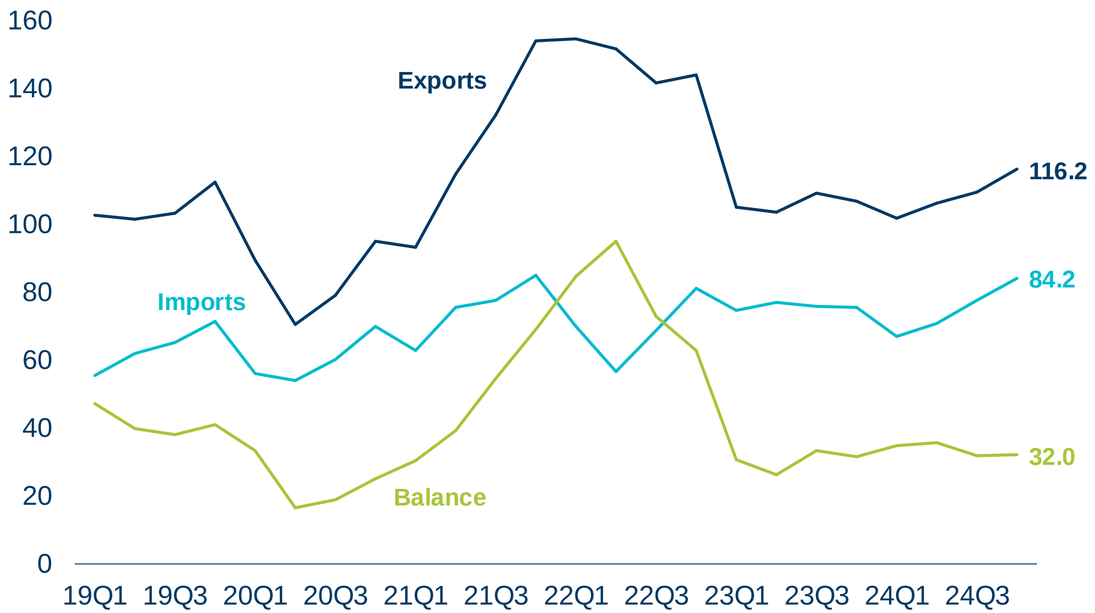
- Russia's goods exports and imports declined sharply in the first two months of the year.
- As this comes at a time of significant revision of Q2 2024 data, it deserves monitoring.
- Specifically, Q3-Q4 2024 had seen a gradual but noticeable increase for both indicators.

**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

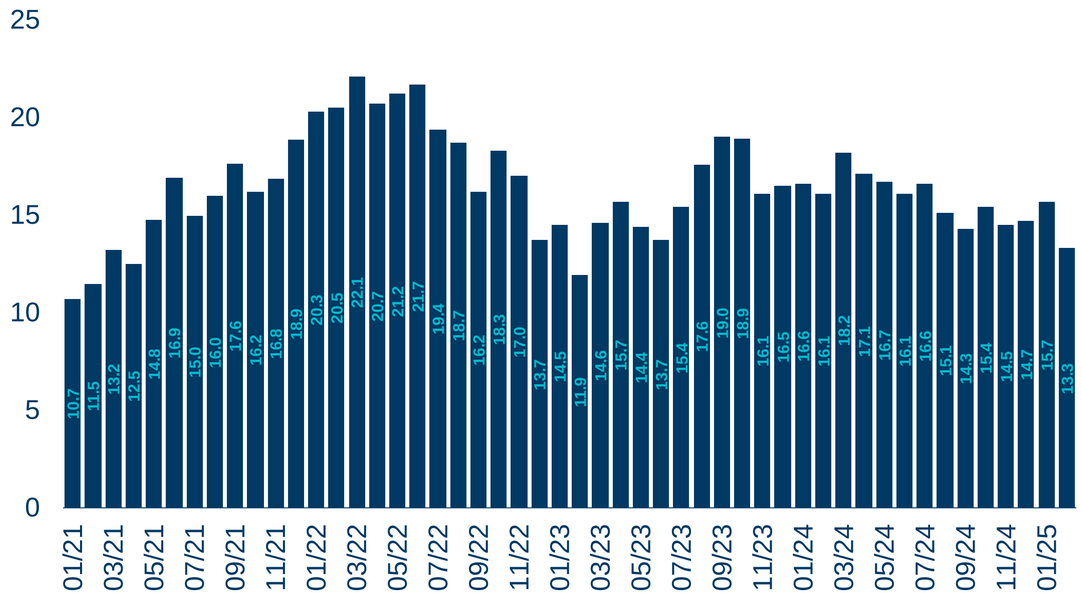
KSE | Institute

EXTERNAL

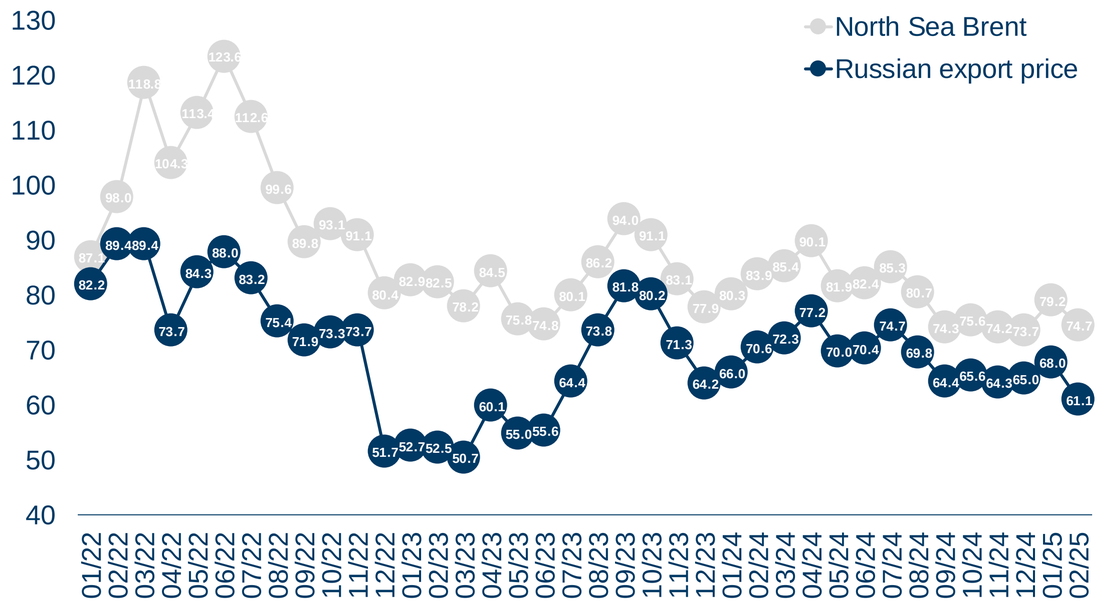
# Lower oil prices weigh on export earnings.

- Russian oil exports earnings declined to $13.3 billion in Feb. due to markedly lower export prices.
- Prices for crude oil fell due to lower global prices (-$4.4/barrel) and a wider discount (+$2.5/barrel).
- Should these dynamics persist, Russia's external accounts would come under serious pressure.

**Oil export earnings, in U.S. dollar billion**




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




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

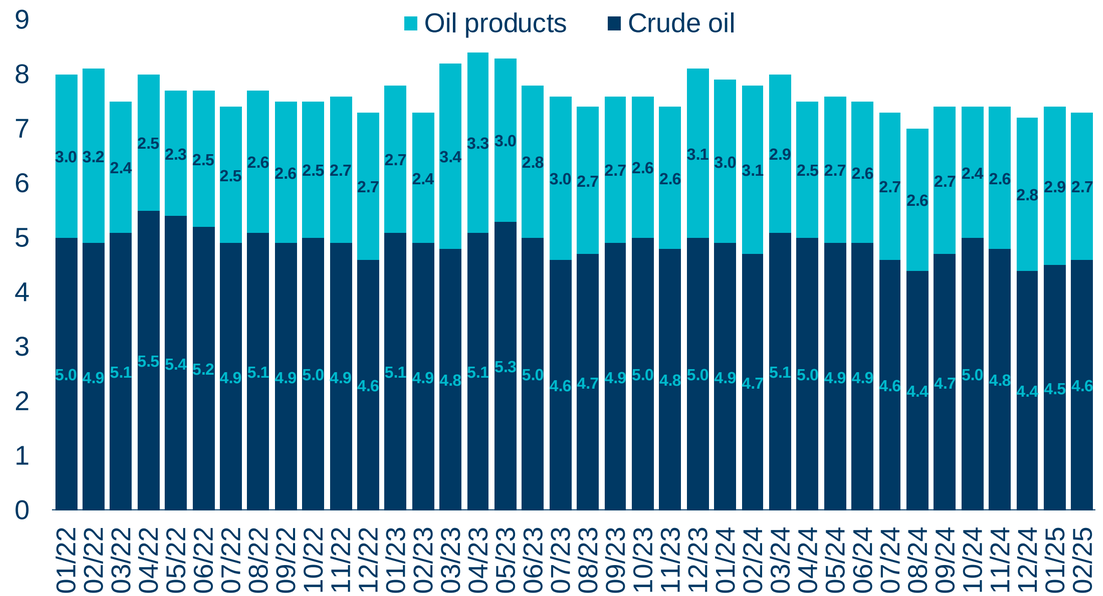
KSE | Institute

EXTERNAL

# Supply of Russian oil remains stable.

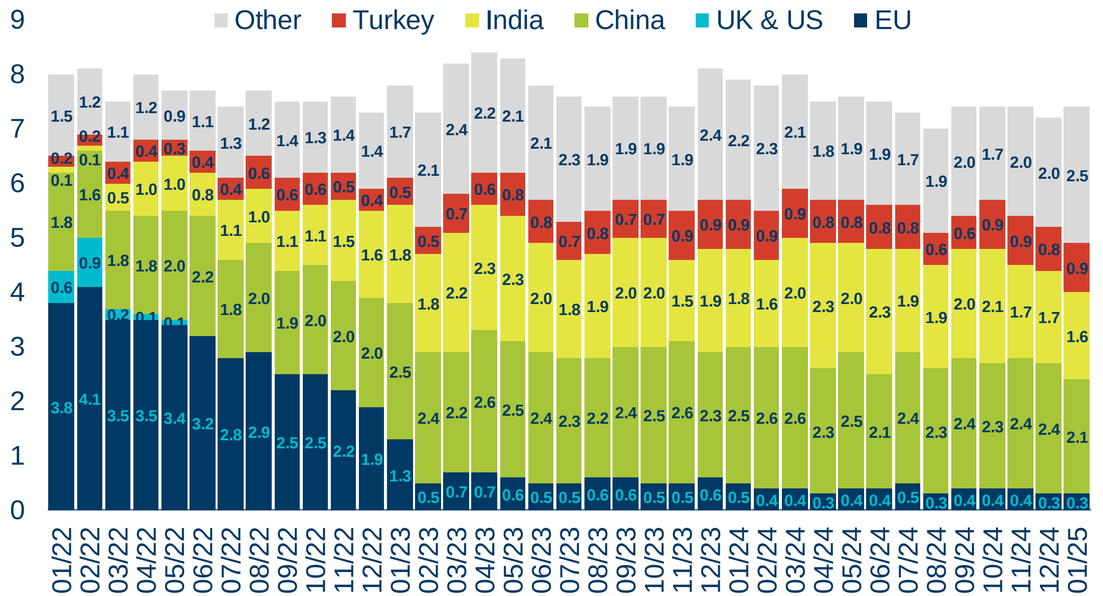
- Russian oil export volumes have been remarkably steady over the last 3 years.
- Overall, the G7+ oil price cap has succeeded at keeping Russian oil on the market.
- China, India, and Turkey are the most important buyers (~60-70% of oil exports).

**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

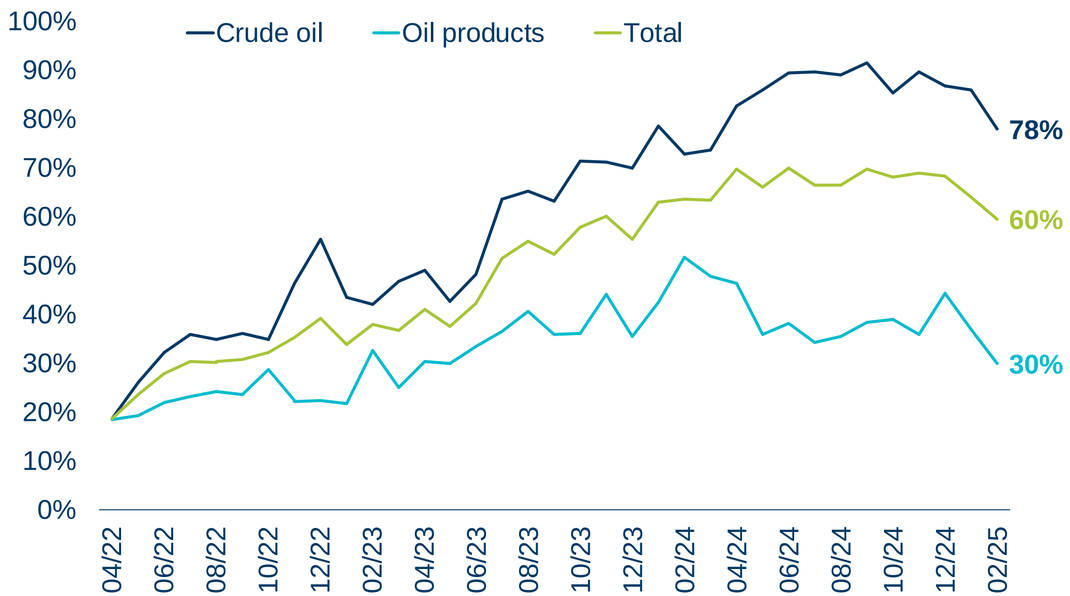
KSE | Institute

EXTERNAL

# Shadow fleet remains a serious problem.

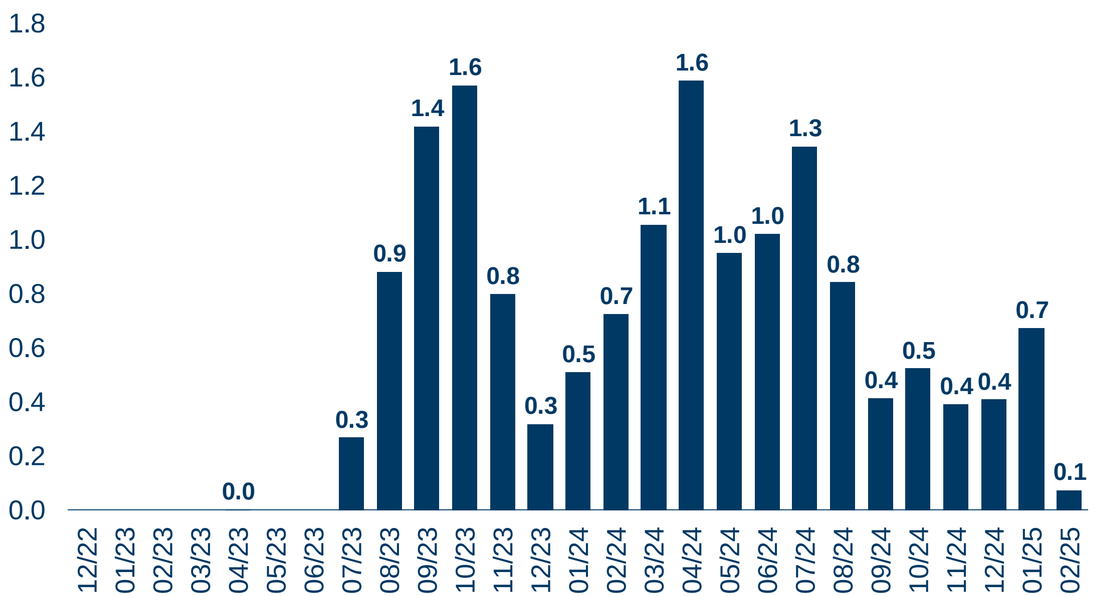
- In Feb. 2025, share of 78% of seaborne crude oil was transported without involvement of G7+ services.
- Both recent sanctions and Urals approaching $60/bbl have contributed to a decline in the shadow fleet's share.
- Russia has generated ~$16 billion in extra export earnings (from crude oil) since Dec. 2022.

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




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

**Additional export earnings from crude oil, in U.S. dollar billion**




Source: Equasis, International Energy Agency, Kpler, P&I Clubs, KSE Institute

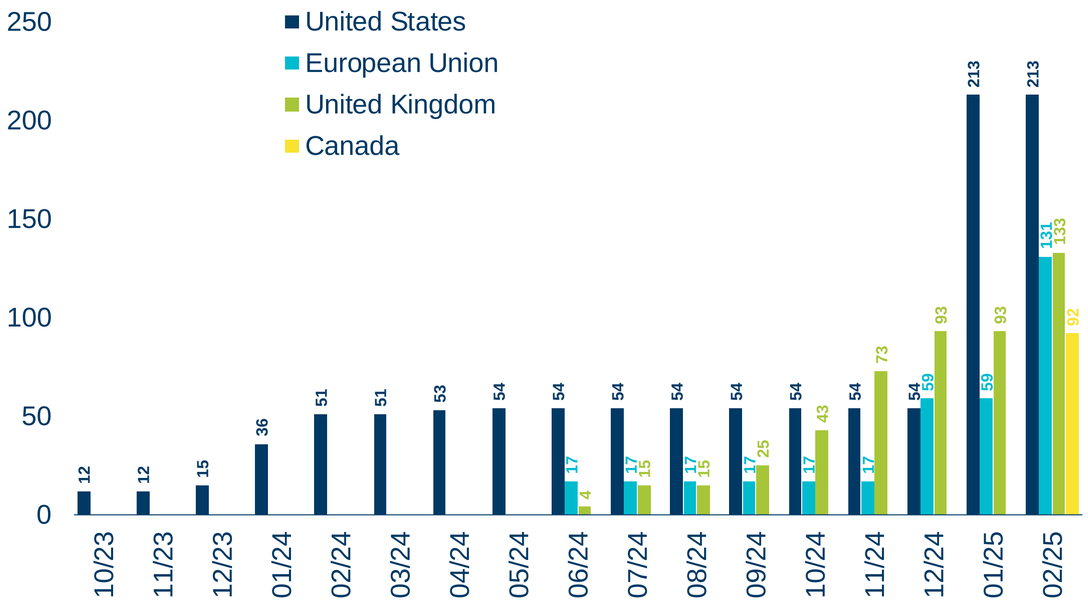
KSE | Institute

EXTERNAL

# Countries have stepped-up sanctions on shadow tankers.

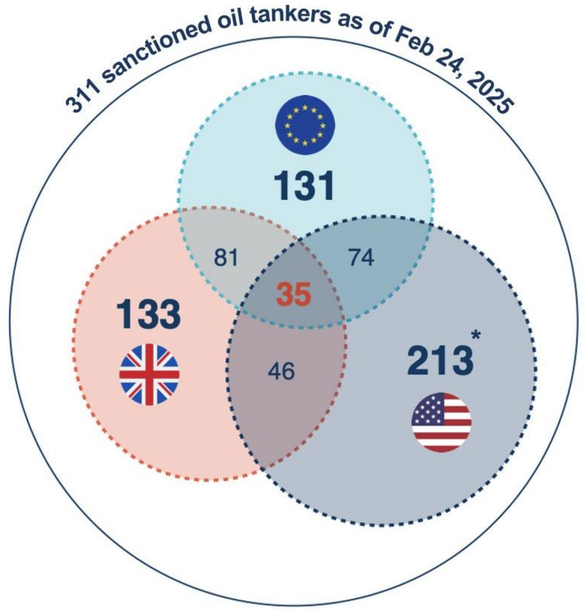
- After an almost 12-months hiatus, the US government adopted a major designations package in January.
- The EU also sanctioned a significant number of vessels in Dec. (15th package) and Feb. (16th package).
- With the UK's continuous designations efforts, 311 vessels are now sanctioned in at least one jurisdiction.

**Cumulative vessel designations by jurisdiction and month**




Source: European Commission, OFAC, OFSI, KSE Institute

**Current vessel designations by jurisdiction**




Source: European Commission, OFAC, OFSI, KSE Institute
* Includes 2 tankers that were sanctioned by the U.S. under the SDGT program rather than RUSSIA-EO14024, as they had already been sanctioned by one of two other governments.

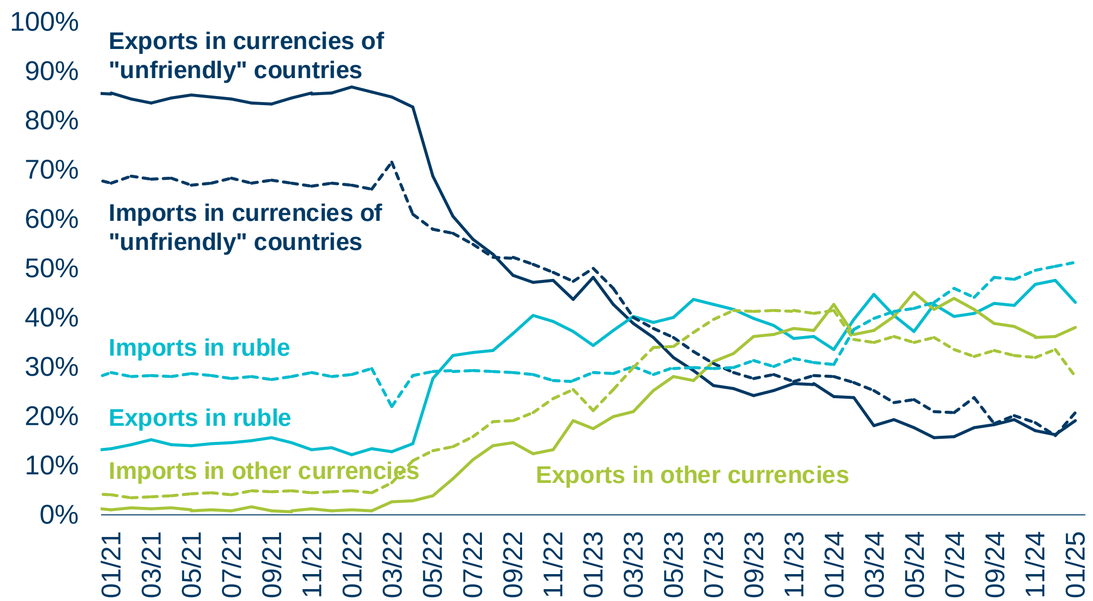
KSE | Institute

EXTERNAL

# Trade currency changes create hard currency shortage.

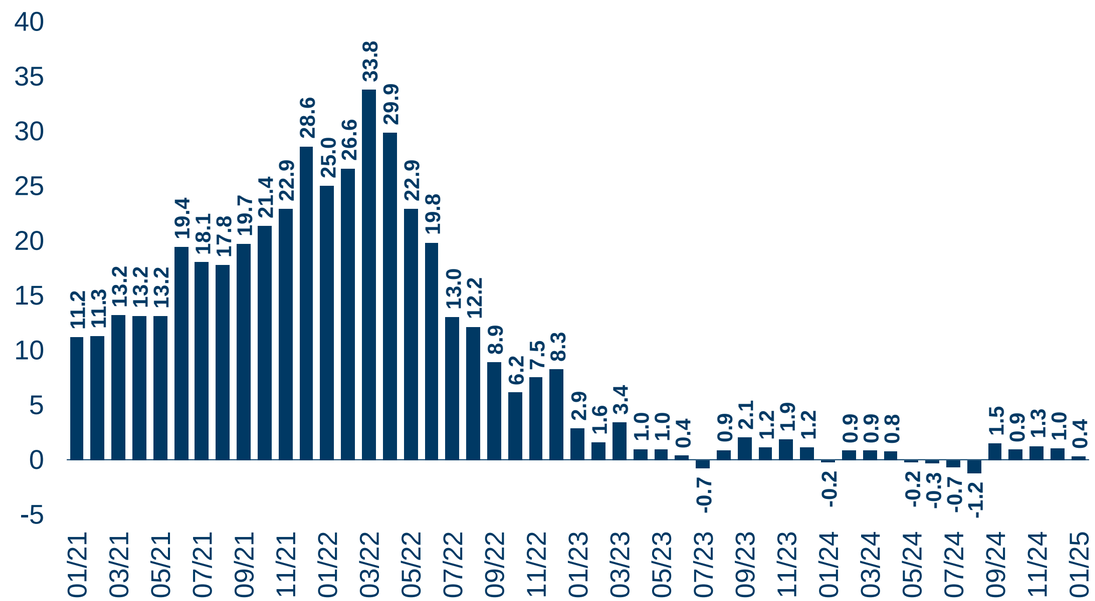
- The share of “unfriendly” countries’ currencies (e.g., USD, EUR, GBP, JPY, CHF) in Russian trade has fallen sharply.
- Other currencies have risen for both exports and imports, while the ruble has gained importance mostly for exports.
- This has created a shortage of hard currency as net inflows from goods and services trade have essentially disappeared.

**Currency composition of Russia’s foreign trade, in %**




Source: Bank of Russia

**Net inflows of hard currency from goods and services trade, in $ bn***




Source: Bank of Russia, KSE Institute *includes currencies of “unfriendly” countries; methodology changed from previous editions of the chartbook by applying currency shares reported by the CBR to goods *and* services trade instead of goods trade only.

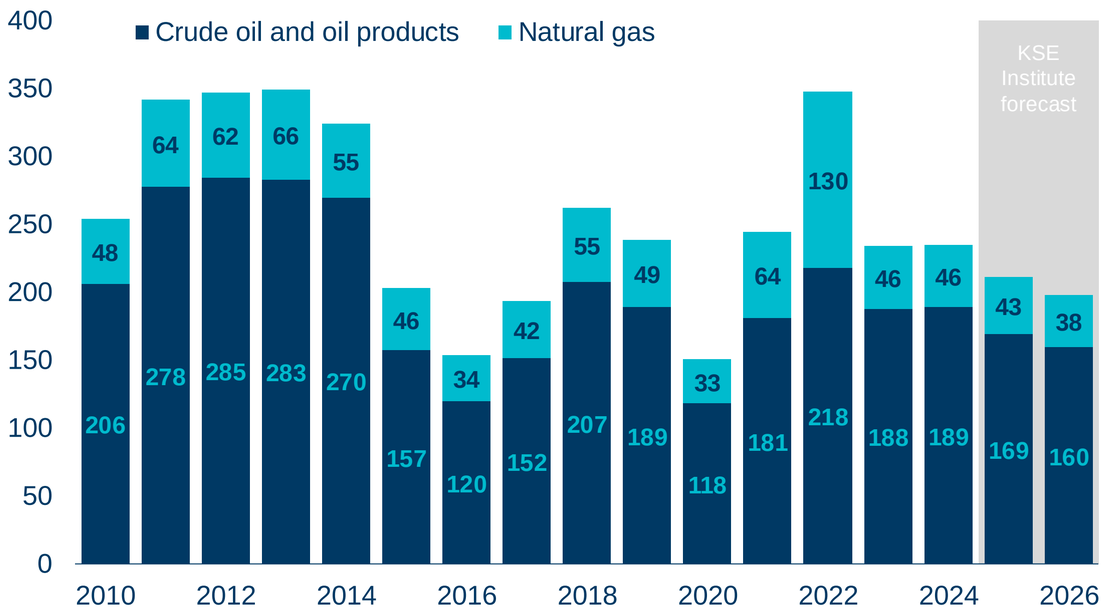
KSE | Institute

EXTERNAL

# Current account surplus to decline moderately.

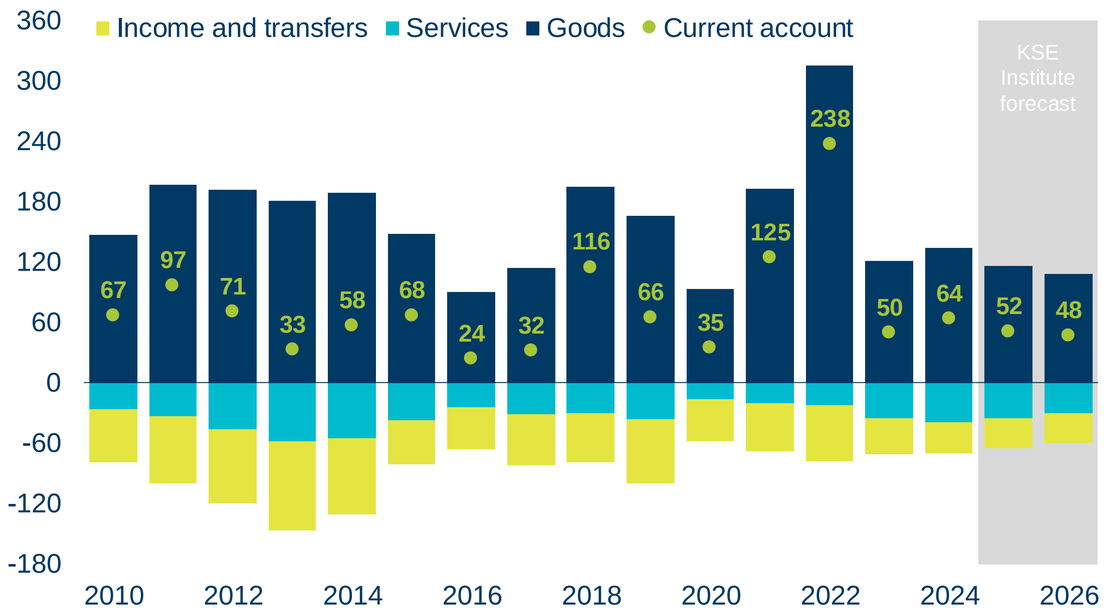
- We estimate oil and gas exports to have reached $235 billion in 2024, while the current account came in at +$64 billion.
- The current account surplus is projected to decrease to $52 billion in 2025 and $48 billion in 2026 as O&G exports weaken.
- In terms of its external accounts, this leaves Russia in a relatively comfortable position and will limit ruble depreciation.

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




Source: Bank of Russia, KSE Institute

**Current account and components, in U.S. dollar billion**

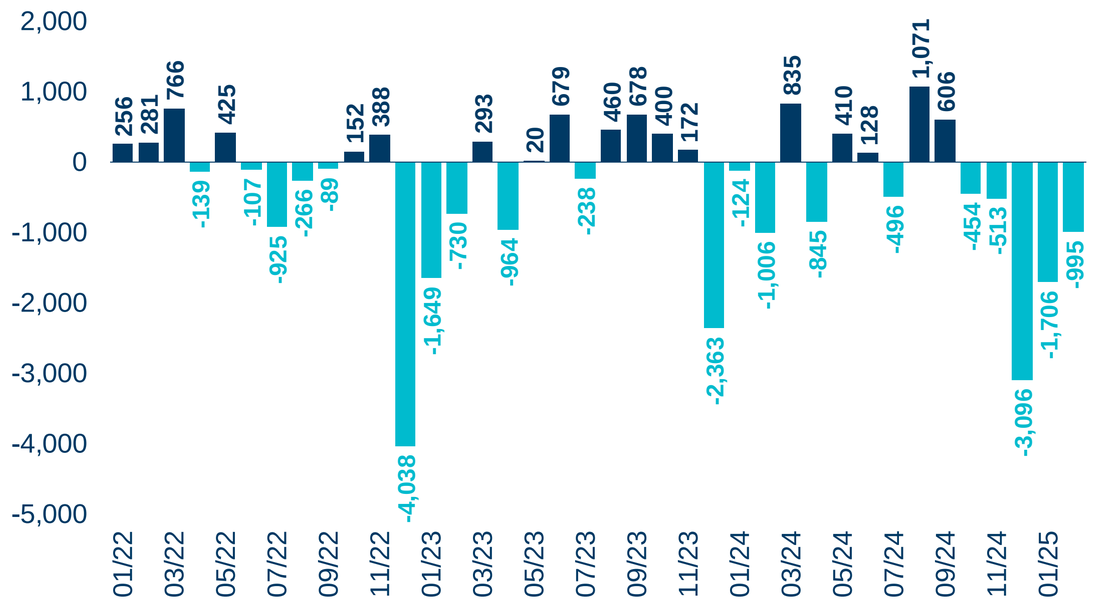



Source: Bank of Russia, KSE Institute

# The year started with a large federal budget deficit.

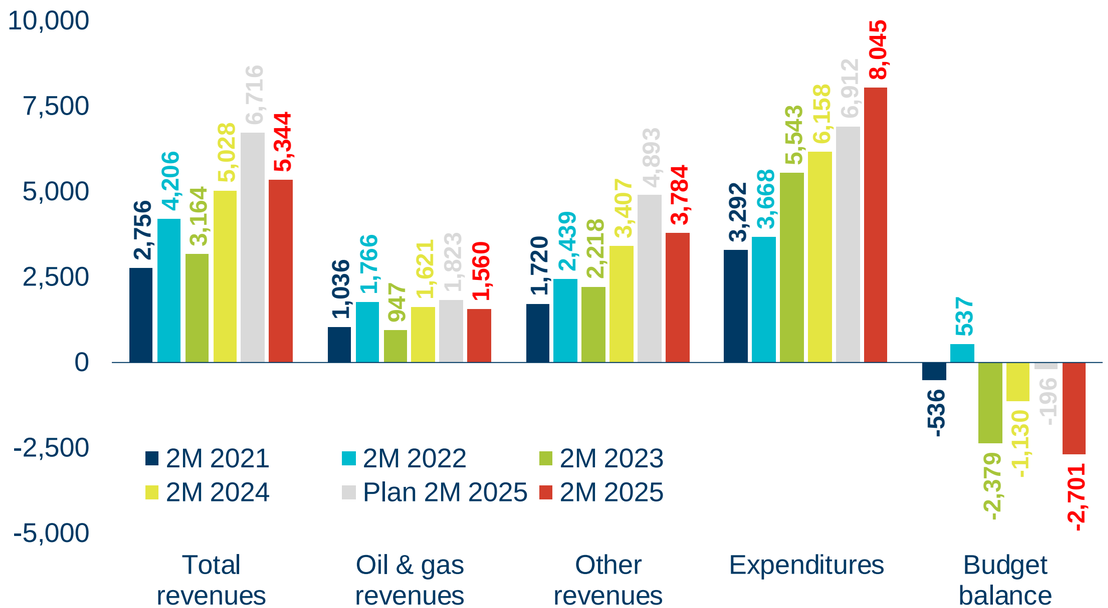
- The budget deficit was significantly larger than last year in Jan.-Feb. at 2.7 trillion rubles (vs. 1.1 trillion in Jan.-Feb. 2024).
- Oil and gas revenues were 4% weaker year-over-year, non-O&G revenues 11% stronger, and expenditures 31% higher.
- At 8.0 trillion rubles in Jan.-Feb., total budget expenditures reached a level that is usually only registered at year ends.

**Federal government balance, in ruble billion**




Source: Ministry of Finance, KSE Institute

**Revenues and expenditures, in ruble billion**

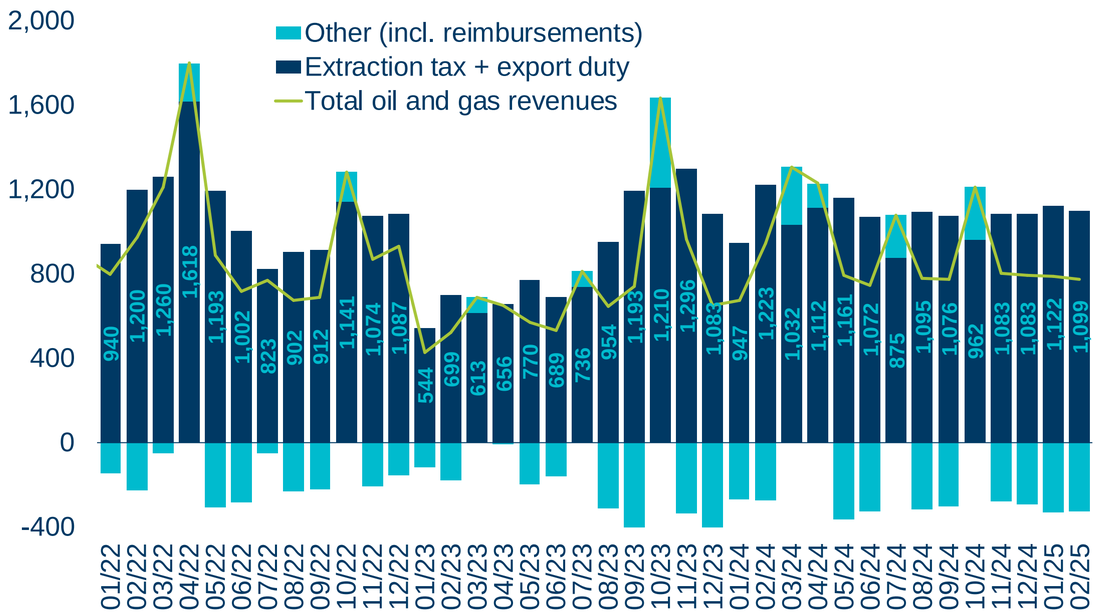



Source: Ministry of Finance, KSE Institute

# Stable oil and gas revenues; biggest deficit in recent years.

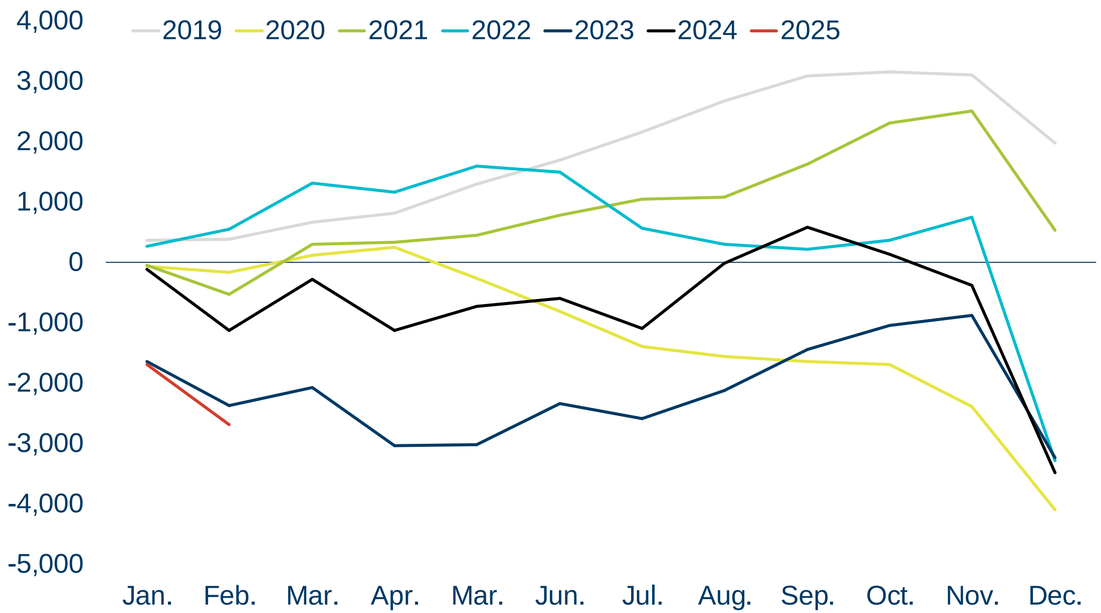
- Oil and gas revenues have remained stable in Feb. and are only marginally weaker than expected in the budget.
- The Jan.-Feb. deficit is the largest since the start of the full-scale invasion, even surpassing Jan.-Feb. 2023 by 14%.
- Still, it is difficult to draw conclusions from two months of data as expenditures could involve pre-financing of the war.

**Federal oil and gas revenues, in ruble billion**




Source: Ministry of Finance, KSE Institute

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

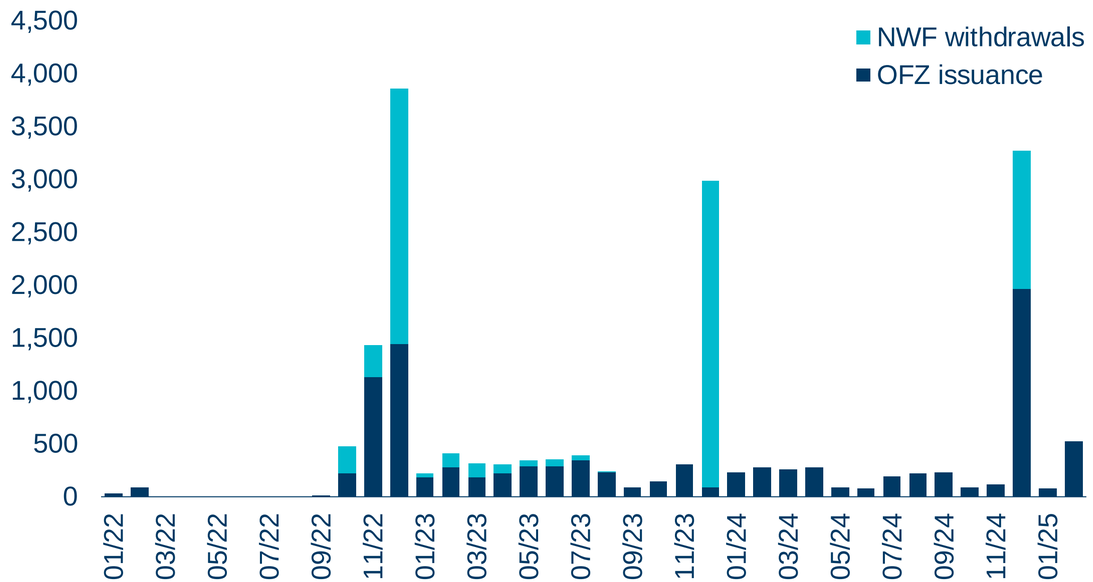



Source: Ministry of Finance, KSE Institute

# Limited budget financing through domestic debt.

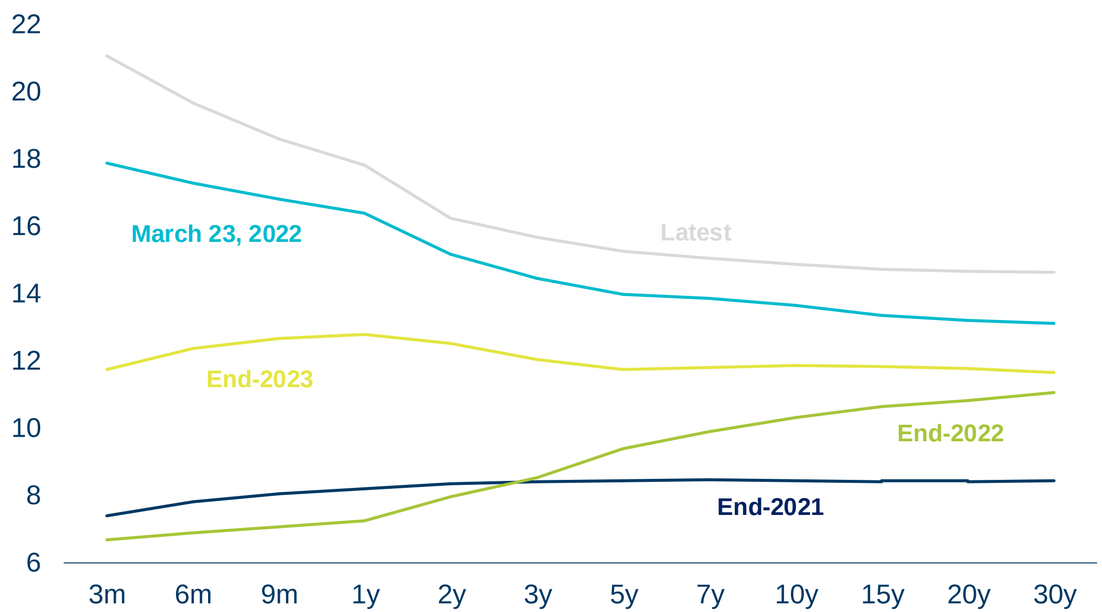
- Despite the large Jan.-Feb. deficit, OFZ issuance was moderate (at 520 billion rubles).
- No NWF funds have been used for the budget yet this year, in line with last year's pattern.
- Yields have come down for longer maturities; inverted yield curve points to concerns.

**Key fiscal financing channels, in ruble billion**




Source: Ministry of Finance, KSE Institute

**OFZ yield curves, in %**

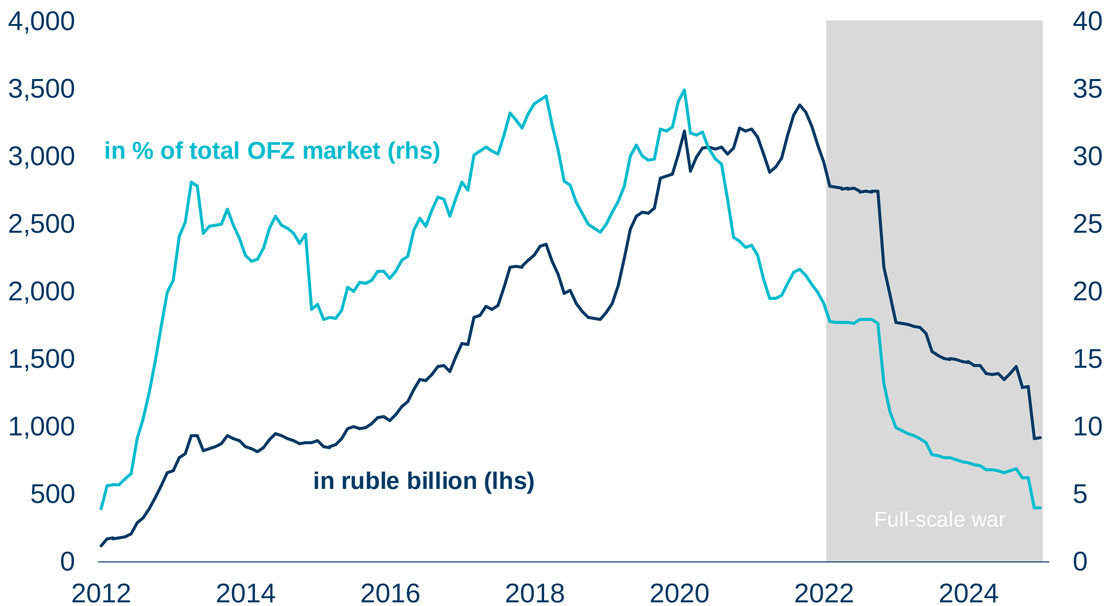



Source: Bank of Russia, KSE Institute

# Domestic banks are the only remaining buyers of OFZs.

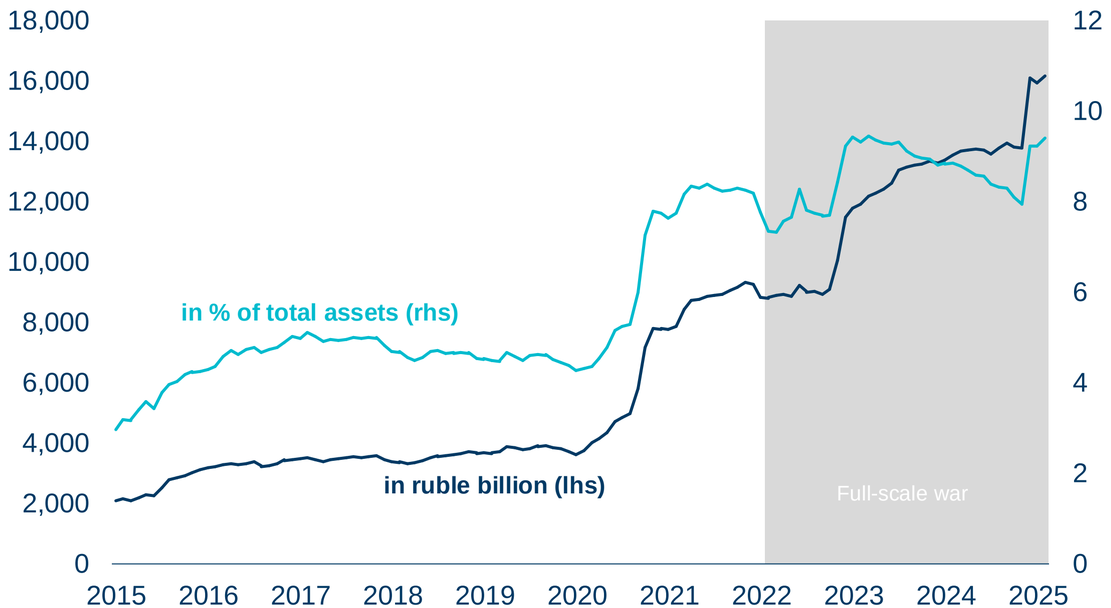
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2.0 trillion rubles (or 69%) since Jan. 2022 as bonds matured.
- Credit institutions' holdings of OFZs, on the other hand, have risen significantly over the same period.

**Non-resident OFZ holdings**




Source: Bank of Russia, KSE Institute

**Depository corporations' OFZ holdings***

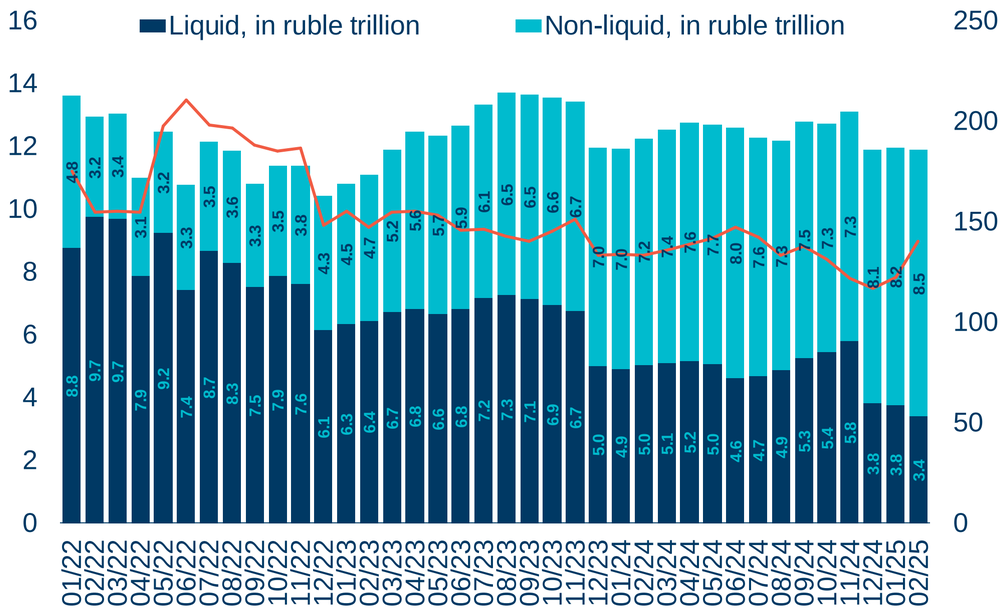



Source: Bank of Russia, KSE Institute *excluding Bank of Russia

# Liquid NWF assets have dropped sharply.

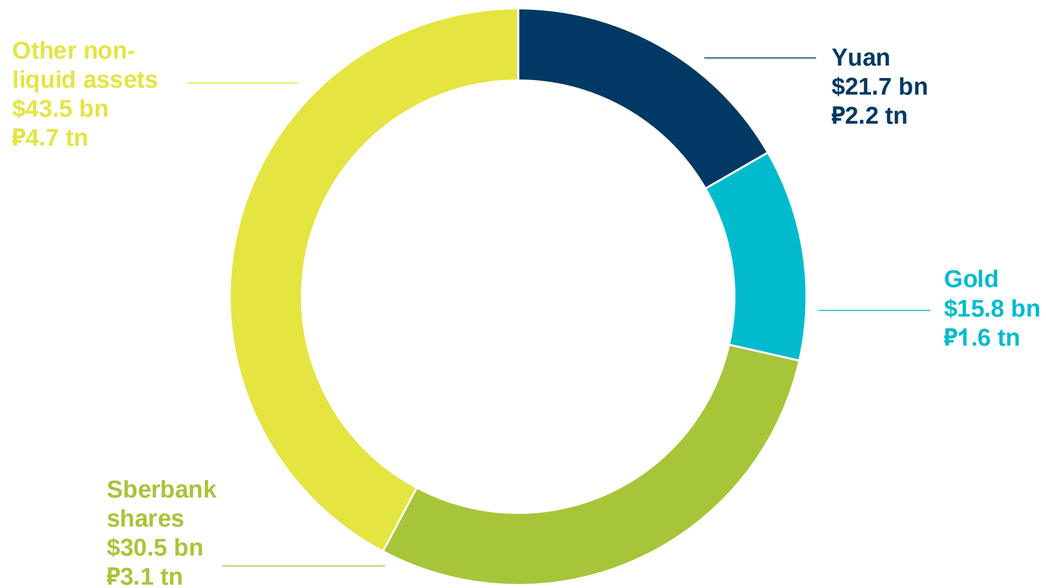
- Total assets of the National Welfare Fund stood at 11.9 trillion rubles ($140 billion, 5.6% of GDP) in Feb. 2025.
- The liquid portion has declined by 65% since early-2022 as 7.7 trillion rubles were used to finance the budget.
- Stronger ruble means ⇗ USD value of assets held in rubles and ⇘ ruble value of assets held in foreign currency.

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




Source: Ministry of Finance, KSE Institute

**Composition of NWF assets as of March 1, 2025***

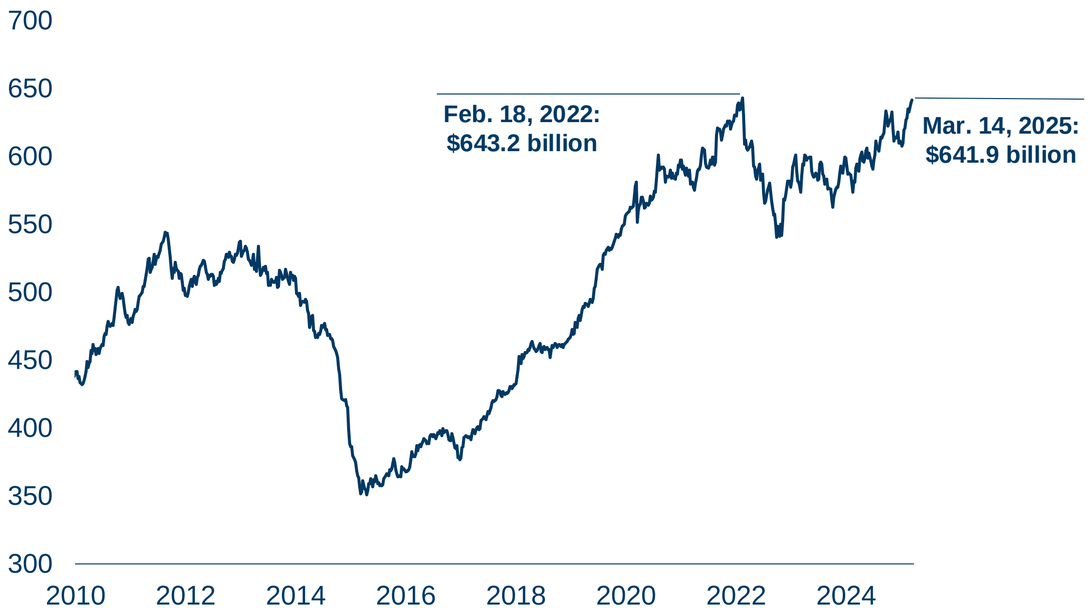



Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

# Large share of reserves remains immobilized.

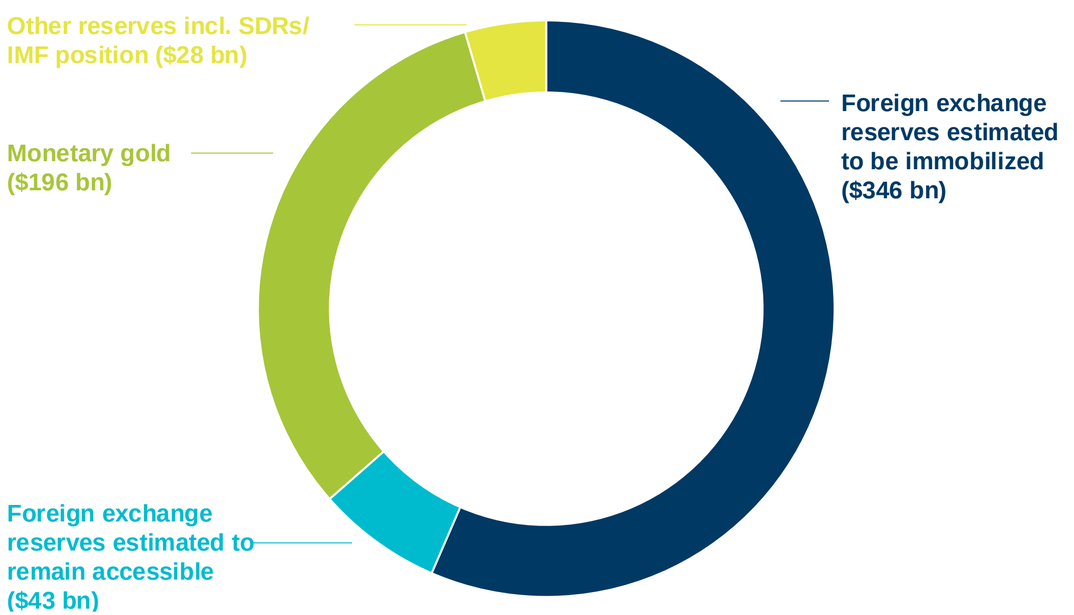
- Before the start of the full-scale invasion, Russia held $643 billion in international reserves—an all-time high.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves have a current value of ~$346 billion.
- This leaves Russia with $43 billion of foreign exchange, $196 billion of gold, and $28 billion of other assets.

**Total reserves, in U.S. dollar billion**




Source: Bank of Russia, KSE Institute

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

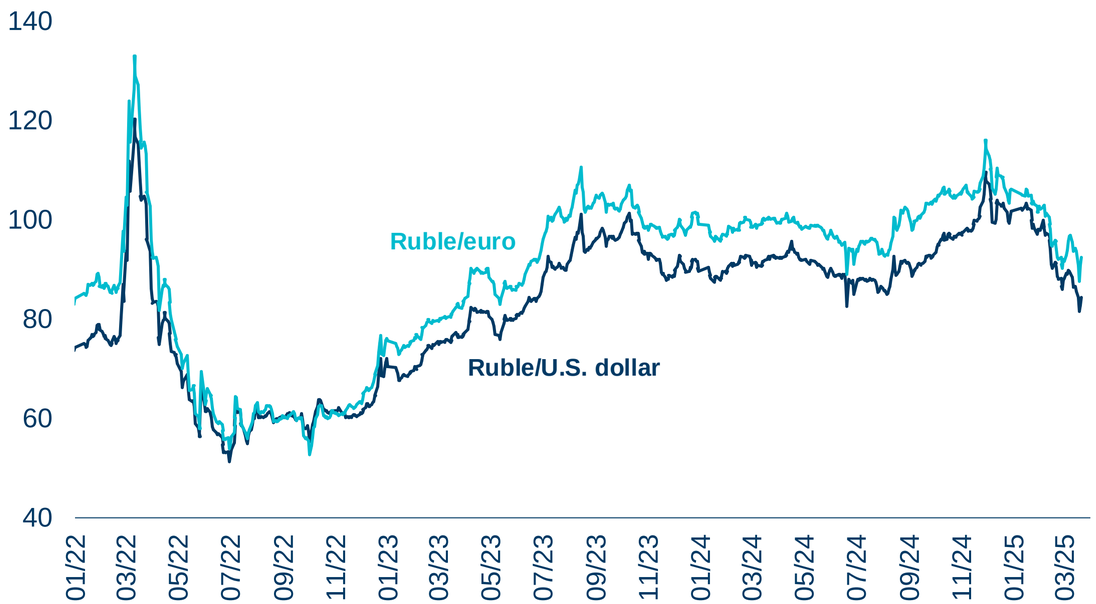



Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

# Ruble strengthens but value loss still substantial.

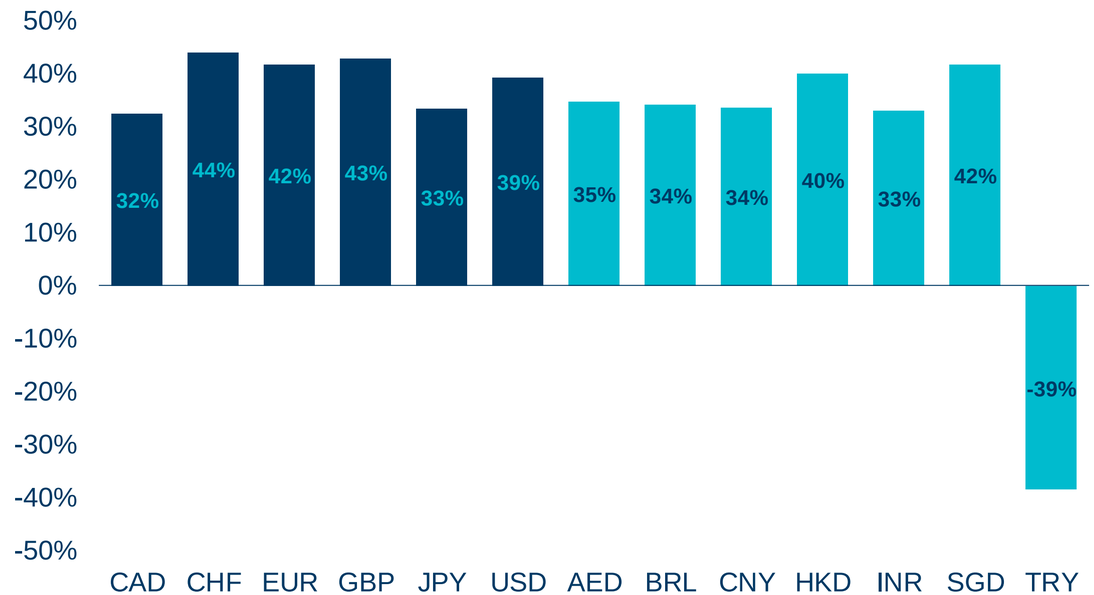
- The ruble has strengthened on the back of improved market sentiment due to U.S.-Russia negotiations.
- There are not changes to macroeconomic fundamentals that explain the appreciation episode since January.
- Nevertheless, Russia's currency remains significantly weaker against all important currencies.

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




Source: Bank of Russia, KSE Institute

**Ruble value loss vs. key currencies since Q2 2022, in %**

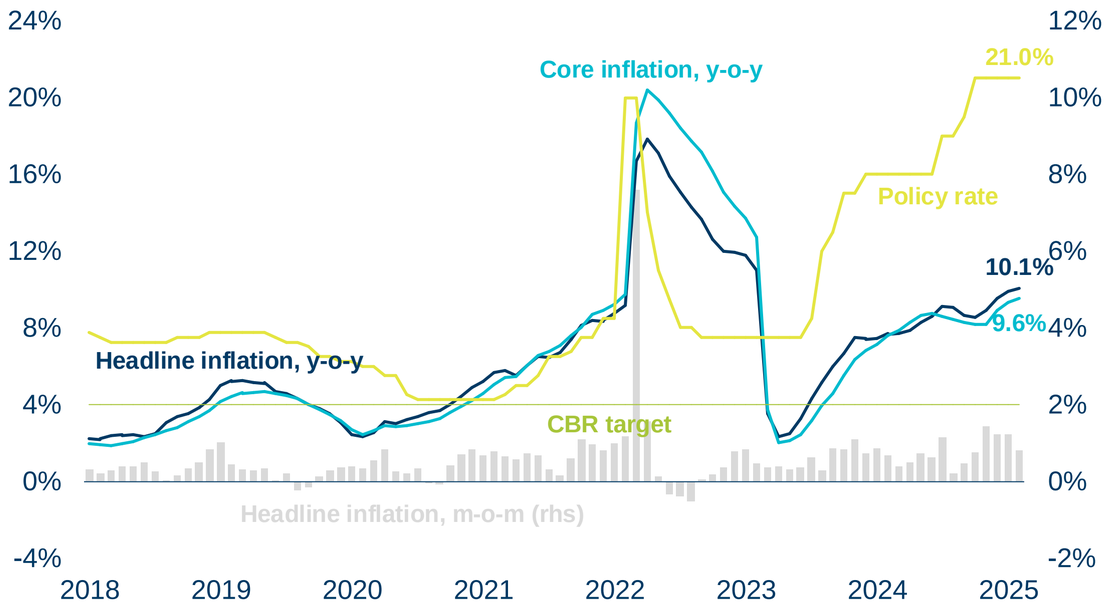



Source: Bank of Russia, KSE Institute

# Inflation is still rising despite CBR policy response.

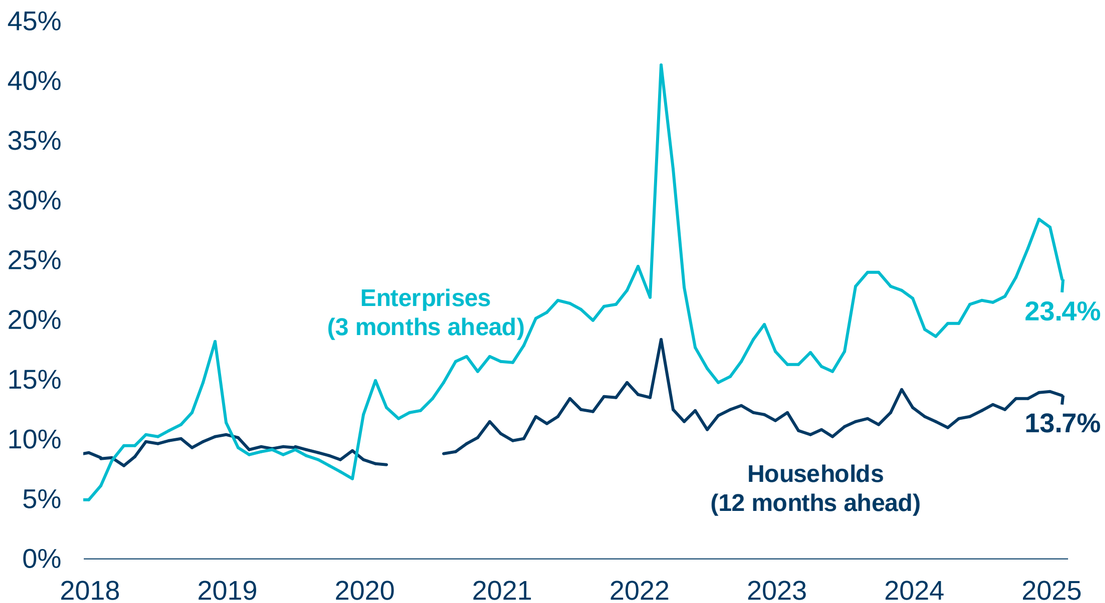
- Inflation continues to rise despite the stronger ruble, reaching 10.1% year-over-year in Feb. (9.6% for core).
- Sharp monetary tightening (+1,350 bps since mid-2023) has not been enough to reduce price pressures.
- Inflation expectations of enterprises have dropped sharply in Jan.-Feb., likely due to ruble appreciation.

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




Source: Bank of Russia, KSE Institute

**Inflation expectations, in %**



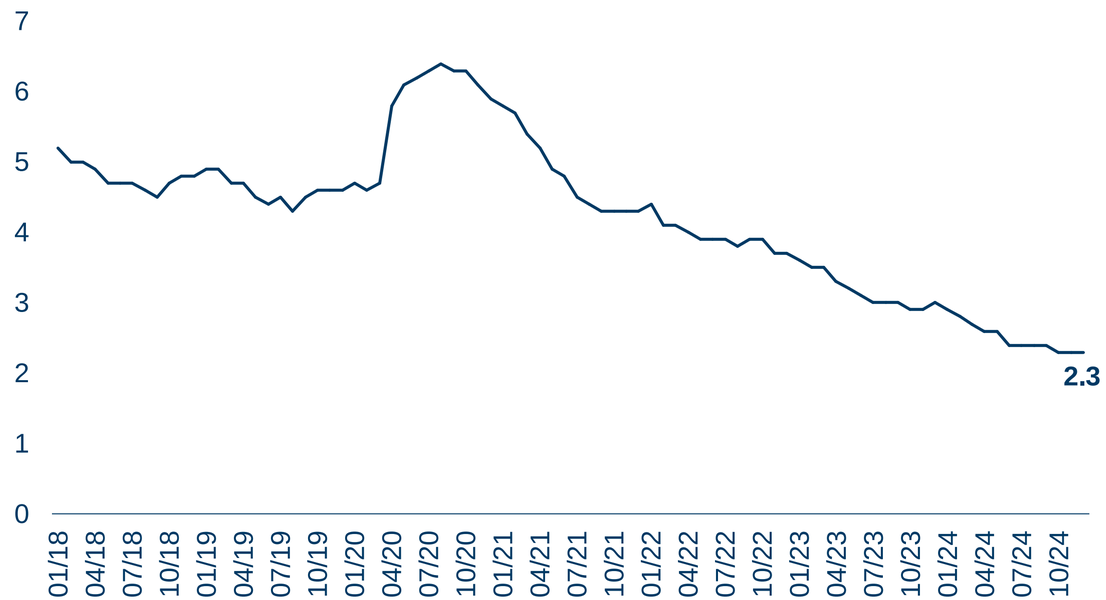

Source: Bank of Russia, KSE Institute

KSE | Institute

# Tight labor market is driving up wages and inflation.

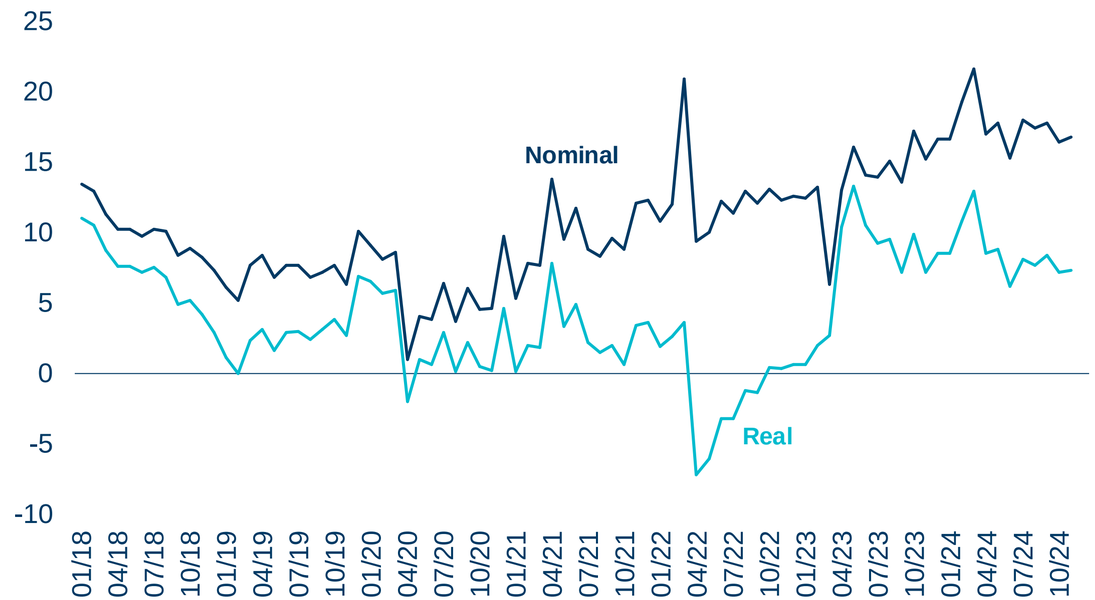
- The unemployment rate remains at record-low level of 2.3%—which technically means full employment.
- Nominal wage growth has trended up since the start of the full-scale invasion and stood at 16.8% in November.
- In addition to creating inflationary pressures, the economy has effectively no spare capacity left to draw from.

**Unemployment rate, in %**




Source: Rosstat

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

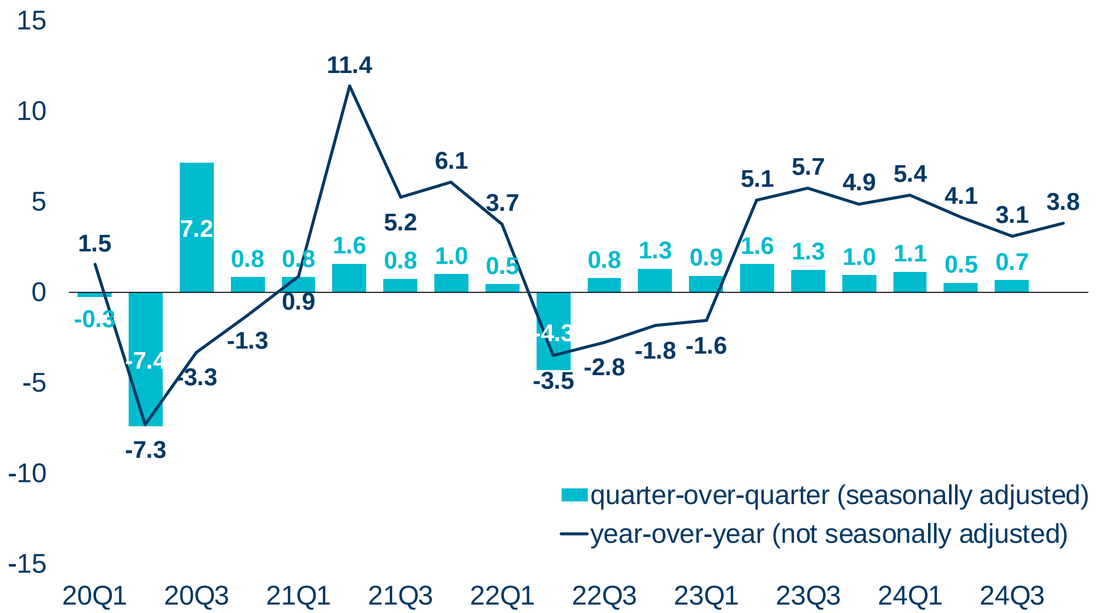



Source: Rosstat

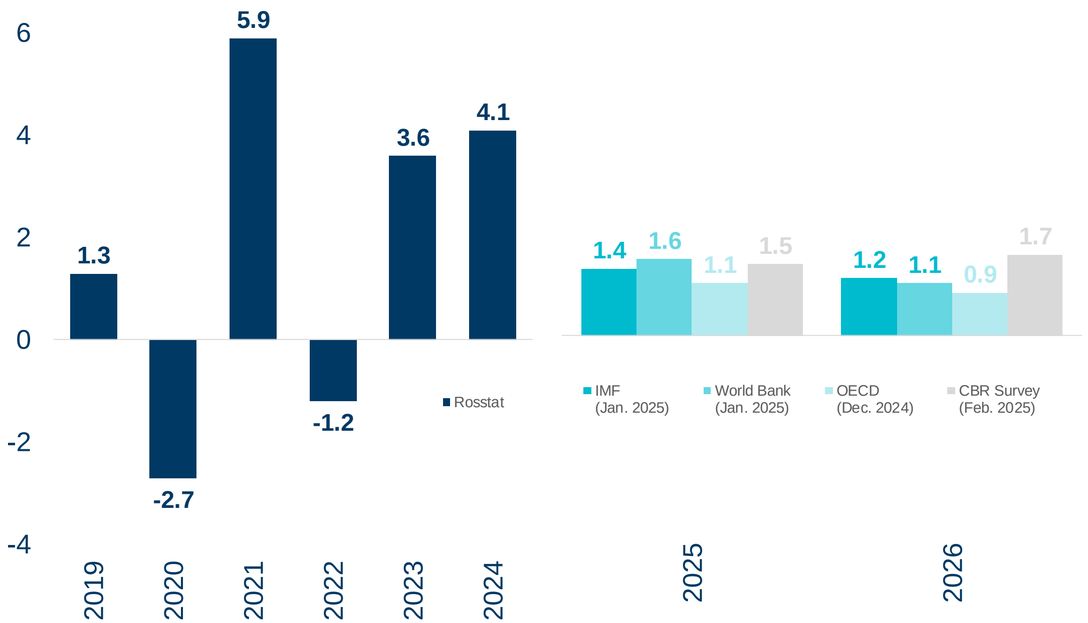
# Growth is set to drop this year and beyond.

- Real GDP growth picked up in Q4 2024 to 3.8% year-over-year and is estimated at 4.1% for 2024 overall.
- Most institutions project that GDP growth will decline significantly in 2025 and slow down further in 2026.
- Key drivers: labor market constraints, missing (foreign) investment, significantly tighter monetary conditions.

**Quarterly real GDP dynamics, in %**




Source: Rosstat, KSE Institute




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

KSE | Institute

# Previous editions of KSE Institute's Russia Chartbook

- February 2025
- January 2025

- December 2024
- November 2024
- October 2024
- September 2024
- August 2024
- July 2024
- June 2024
- May 2024
- April 2024
- March 2024
- February 2024
- January 2024

- December 2023
- November 2023
- October 2023
- September 2023
- July 2023
- May 2023
- April 2023
- March 2023
- February 2023

- December 2022