KSE Institute Russia Chartbook

Weak Revenues Put Severe Strain on the Budget; Economic Growth Stalls amid Higher Inflation

February 2026

Benjamin Hilgenstock
Director of the Center for Geoeconomics and Resilience
bhilgenstock@kse.org.ua

Yuliia Pavytska
Head of the Sanctions Hub of Excellence
ypavytska@kse.org.ua

Matvii Talalaievskyi
Sanctions Policy Analyst
mtalalaievskyi@kse.org.ua

KSE | Institute

Executive Summary

1. **Plunging energy revenues put severe strain on budgets across all levels.** In January 2026, the federal budget reached a deficit of 1.7 trillion rubles—the largest January shortfall on record. This was primarily driven by growing challenges with oil and gas revenues, which dropped to a four-year low of 393 billion on the back of very weak export prices. Higher global prices due to geopolitical tensions will likely provide some relief in Feb.-Mar., but oil market fundamentals point to a challenging price environment for the rest of the year. Budgetary problems are cascading to the local level: consolidated regional budgets collapsed at the end of 2025, recording a deficit of roughly 1.5 trillion rubles. This indicates that the financial burden of the war is increasingly being pushed down to the regions.
2. **Domestic borrowing hits historic highs, exposing the government to soaring servicing costs.** To finance rising deficits, the government relies heavily on domestic debt, which has nearly doubled since the start of the full-scale invasion, reaching almost 30 trillion rubles by early 2026. To attract investors—Russian banks—MinFin issues variable-coupon OFZs, heavily skewing the debt portfolio towards this type of securities. Combined with prolonged high central bank interest rates, this will trigger a sharp rise in debt service costs in the future. Concurrently, regional debt has risen sharply to almost 3.5 trillion rubles on the back of increasing local deficits.
3. **Economic growth stalls, while inflation picks up sharply in Jan.** According to Rosstat's preliminary estimate, real GDP grew by 1% in 2025—a significant slowdown compared to the war-driven boom of 2023-24. Adding to macroeconomic challenges, monthly inflation surged to 1.6% in Jan. 2026—more than three times the average m-o-m inflation in 2025 and the highest since Mar. This was driven by utility rate hikes and tax increases, including of the VAT. Growing inflation concerns and soaring expectations by businesses mean that the CBR's loosening of monetary conditions (-500 bps in Feb.) is likely coming to an end at a time when rates are still high (15.5%).
4. **Economic activity is increasingly characterized by a structural divergence between the military and civilian sectors.** While military manufacturing maintains strong double-digit growth—production of military vehicles surged 29% and that of weapons 22% in 2025—core civilian sectors face severe contractions, including steep drops in vehicles (-20.2%) and cement (-10.1%) production. Overall industrial production has cooled significantly as capacity utilization retreats from its historic highs (to 77.9% in Q4 2025), indicating that the economy has exhausted its potential and structural constraints, including a persistently tight labor market, limit any further expansion.

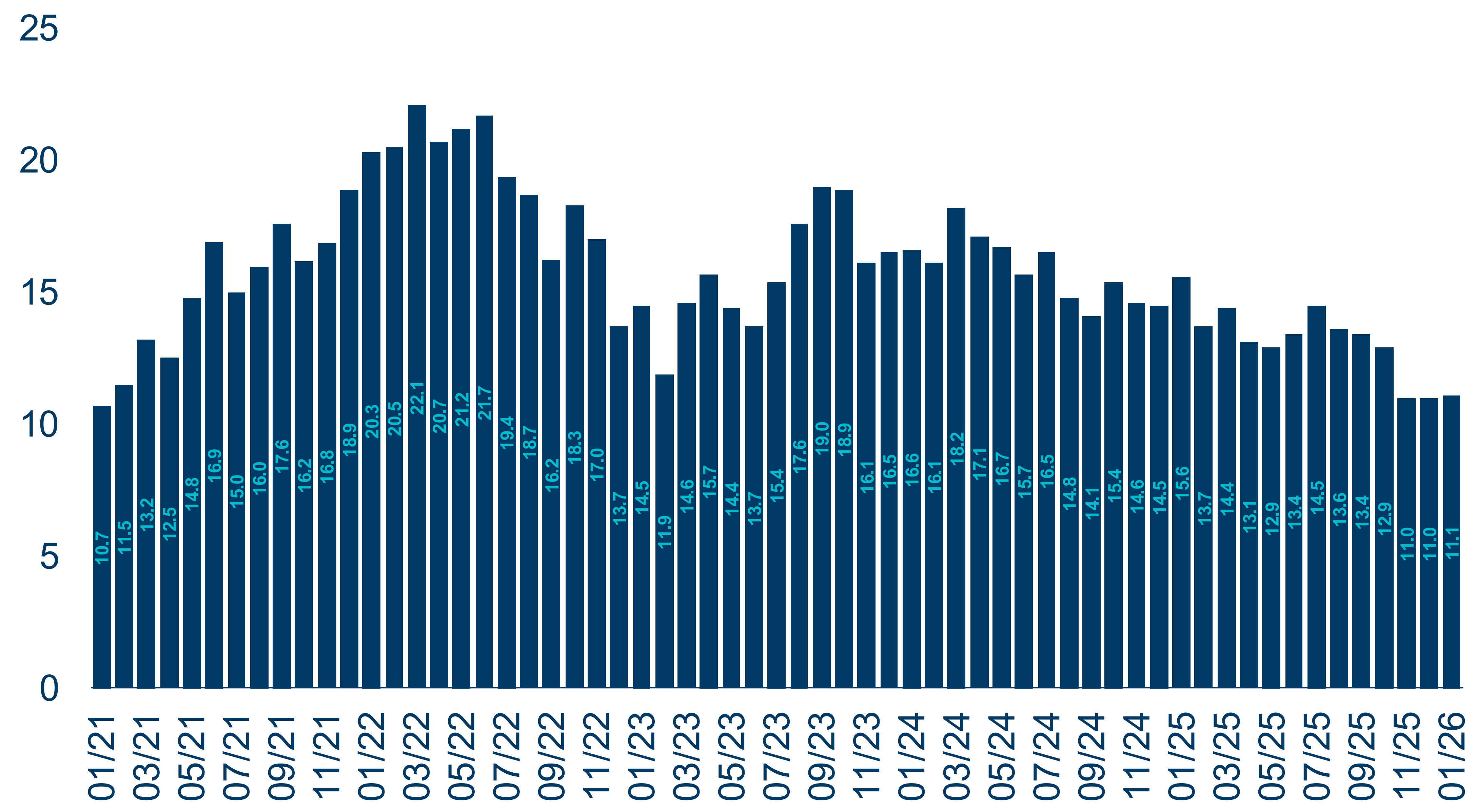
KSE | Institute

EXTERNAL

Export prices are below price cap; high volumes provide minor support.

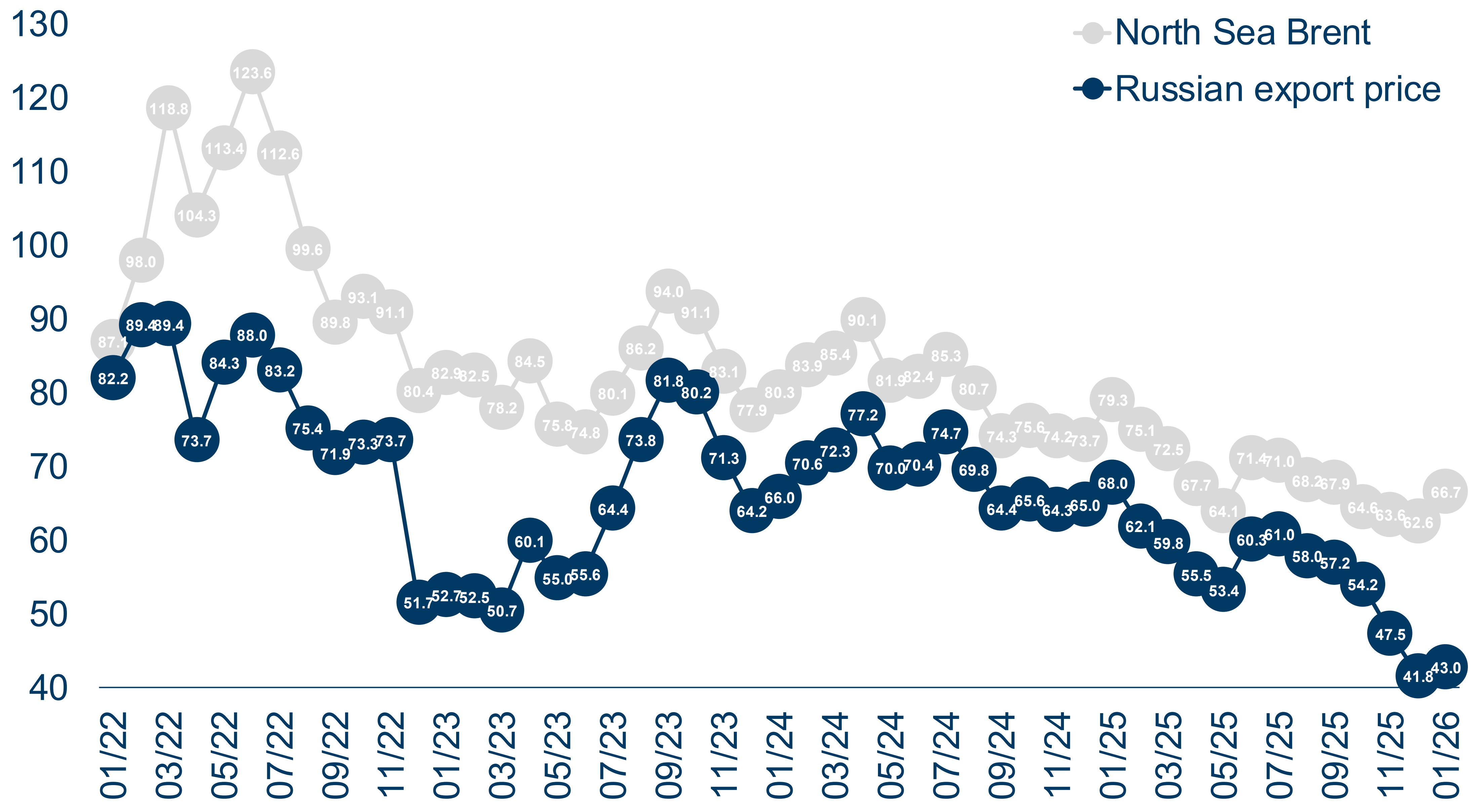
- Oil exports rose slightly in Jan. to $11.1 billion but remain lower than at any time since early-2023.
- Russian export prices marginally recovered to $43.0/barrel on the back of higher global prices.
- Despite a minor recovery in crude oil prices, Russian oil export revenues remain at low levels.

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*

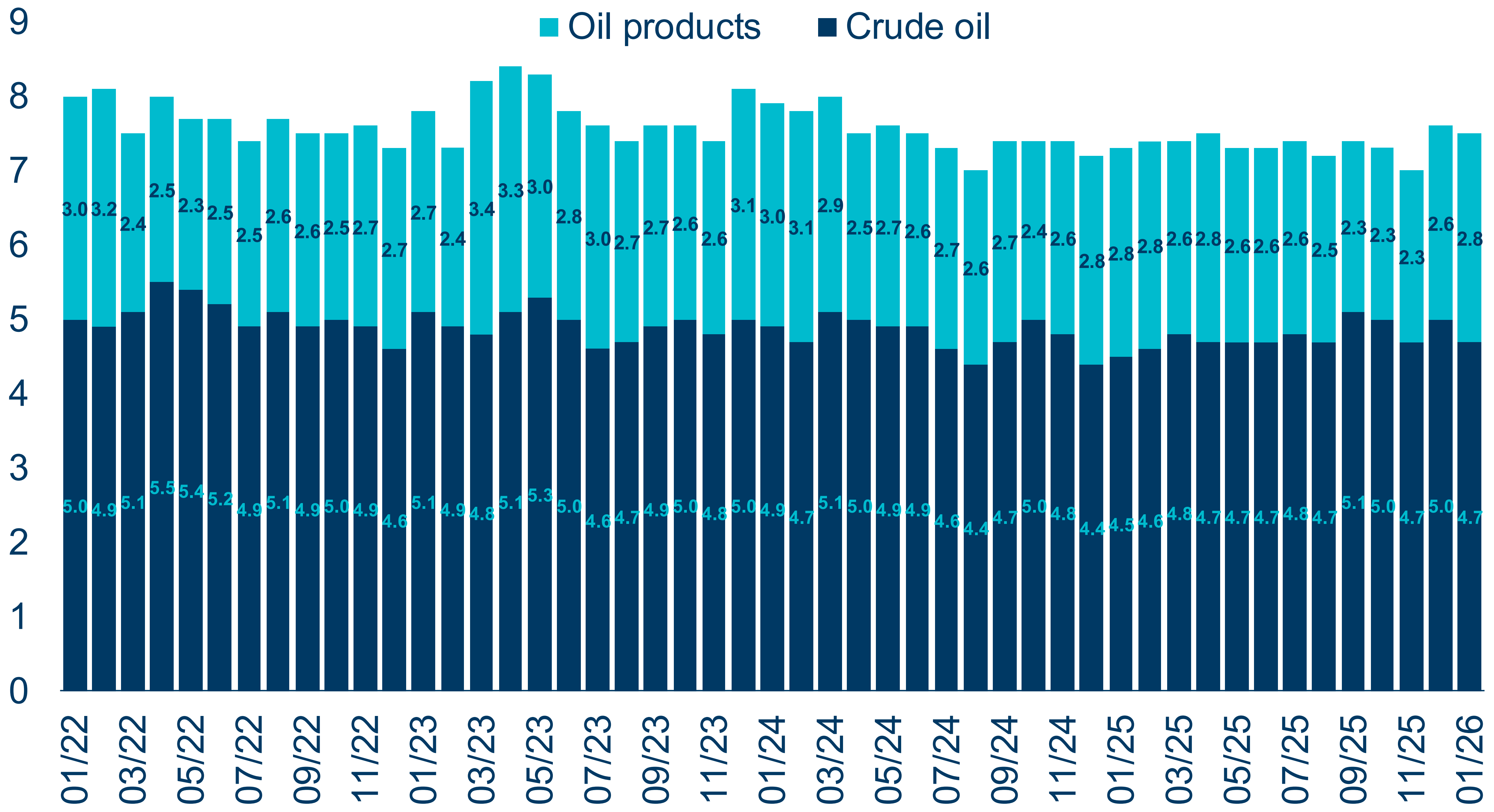


Source: International Energy Agency, KSE Institute

Oil export volumes recover as flows shift to undisclosed destinations.

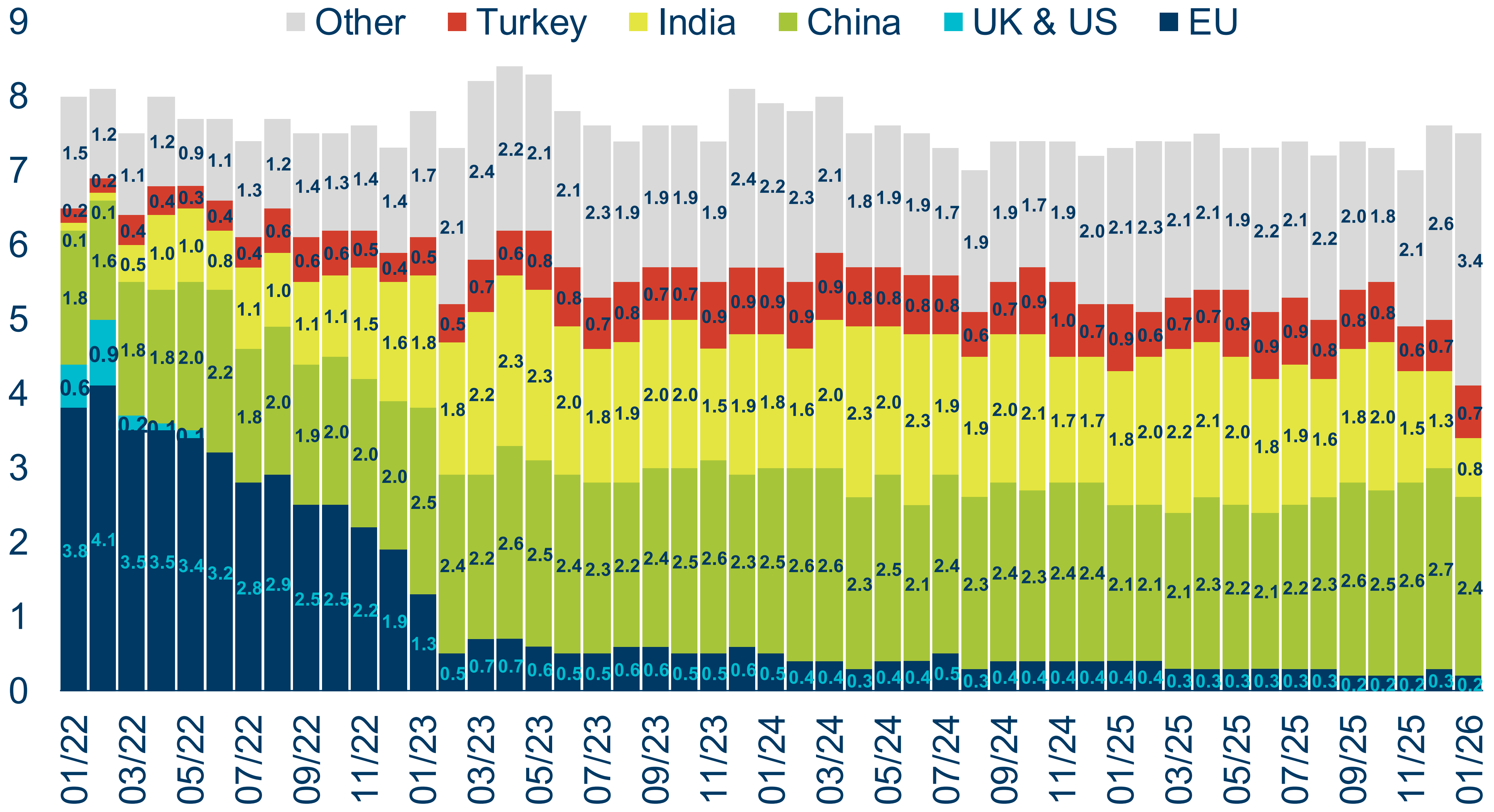
- Russian oil export volumes remained stable: ~7.5 mb/d in Jan. vs. ~7.6 mb/d in Dec.
- According to IEA data, exports to China and India continued to decline in January.
- Exports to other destinations surged, indicating a large volume of oil “on the water”.

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

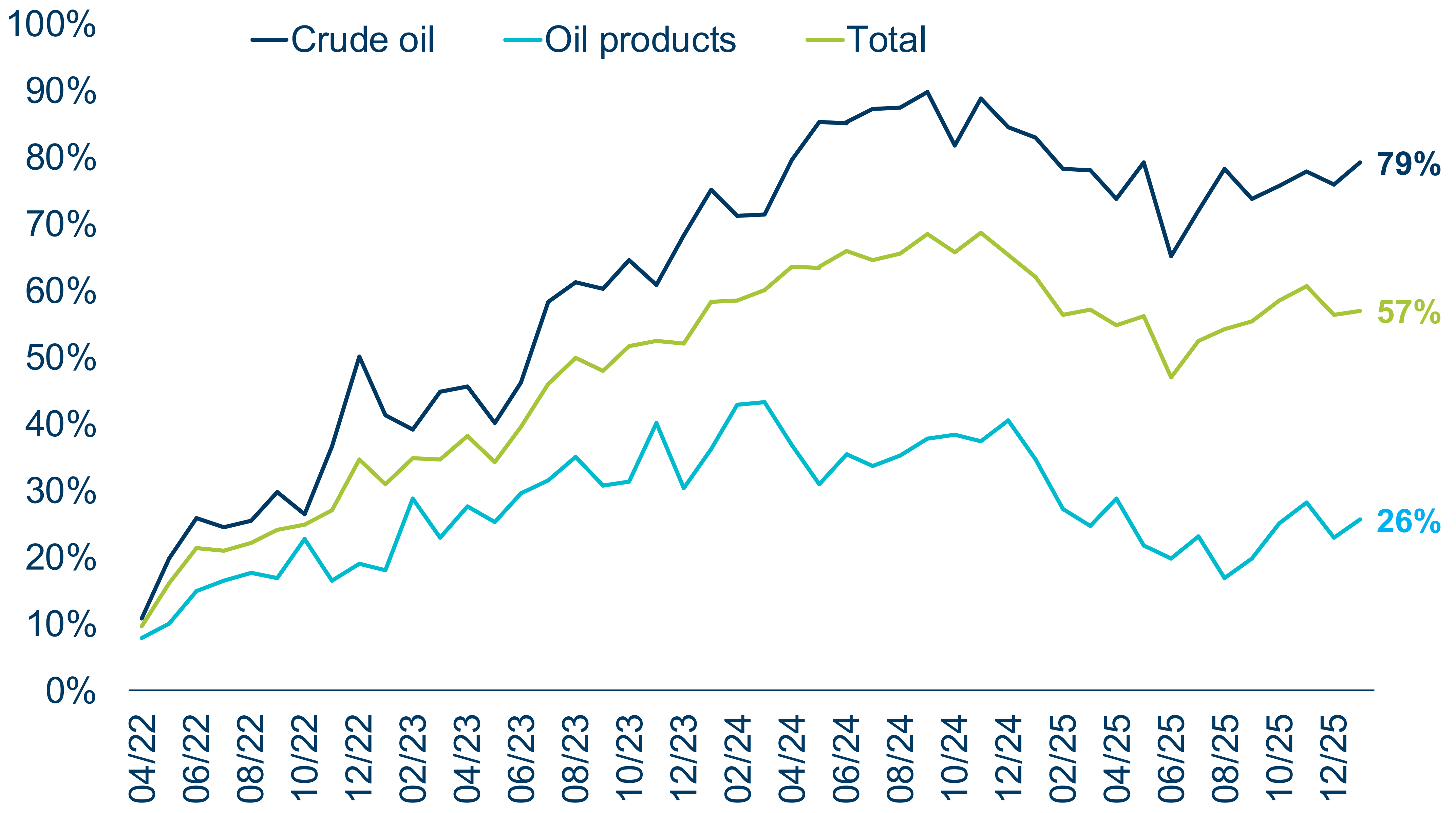
KSE | Institute

EXTERNAL

Stepped-up shadow tanker sanctions require tighter enforcement.

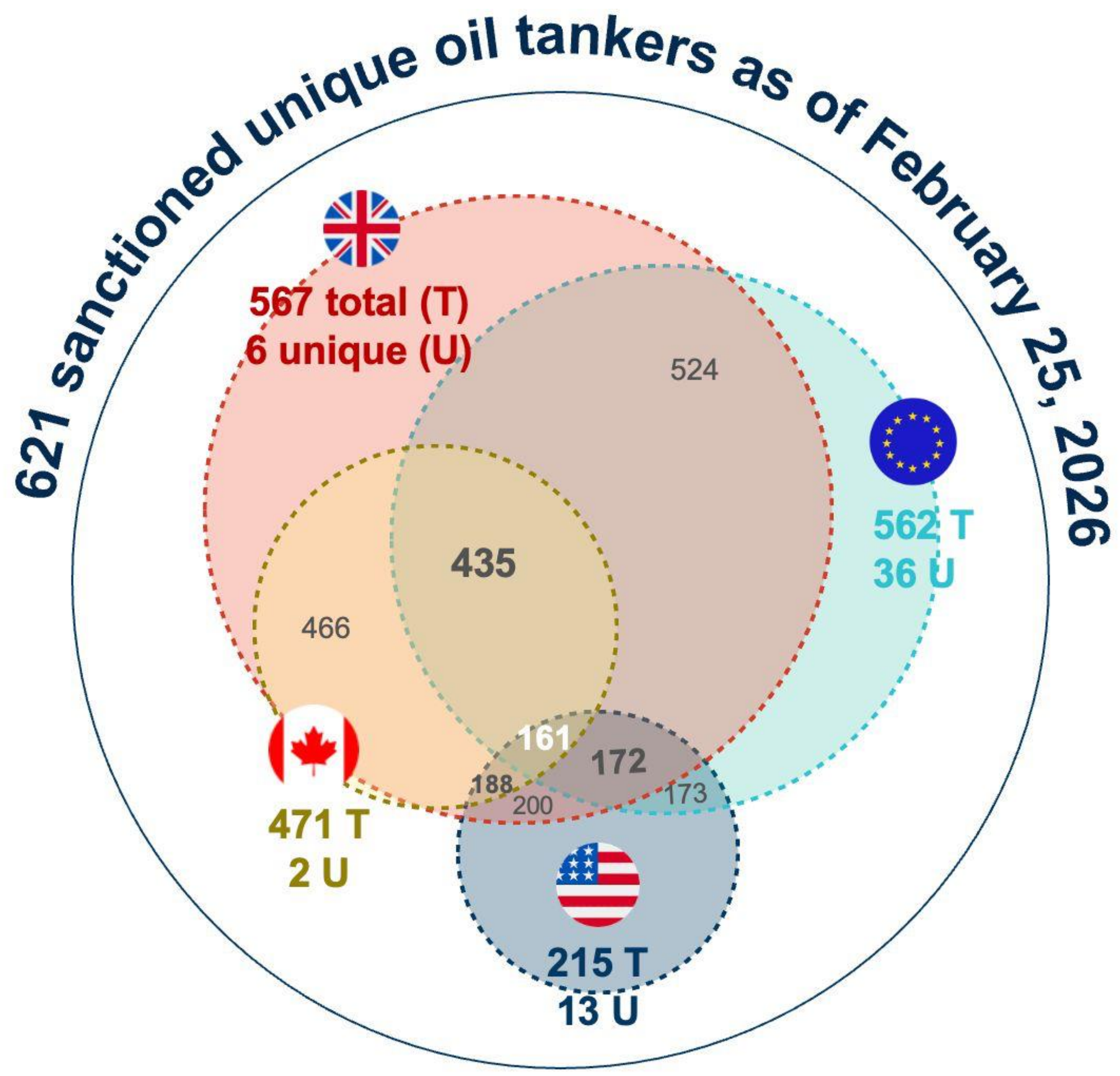
- After February listings, the total number of sanctioned shadow tankers remained 621, with 172 listed by the EU, UK, and US.
- With listings reaching ~70% of the shadow fleet, more effective enforcement will need to be in the focus.
- The shadow fleet’s share in Russian oil exports ticked up marginally as prices rose closer to the price cap.

Shadow fleet share of seaborne oil exports, in %



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

Current vessel designations by jurisdiction*



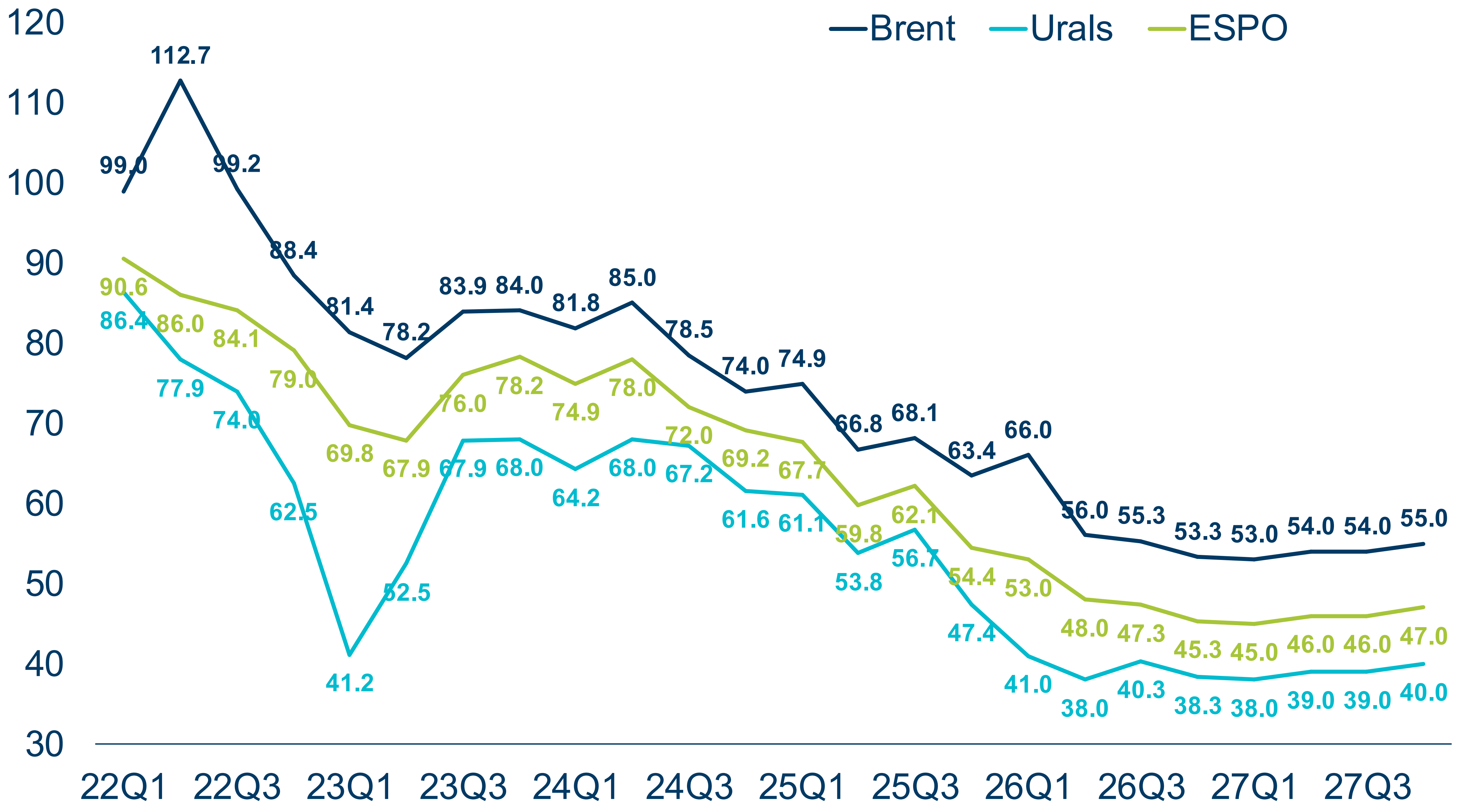
Source: European Commission, OFAC, OFSI, KSE Institute.

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.

Challenging outlook for Russian oil and gas exports.

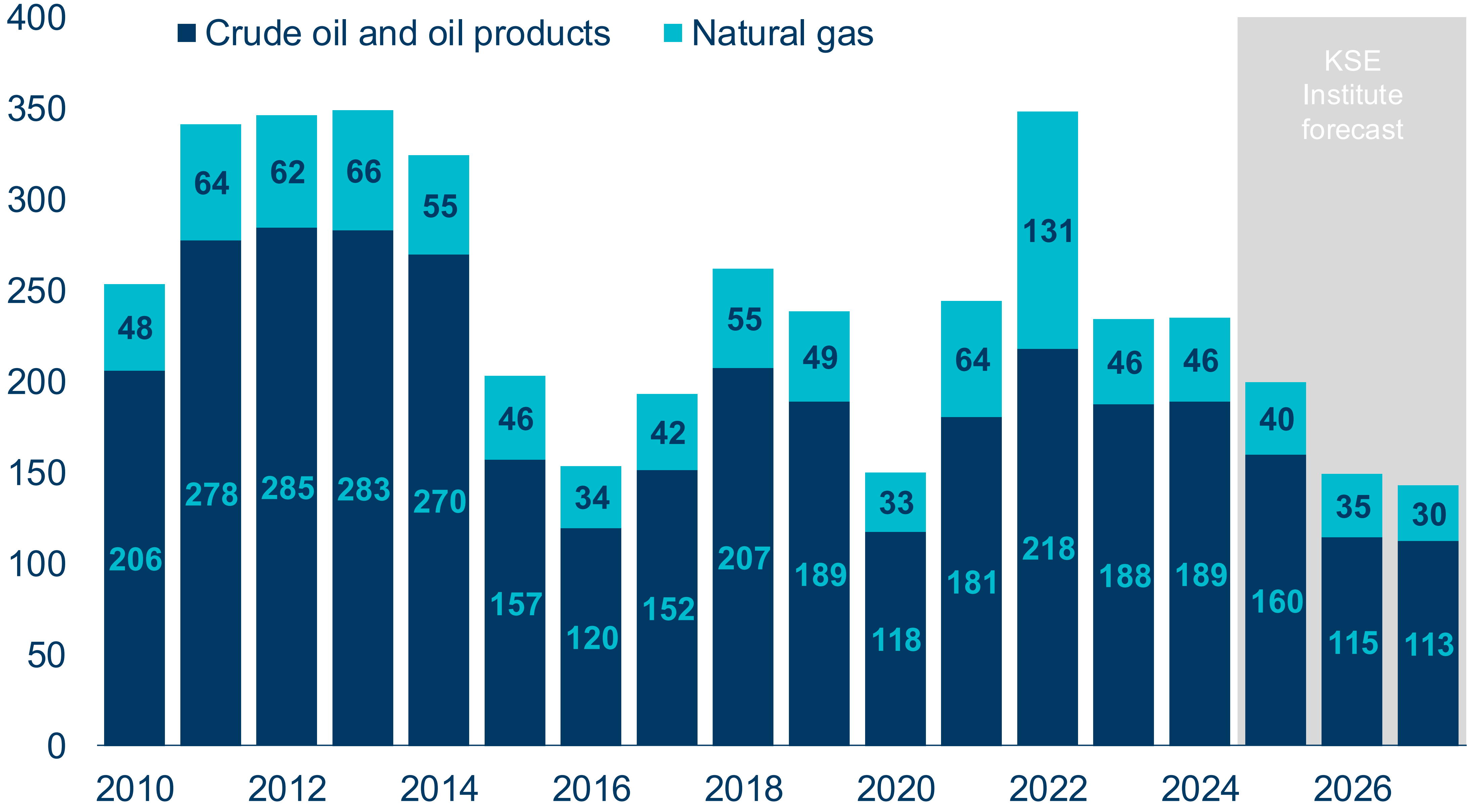
- Due to a significant supply glut in the oil market, Brent prices are expected to be around $55/bbl for most of 2026.
- However, geopolitical tensions—i.e., potential US military action against Iran—have created a $15-20/bbl premium.
- Total oil export earnings are expected to decline to ~ $115 billion in 2026-27; gas exports will drop to $30-35 billion.

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



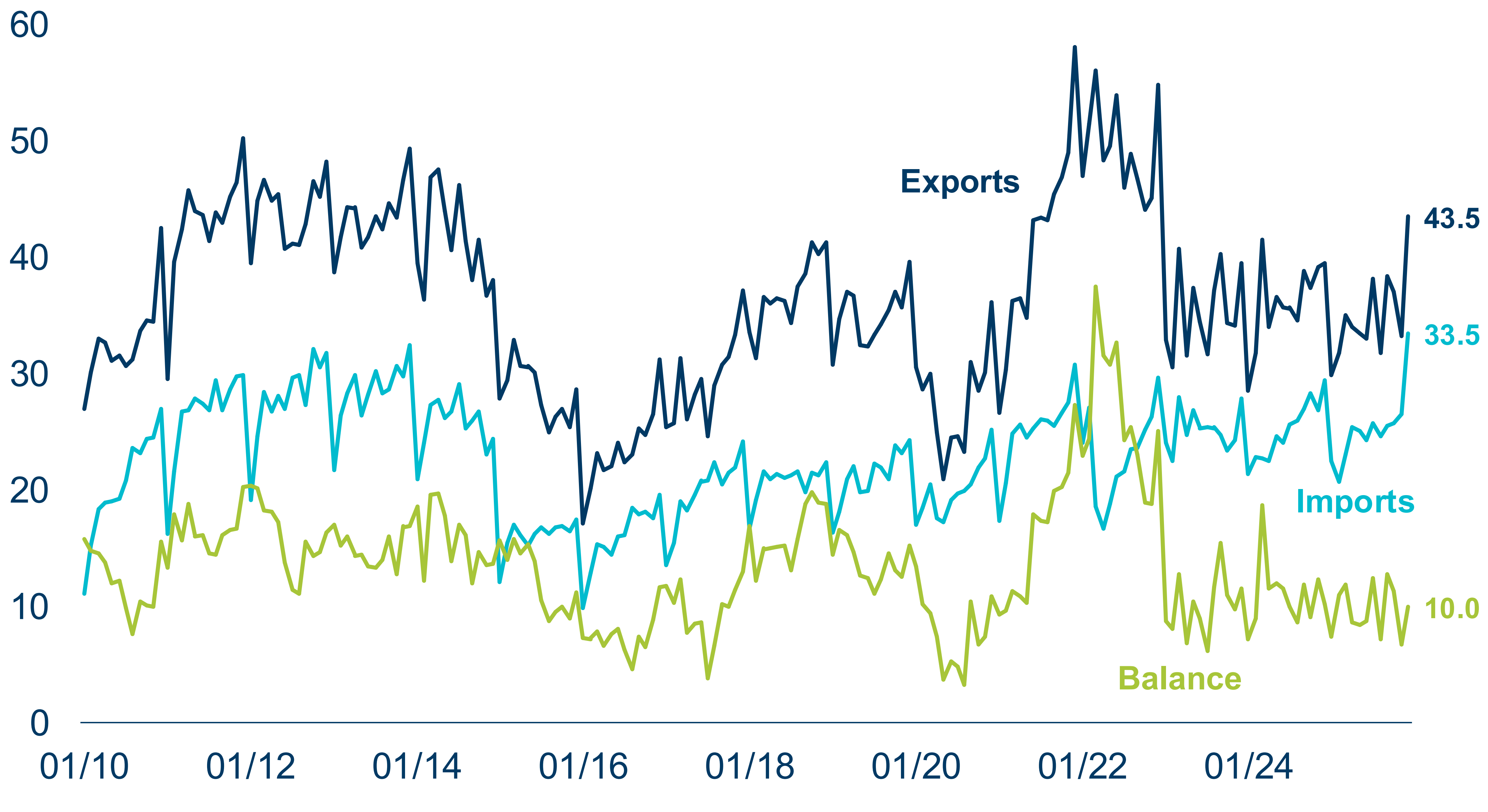
Source: Bank of Russia, KSE Institute

KSE | Institute

Current account remained unchanged in line with the trade balance.

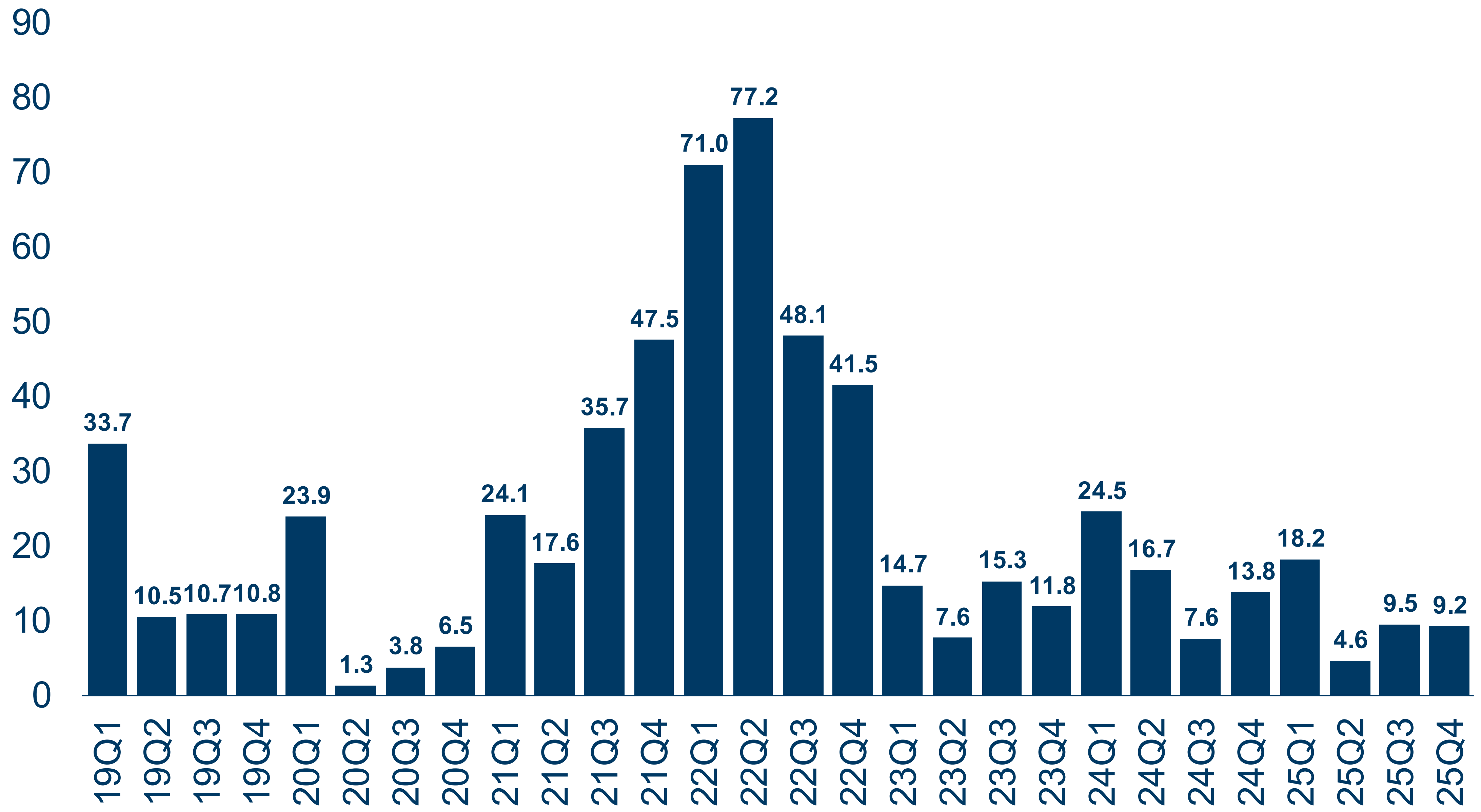
- Both goods exports and imports spike in Dec., but the trade balance remains broadly stable at $10 billion.
- The current account surplus remained largely unchanged in Q4 2025 at $9.2 billion (vs. $9.5 billion in Q3).
- In 2026, we expect Russia's external situation to continue deteriorating due to lower oil exports earnings.

Monthly trade statistics, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

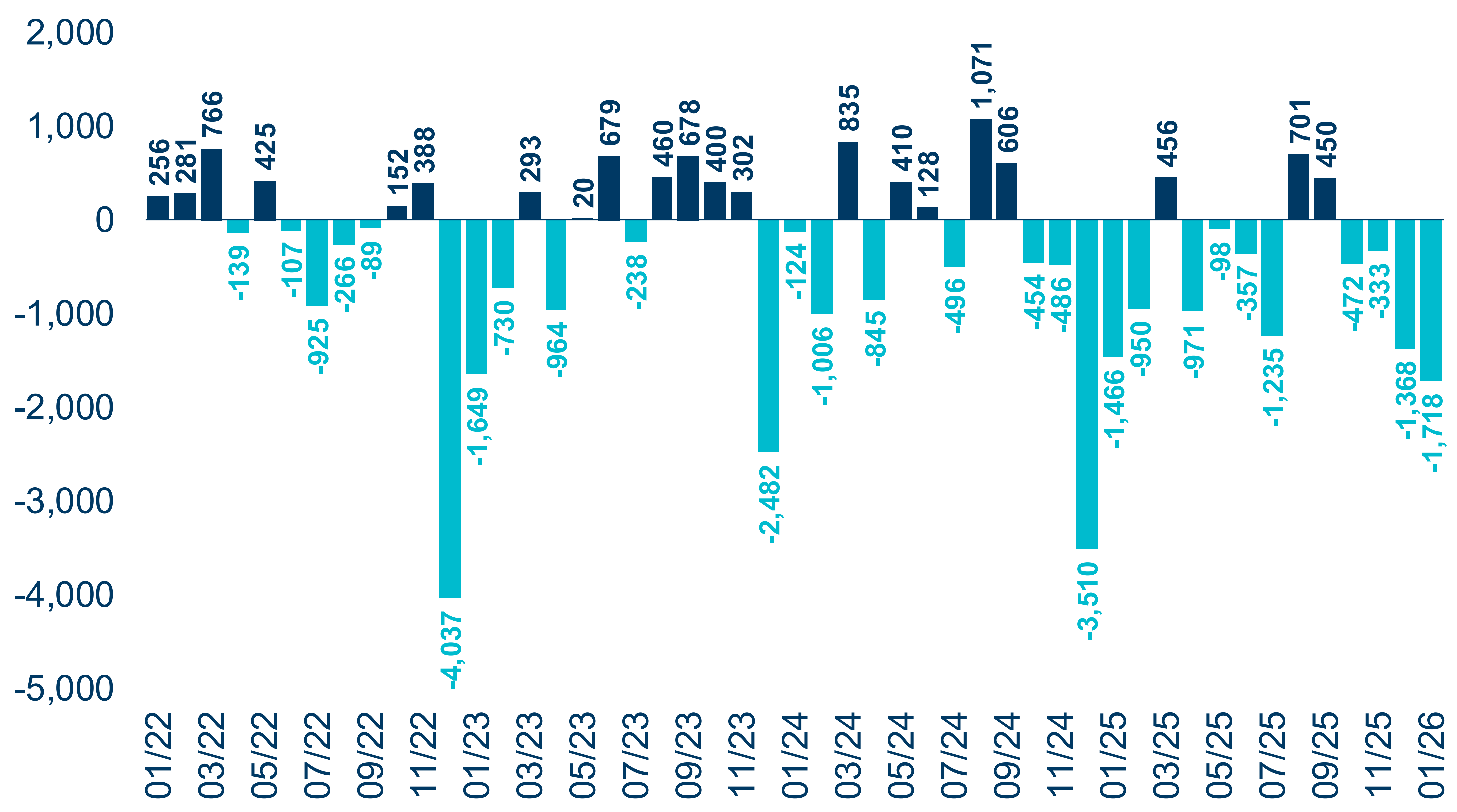


Source: Bank of Russia, KSE Institute

Plunging energy revenues push the January budget deficit to record high.

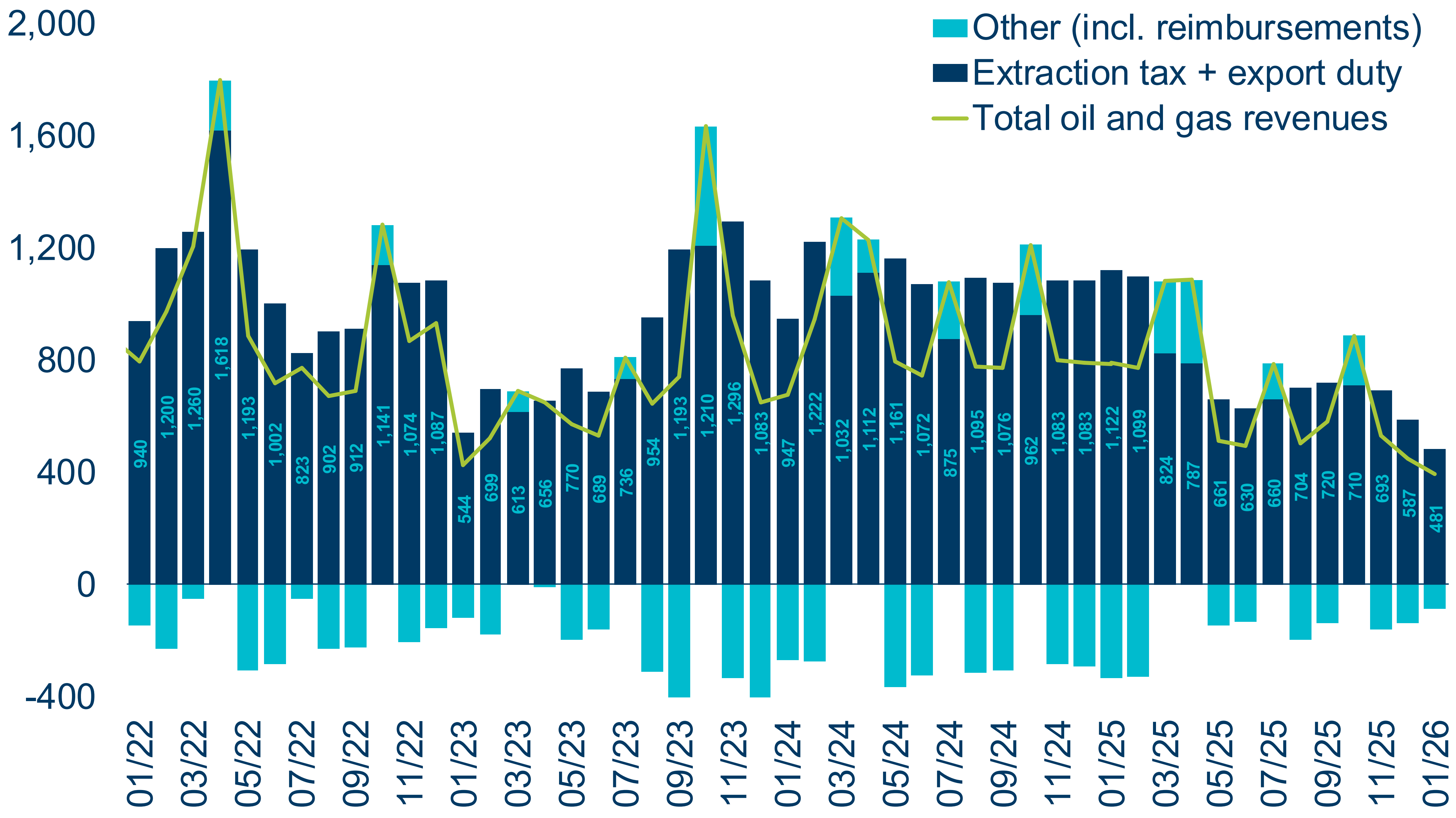
- The federal budget deficit reached 1.7 trillion rubles in Jan. 2026, marking the largest Jan. shortfall on record.
- Oil & gas revenues plunged to a four-year low of 393 billion rubles on the back of extremely low export prices.
- Continued weakness of O&G revenues would force the government to quickly revise its deficit target upwards.

Federal government balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Federal oil and gas revenues, in ruble billion

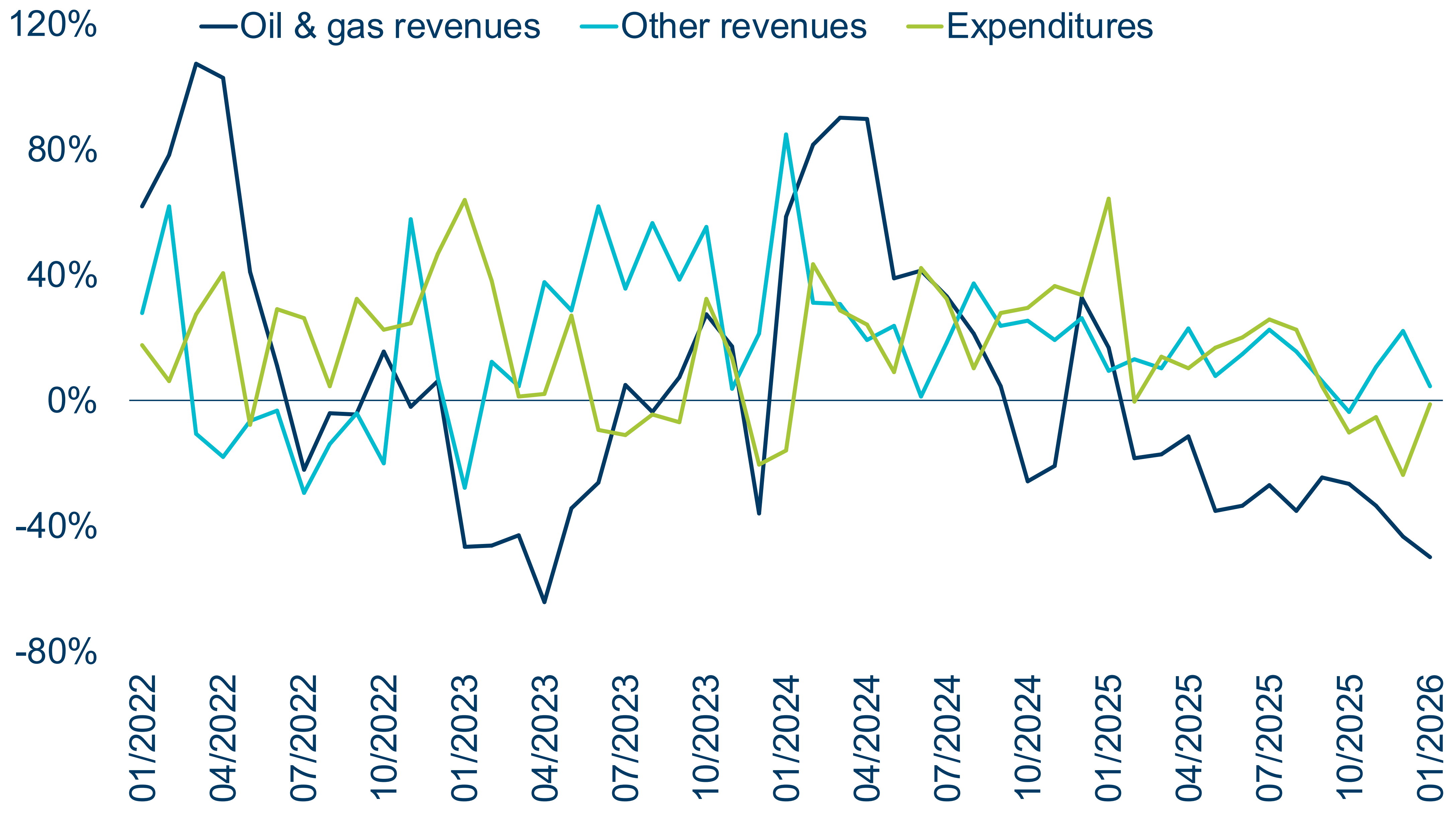


Source: Ministry of Finance, KSE Institute

Non-O&G revenues have also been under pressure.

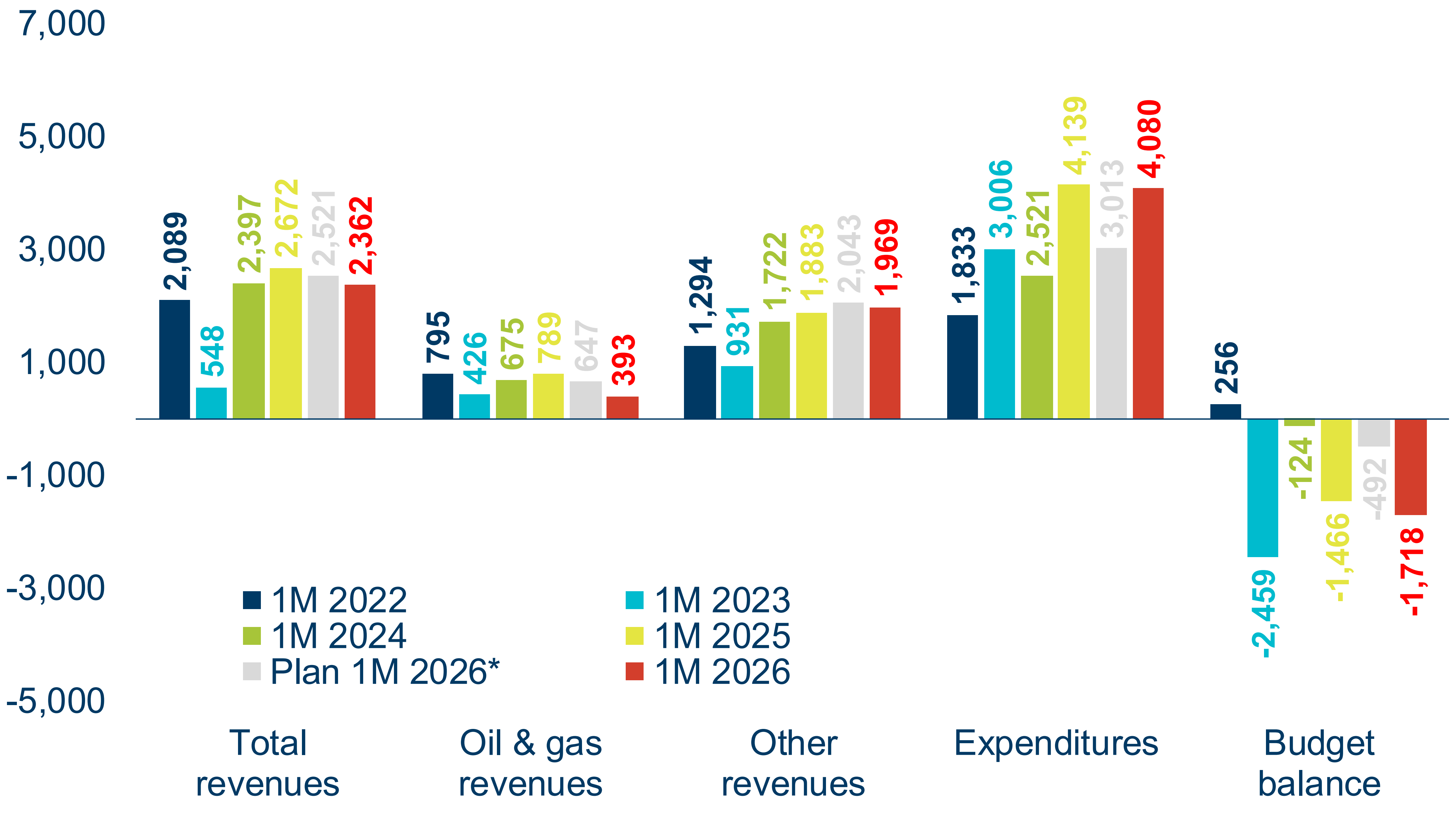
- In Jan. 2026, O&G revenues were 50% weaker, non-O&G only 4% stronger, and expenditures broadly stable.
- Y-o-Y expenditure growth has remained below previous years' levels for the fourth consecutive month.
- Weak revenues and uncertainty regarding the future may force MinFin to curb spending despite war demands.

Change in federal budget revenues and expenditures, in % y-o-y



Source: Ministry of Finance, KSE Institute

Federal budge revenues and expenditures, in ruble billion

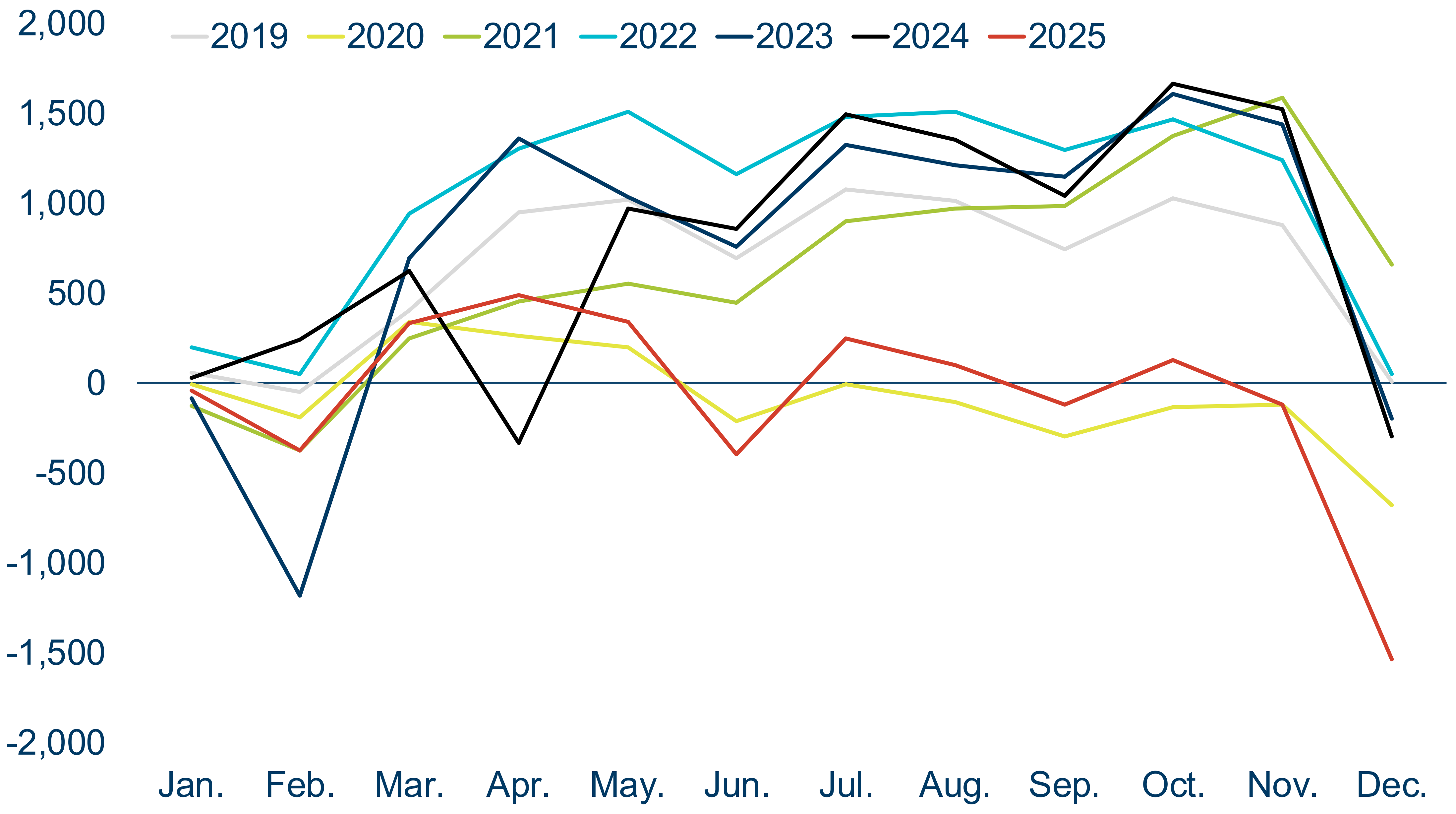


Source: Ministry of Finance, KSE Institute *based on avg. 2019-24 within-year distribution.

Record regional deficits lead to a sharp increase in local government debt.

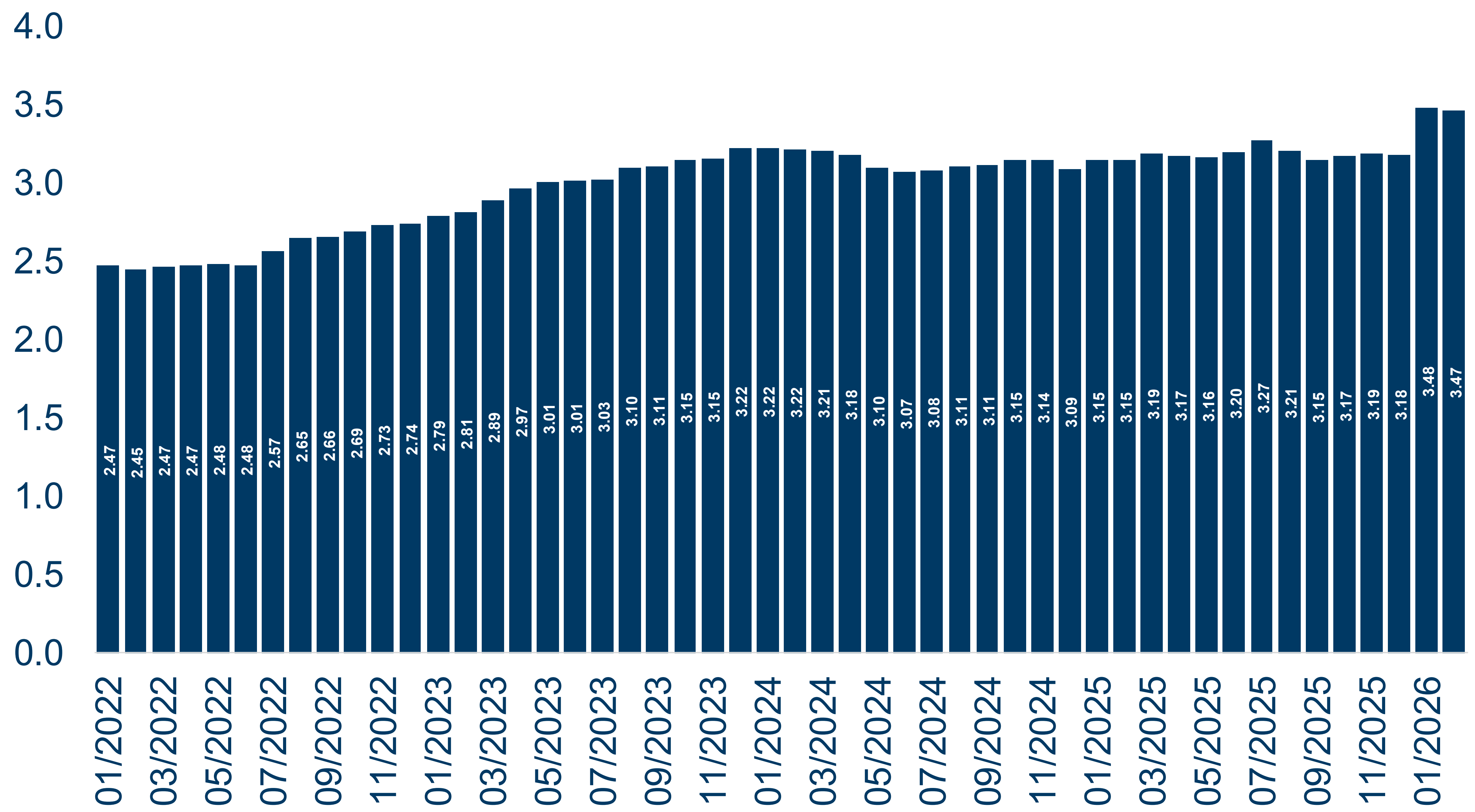
- Regional finances deteriorated at the end of 2025, with the consolidated budget deficit plunging to a record 1.5 trillion rubles.
- These developments indicate that the financial burden of the war economy is being pushed down to the regional level.
- Regional debt increased sharply in recent months to cover growing expenditures, reaching 3.5 trillion rubles in January.

Cumulative consolidated regional budget balance, in ruble billion



Source: Ministry of Finance, KSE Institute

Regional government debt, in ruble trillion

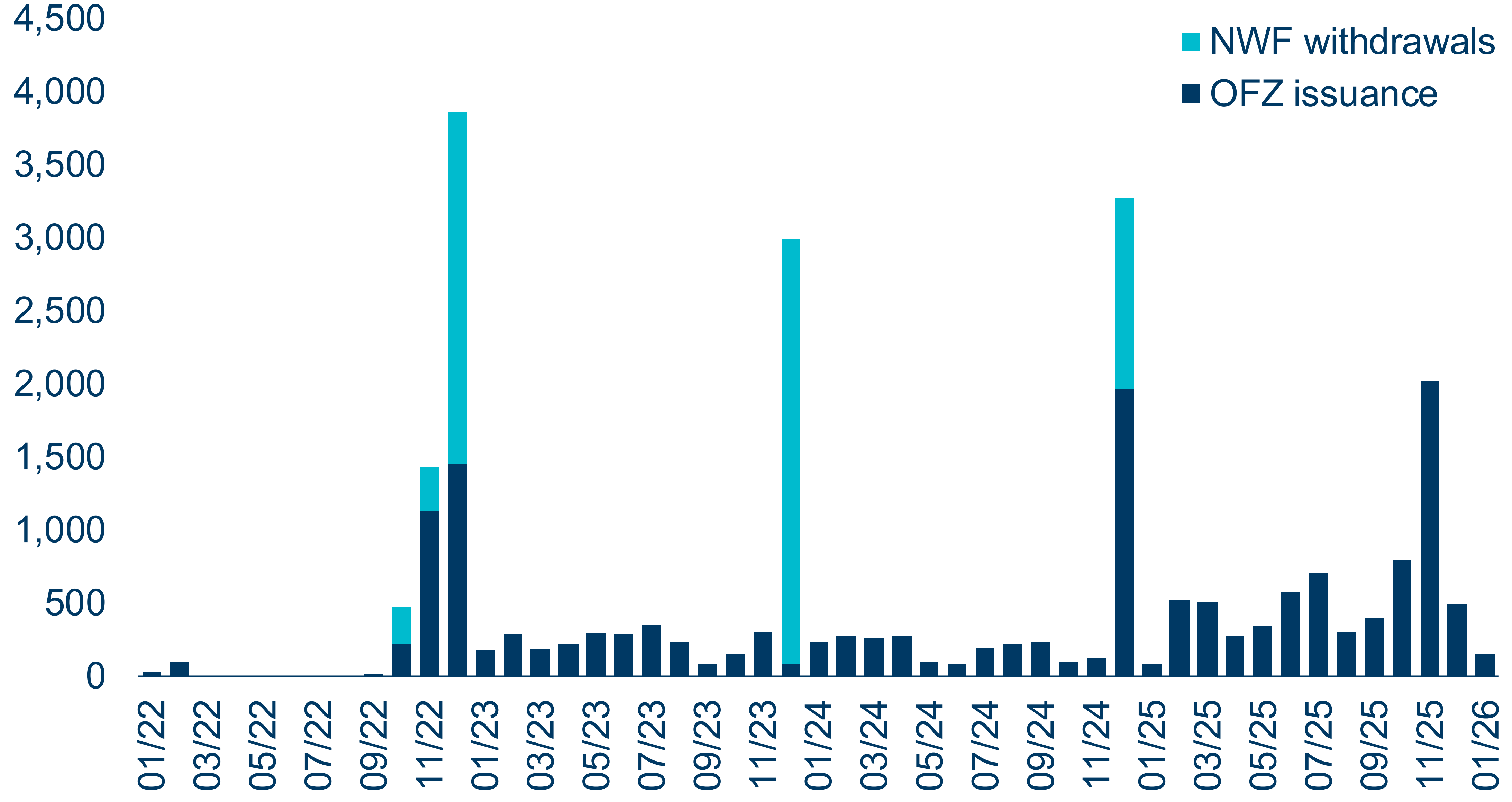


Source: Ministry of Finance, KSE Institute

CBR maintains repo operations to support ambitious Q1 borrowing targets.

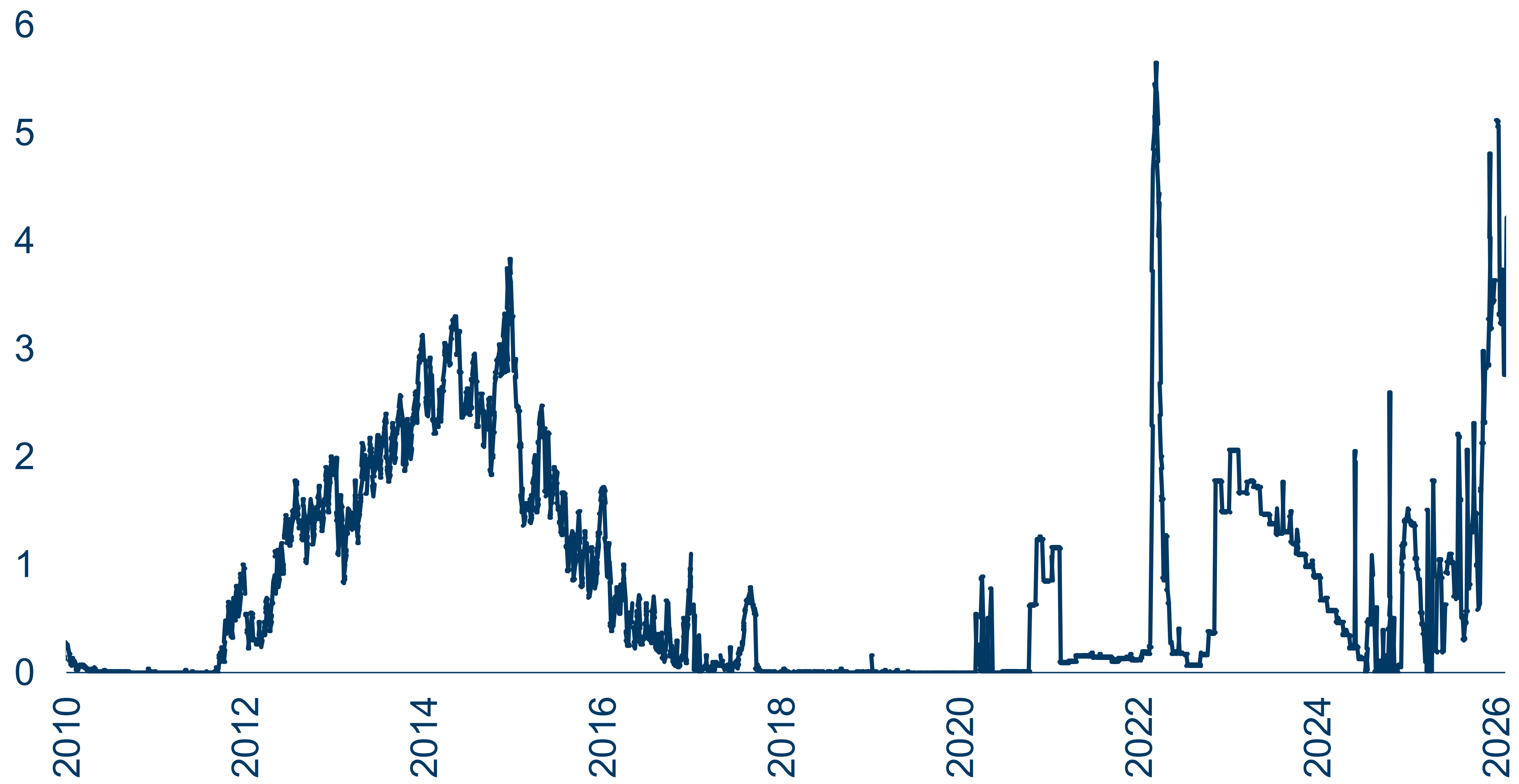
- While recent OFZ placements have been moderately below average, underlying conditions point to a rebound.
- OFZs remain the key budget financing tool, with ~1.2 trillion rubles in issuance planned for Q1 2026.
- The CBR continues to support domestic banks' ability to absorb OFZ issuance through significant repo operations.

Key fiscal financing channels, in ruble billion



Source: Ministry of Finance, KSE Institute

Total outstanding repo loans, in trillion rubles



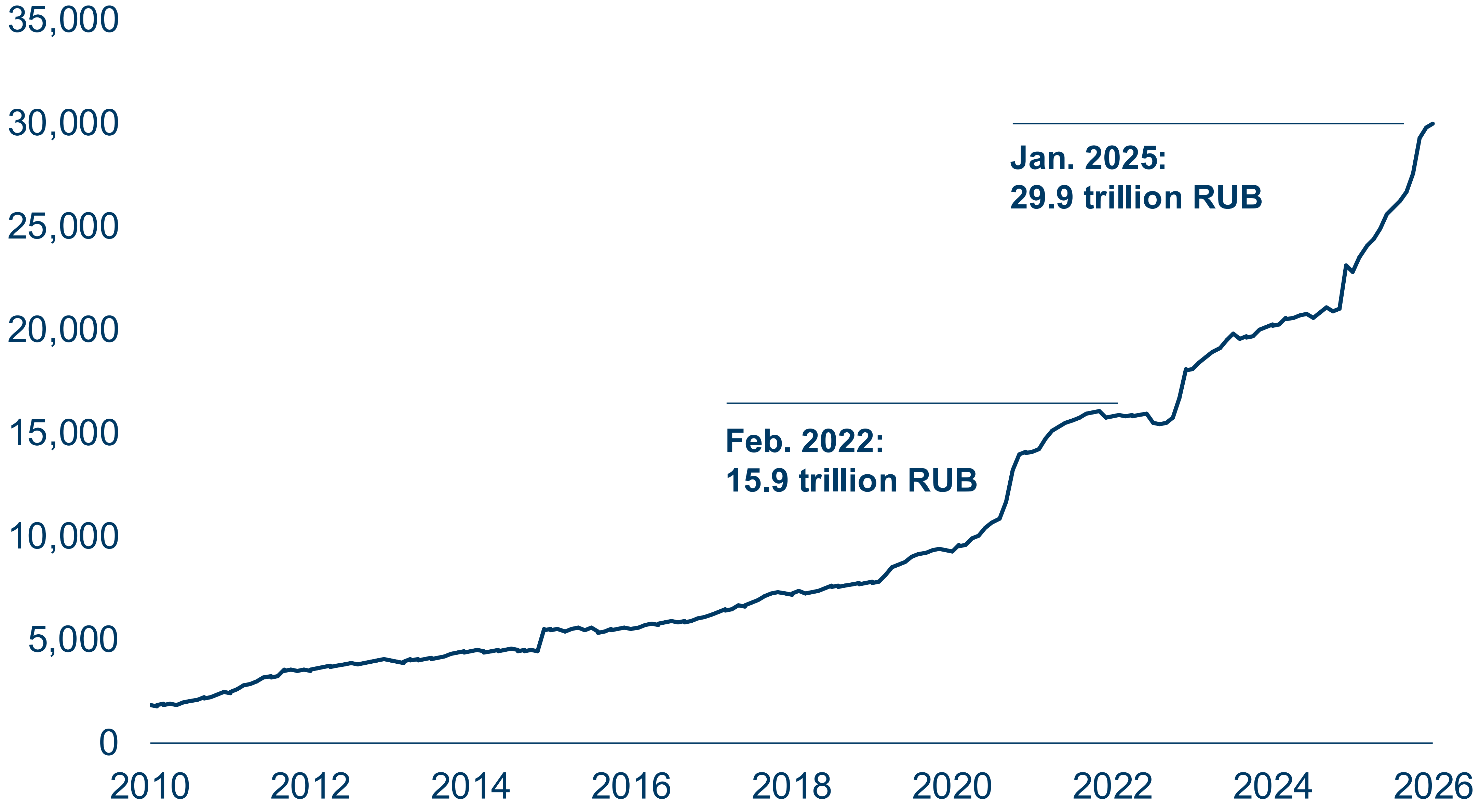
Source: Bank of Russia, KSE Institute

KSE | Institute

Domestic debt reaches record, budget exposed to soaring servicing costs.

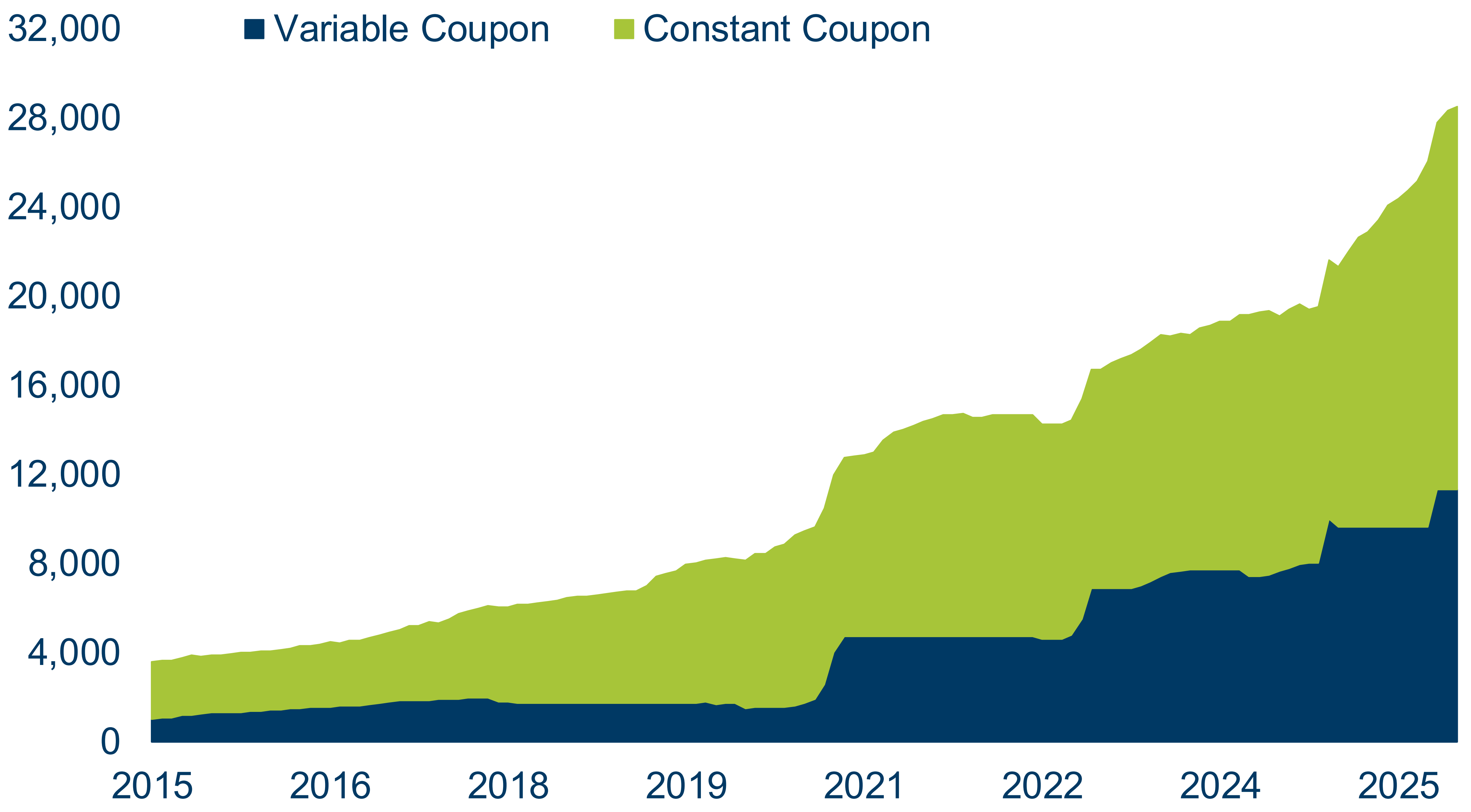
- Federal domestic debt nearly doubled since Feb. 2022, reaching almost 30 trillion rubles by early 2026.
- To secure funding, MinFin increasingly relies on variable-coupon OFZs, heavily skewing the debt portfolio.
- Combined with high CBR rates, this floating-rate debt will drastically inflate future servicing costs.

Federal government domestic debt, in ruble billion



Source: Ministry of Finance, KSE Institute

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

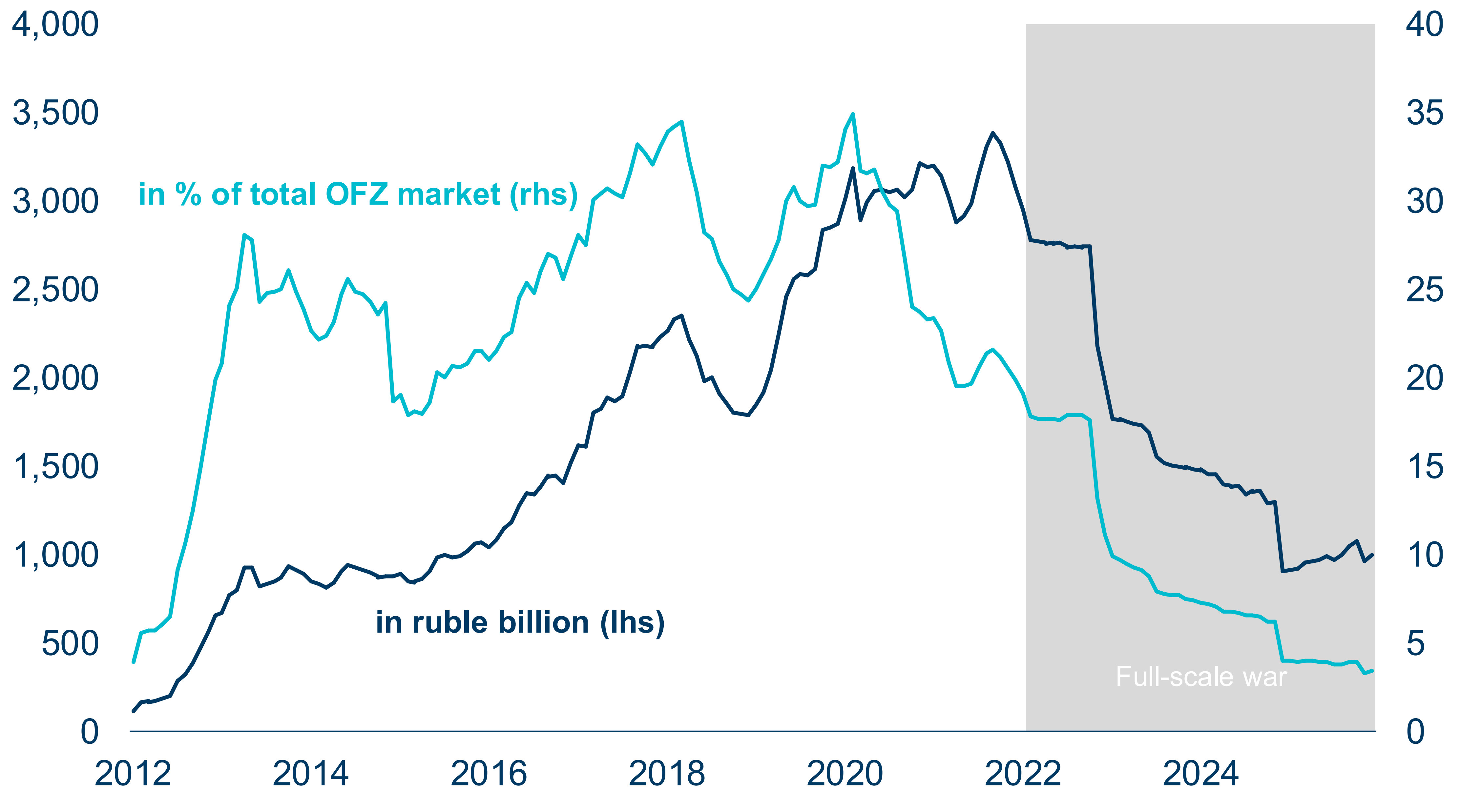


Source: Ministry of Finance, KSE Institute

Domestic banks are the only remaining buyers of OFZs.

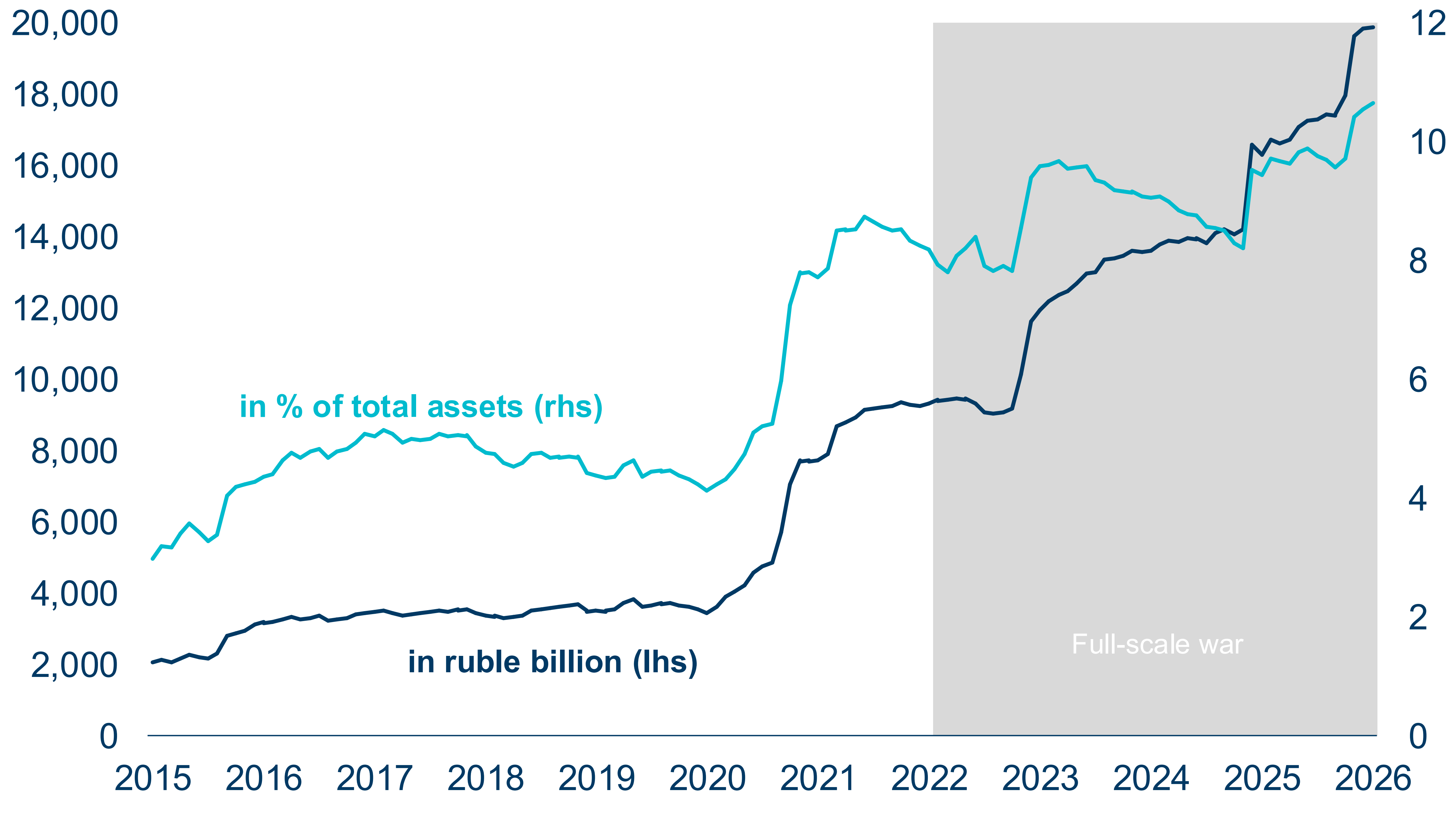
- Foreigners have largely disengaged from the Russian sovereign debt market since the start of the war.
- Non-resident holdings have dropped 2 trillion rubles (or 66%) since January 2022 as bonds matured.
- Russia issued yuan-denominated OFZs in Dec., but non-residents appear to not have bought them.

Non-resident OFZ holdings



Source: Bank of Russia, KSE Institute

Depository corporations' OFZ holdings*

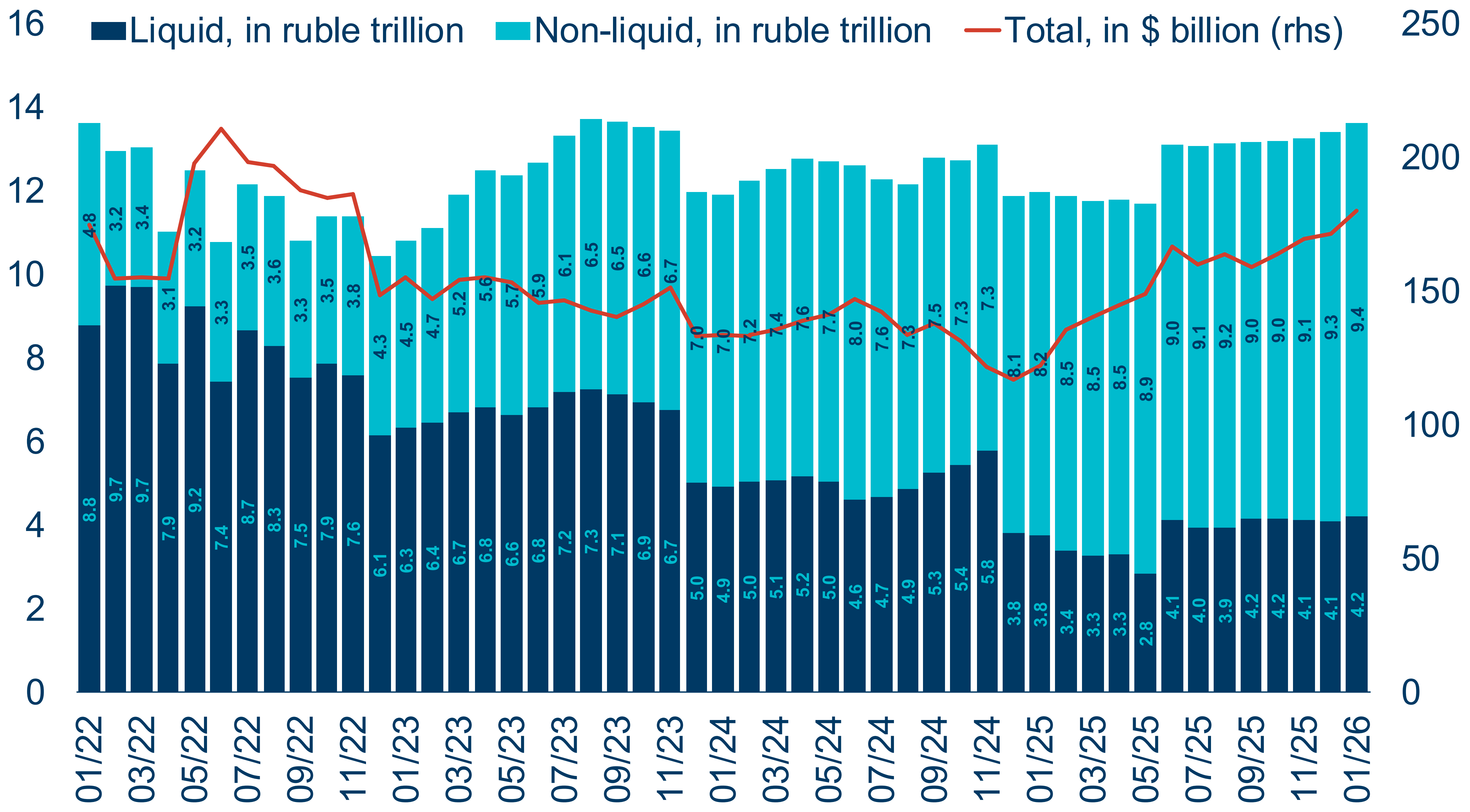


Source: Bank of Russia, KSE Institute *excluding Bank of Russia

MinFin avoids tapping NWF as liquid reserves run low.

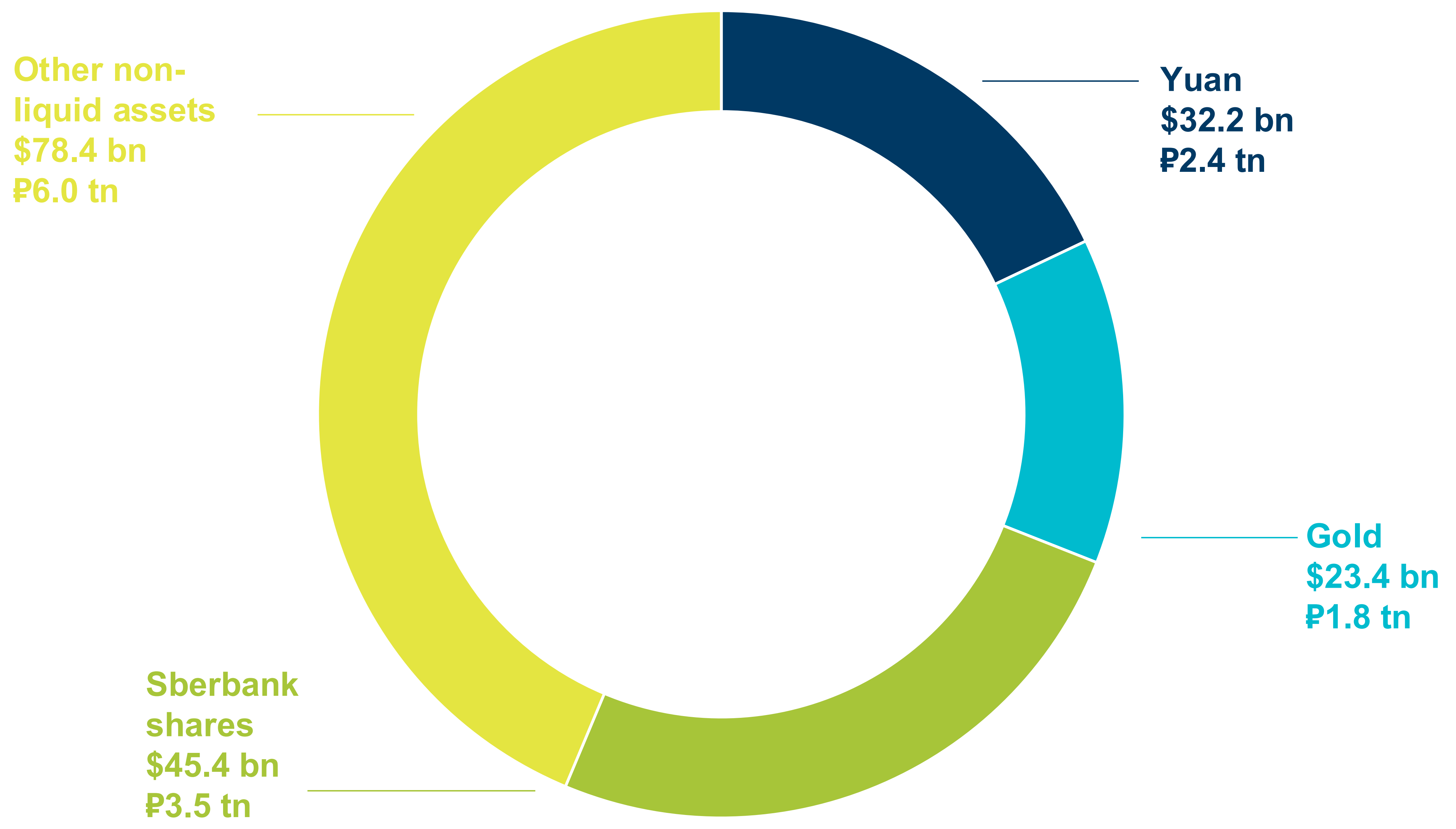
- Total assets of the National Welfare Fund stood at 13.6 trillion rubles ($180.1 billion, 5.8% of GDP) in Jan. 2026.
- Liquid assets have declined by 56% since early-2022 and only account for 30% of the total (vs. 75% in Feb. 2022).
- Depending on policy choices regarding budget financing, this critical macro buffer could be fully depleted in 2026.

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



Source: Ministry of Finance, KSE Institute

Composition of NWF assets as of February 1, 2026*

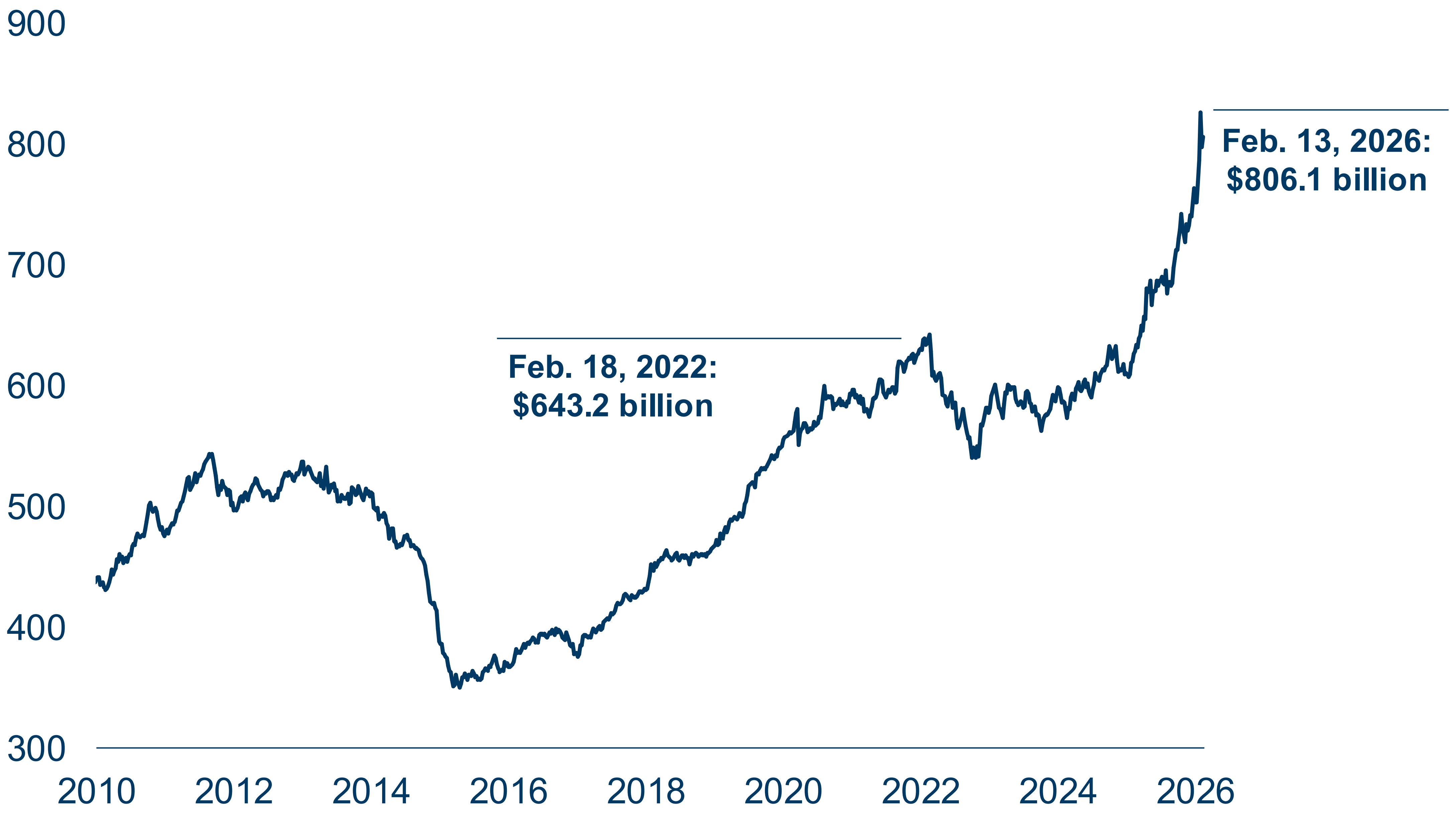


Source: Ministry of Finance, KSE Institute *based on market exchange rates/prices

Reserves continue to grow due to valuation effects.

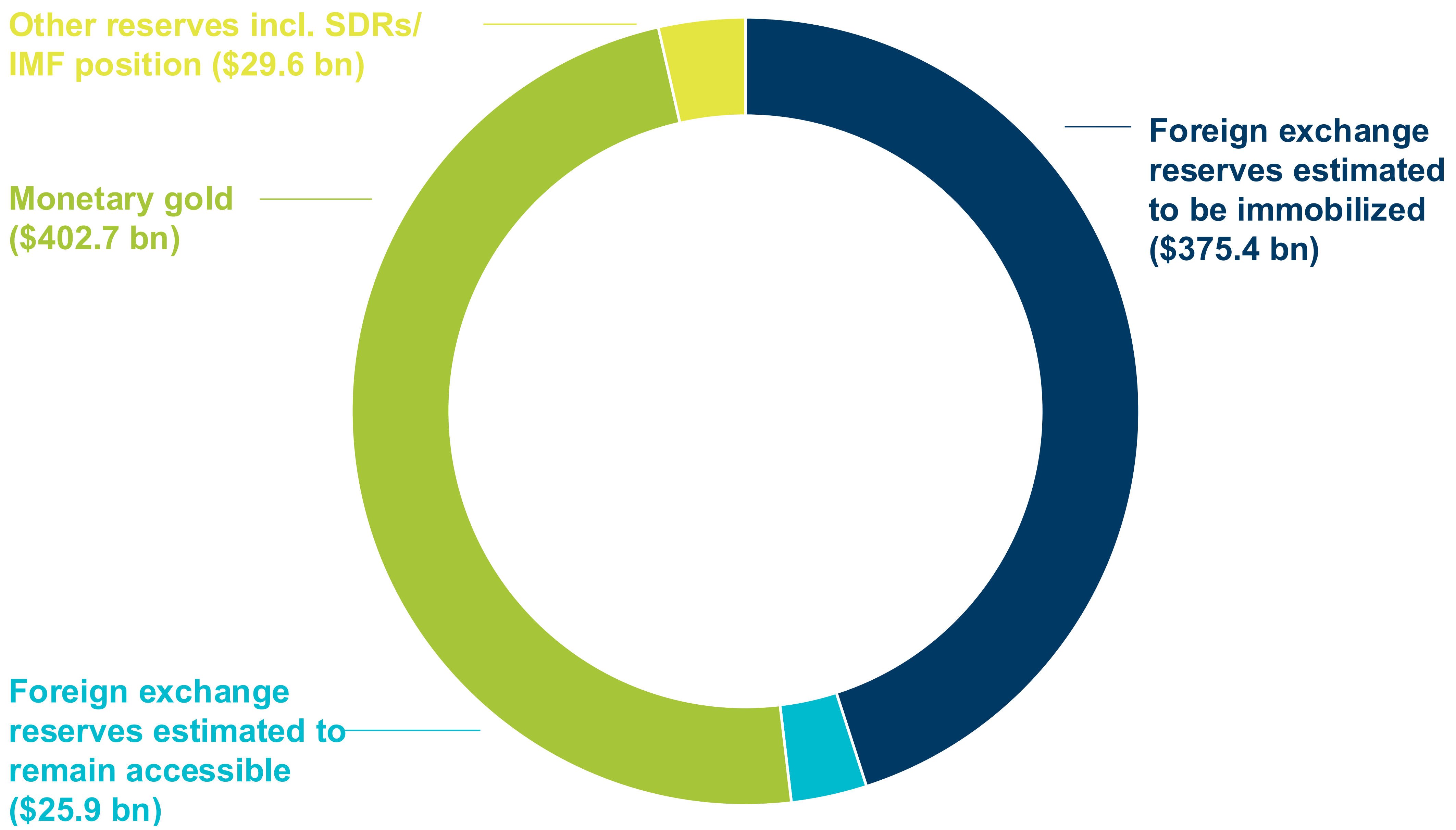
- Russia's total international reserves stand at $806 billion vs. $643 billion before the start of the full-scale war.
- The increase is largely the result of soaring gold prices as well as the U.S. dollar's moderate depreciation.
- We estimate, based on the CBR's Dec. 2021 data, that frozen reserves had a value of ~$375 billion at end-Jan.

Total reserves, in U.S. dollar billion



Source: Bank of Russia, KSE Institute

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

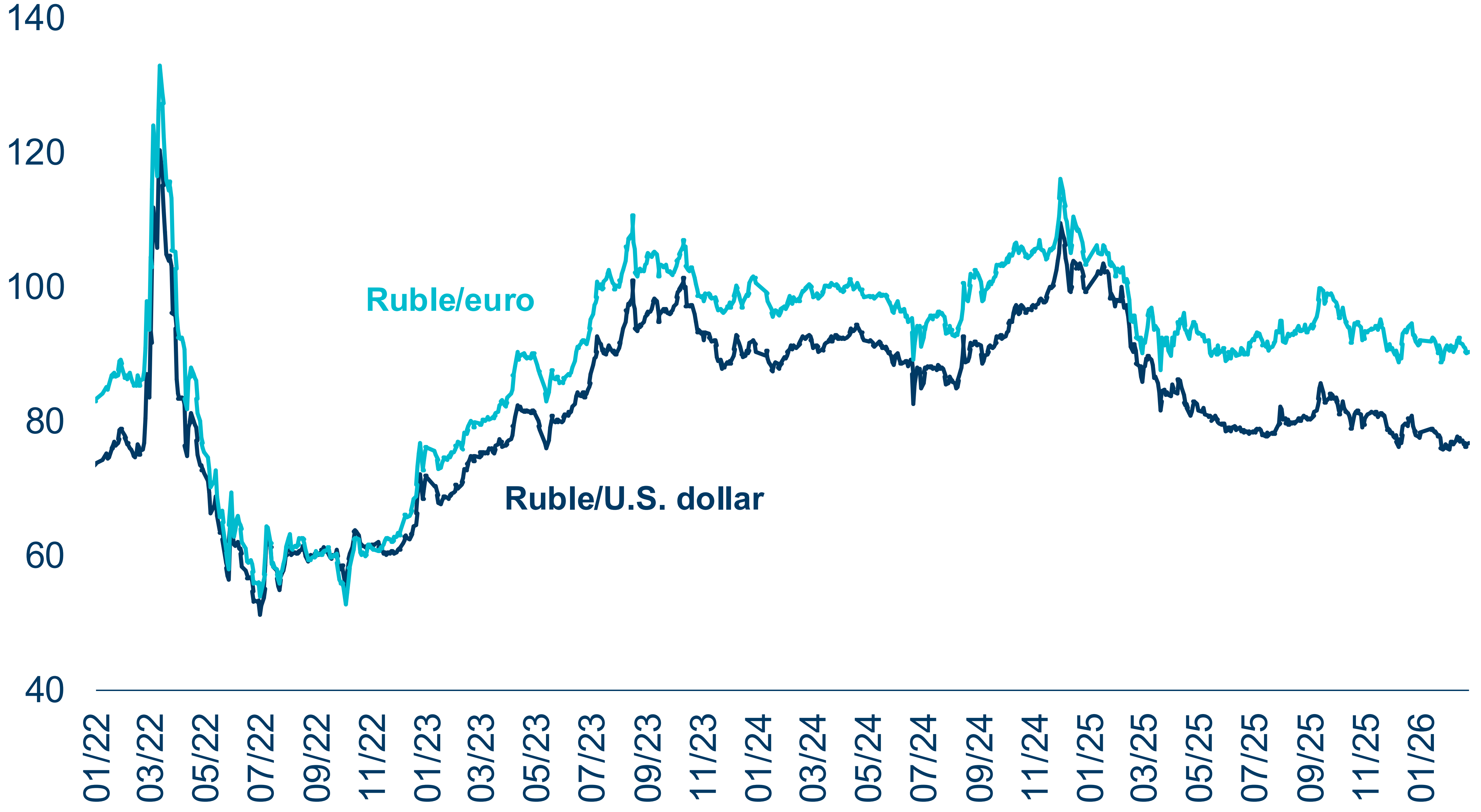


Source: Bank of Russia, KSE Institute *Calculated using December 2021 reporting by the CBR and market exchange rates; includes AUD, CAD, EUR, GBP, JPY, SGD, and USD.

Tight monetary policy curbs inflation as ruble holds steady.

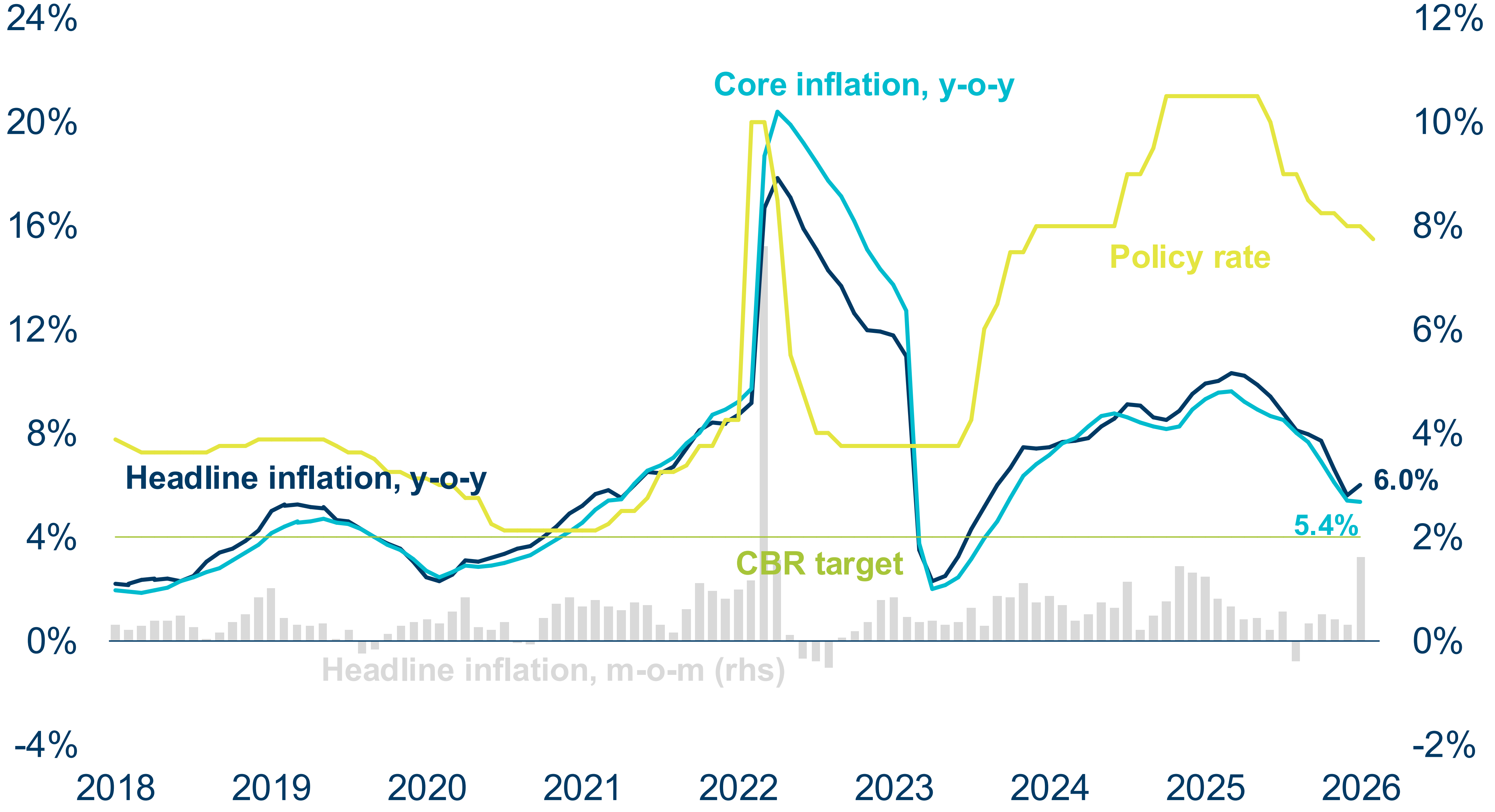
- Headline inflation rose slightly, increasing from 5.6% in December 2025 to 6.0% in January 2026.
- The ruble remained relatively stable throughout Jan. around 80 vs. the dollar and 90 vs. the euro.
- The CBR continued to cut the key rate (to 15.5%) amid fears of a deepening economic recession.

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



Source: Bank of Russia, KSE Institute

Inflation and CBR policy rate, in %

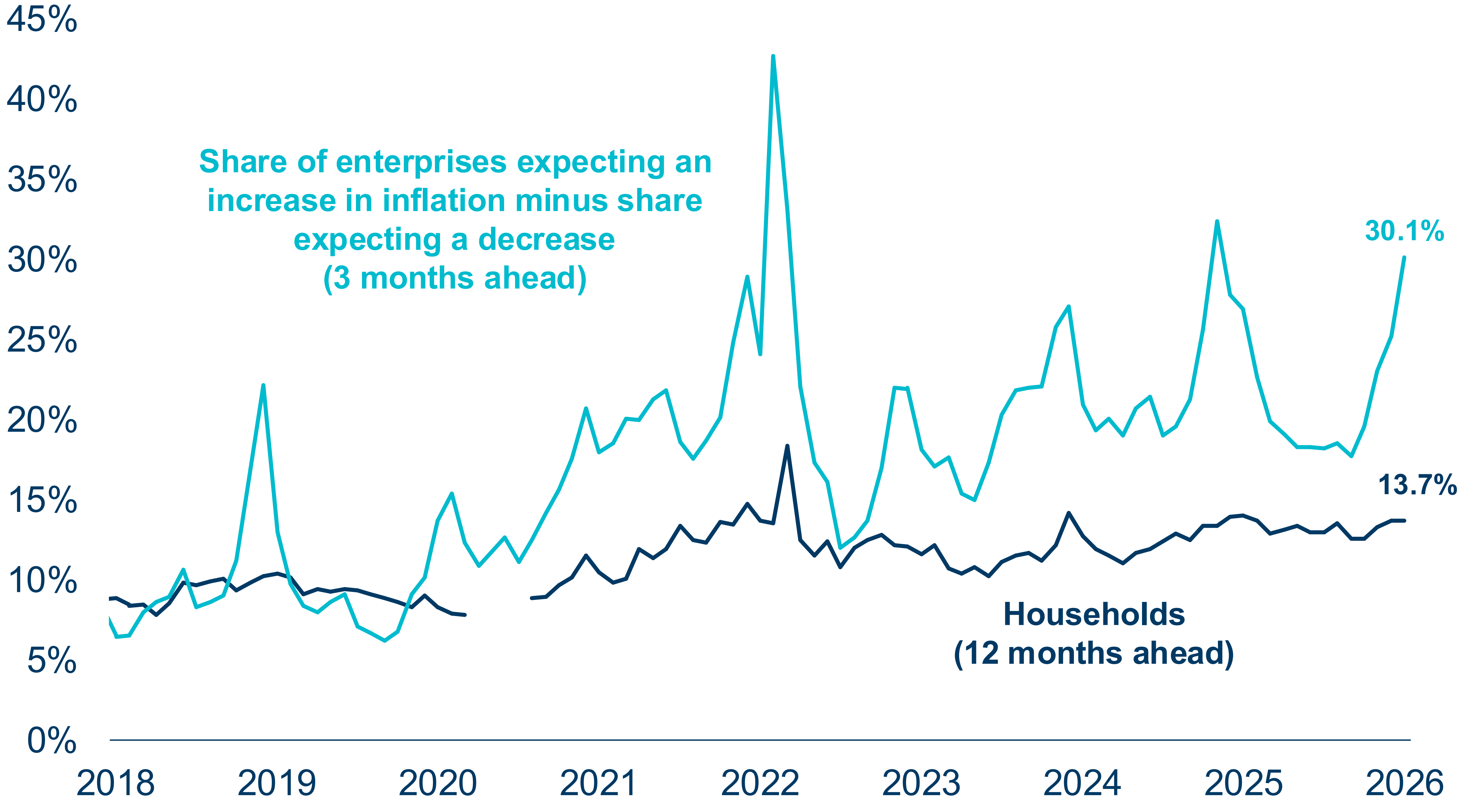


Source: Bank of Russia, KSE Institute

Rising inflation and unanchored expectations threaten 2026 outlook.

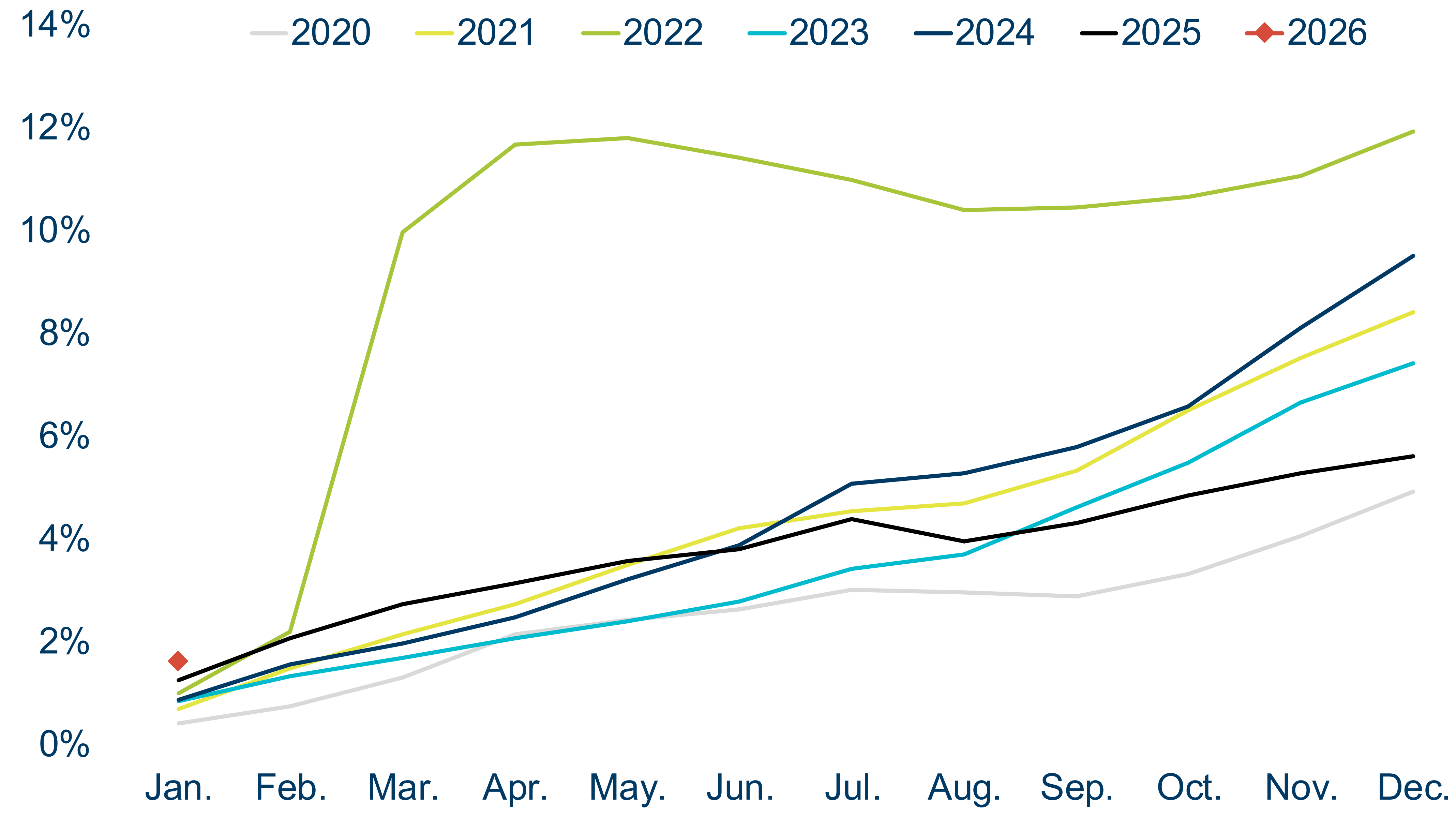
- Monthly inflation surged to 1.6% in January, marking the sharpest m-o-m reading since March 2022.
- Business and household inflation expectations hit 30.1% and 13.7%, respectively, fueling a wage-price spiral.
- The exceptionally high January inflation was driven by utility rate hikes and tax increases (including VAT).

Inflation expectations, %



Source: Bank of Russia, KSE Institute

Cumulative inflation, in %



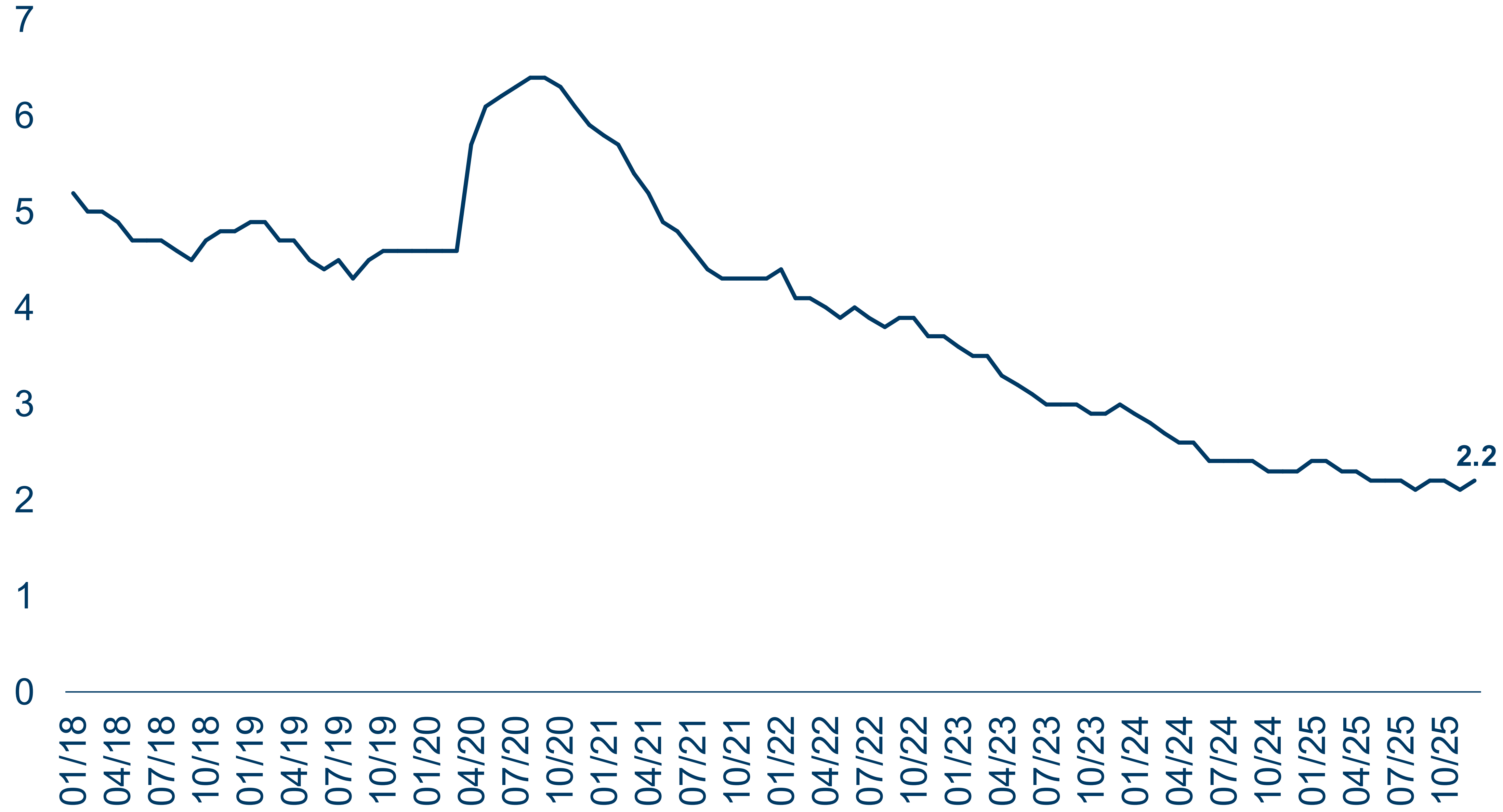
Source: Bank of Russia, KSE Institute

KSE | Institute

Severe labor shortages continue to cap economic growth potential.

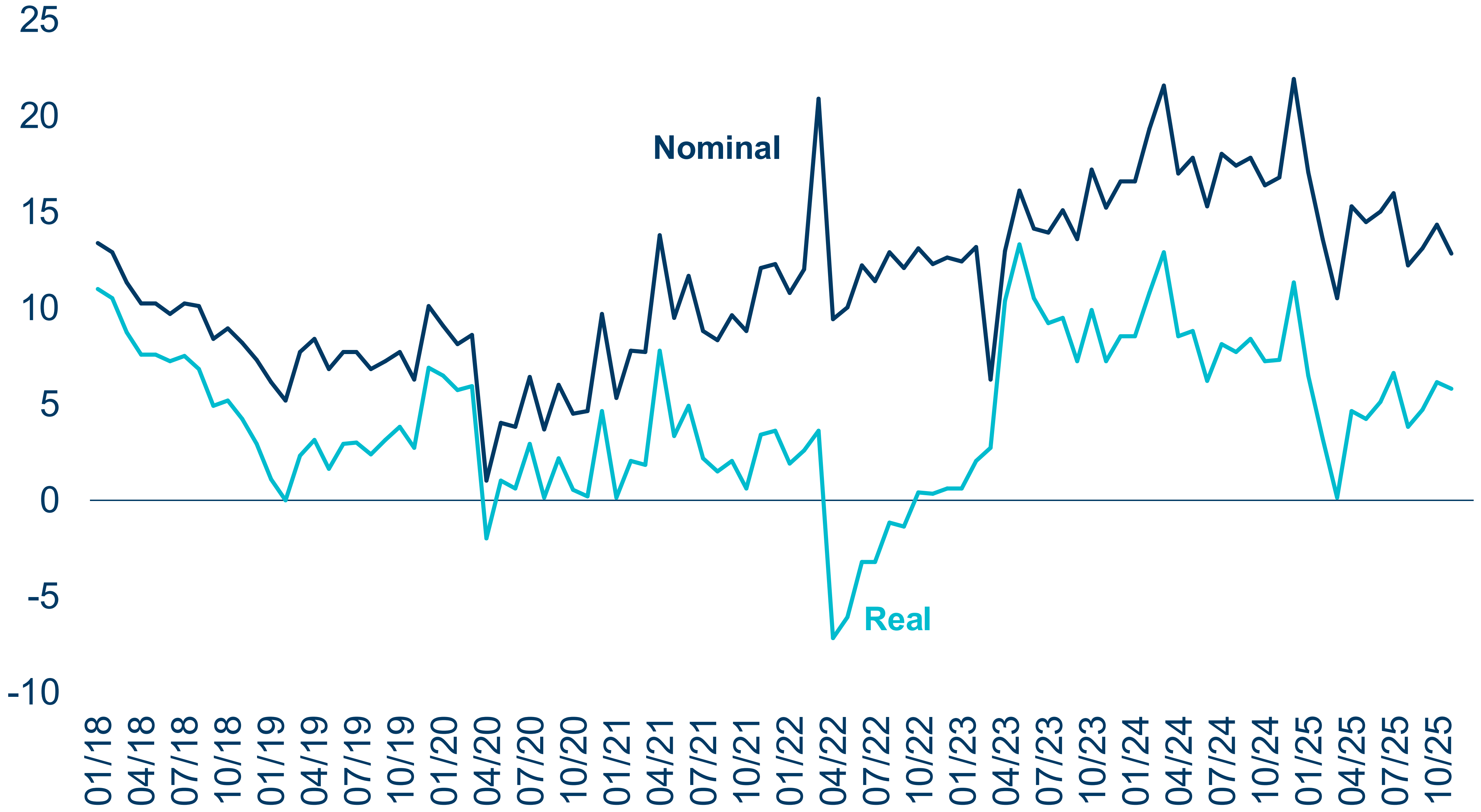
- The unemployment rate remains historically low, essentially indicating full employment in the economy.
- In addition to creating inflationary pressures, the economy has little spare capacity left to draw from now.
- Wage growth has been noticeably weaker throughout 2025 vs. 2024 and stood at 12.8% y-o-y in November.

Unemployment rate, in %



Source: Rosstat

Wage growth, in % year-over-year



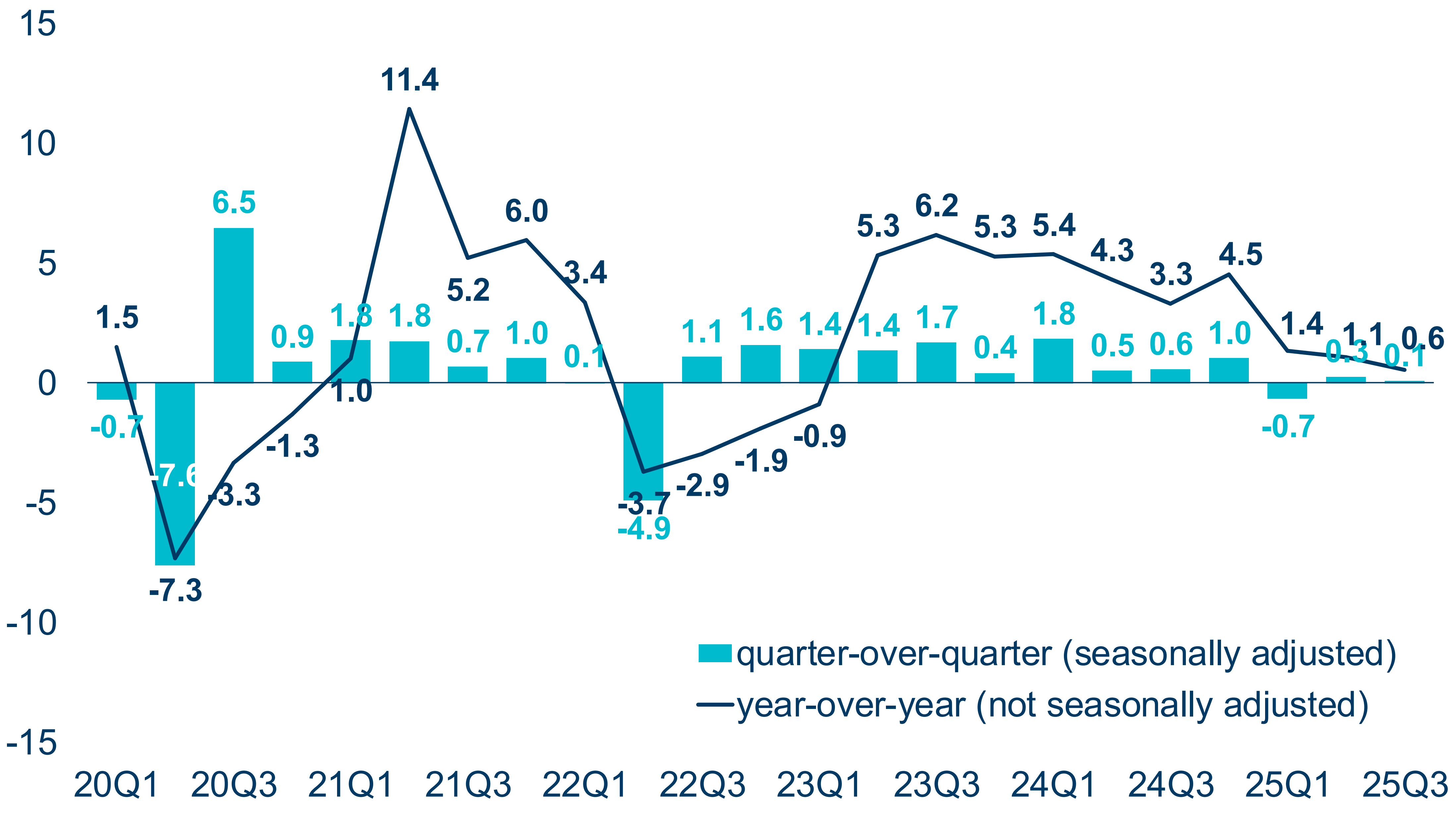
Source: Rosstat

KSE | Institute

2025 GDP growth hits a five-year low with a bleak outlook for 2026-2027.

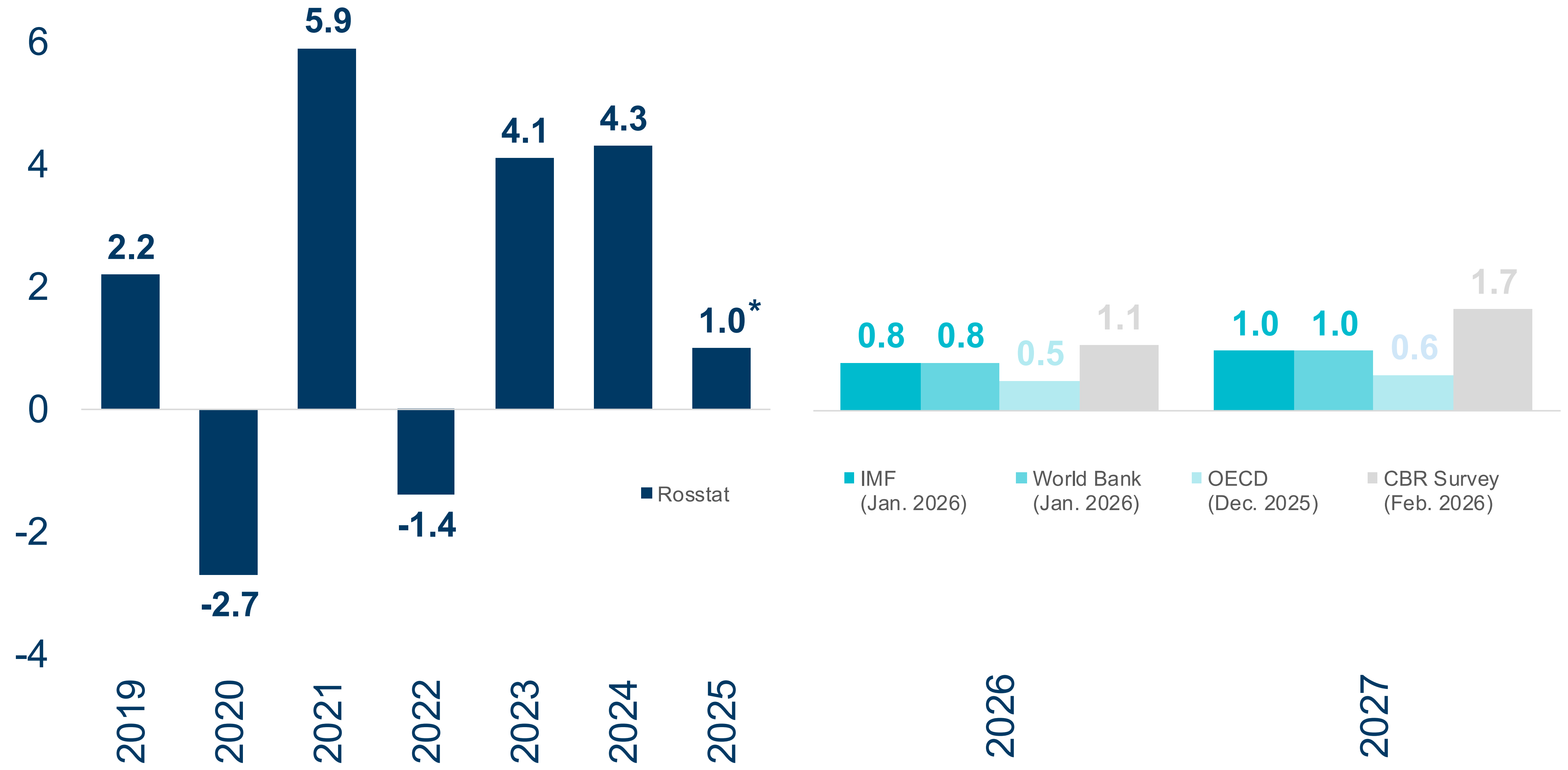
- Rosstat's preliminary estimate for real GDP growth in 2025 is 1%, marking a four-year low.
- Quarter-over-quarter figures illustrate that the economy essentially stalled in Q3 (+0.1%).
- International institutions are expecting ~1% growth for 2026-27, while the CBR has yet to revise.

Quarterly real GDP dynamics, in %



Source: Rosstat, KSE Institute
*Rosstat first estimate

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

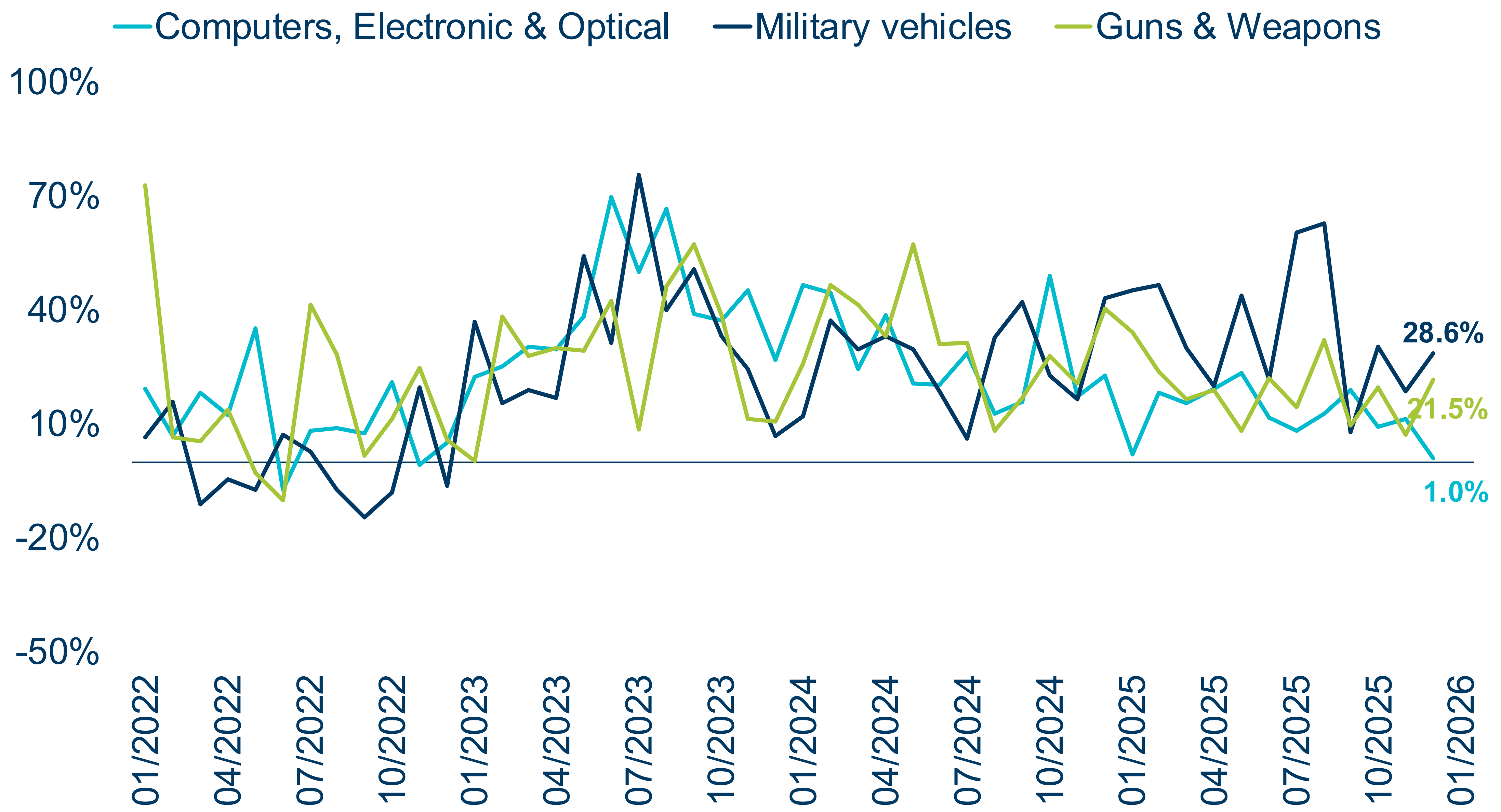


Source: Rosstat, Bank of Russia, IMF, OECD, World Bank
Preliminary assessment

Military production surges while civilian sectors contract heavily.

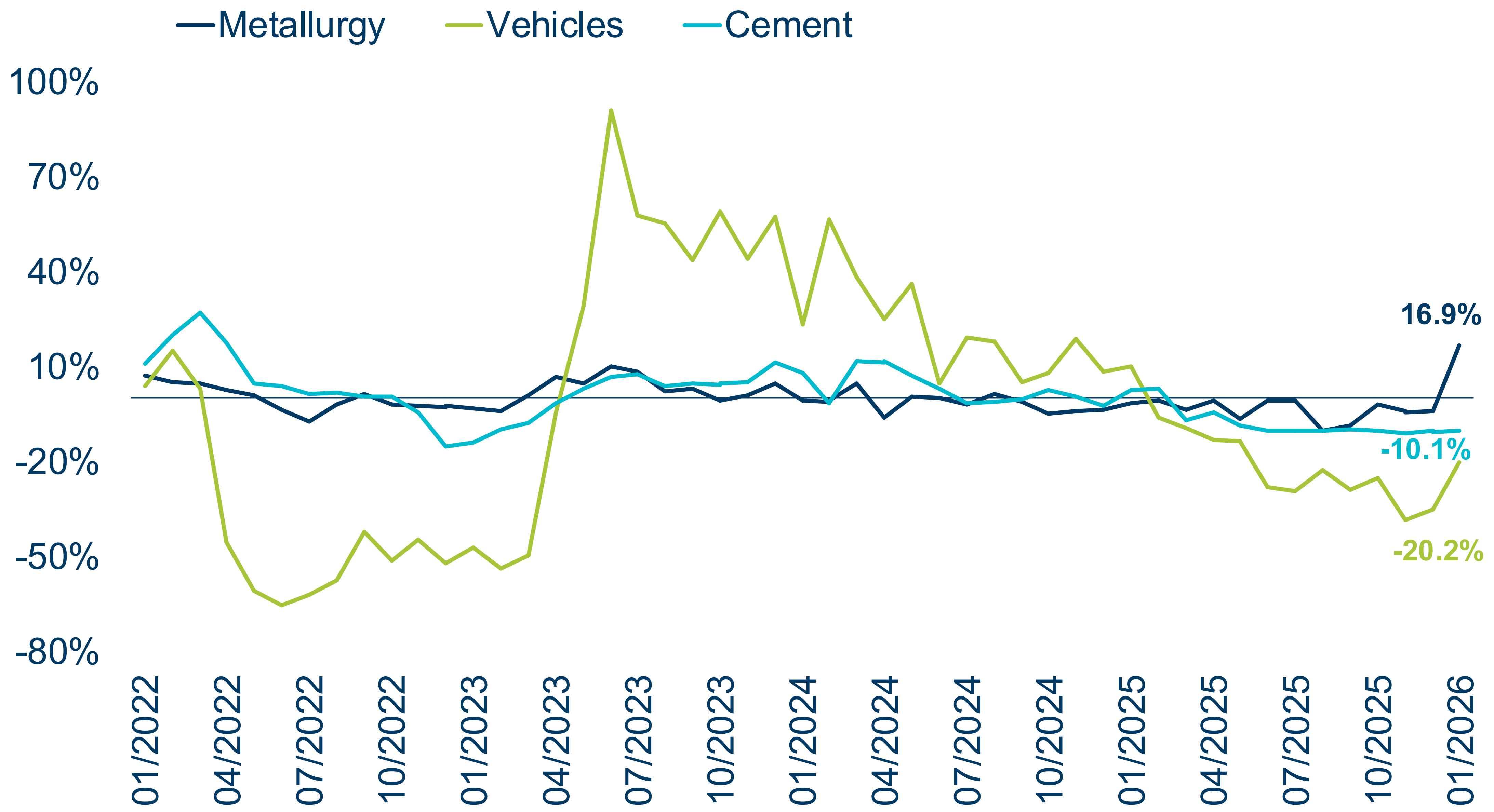
- Russia's industrial sector is propped up by defense spending, with military production maintaining strong growth.
- Meanwhile, the civilian economy is contracting rapidly, driven by steep drops in transport and construction.
- This divergence exposes a deeply unbalanced economy, effectively driven entirely by defense/war-related orders.

Production of certain types of military products, y-o-y, in %



Source: Rosstat, KSE Institute

Production of certain types of non-military products, y-o-y, in %

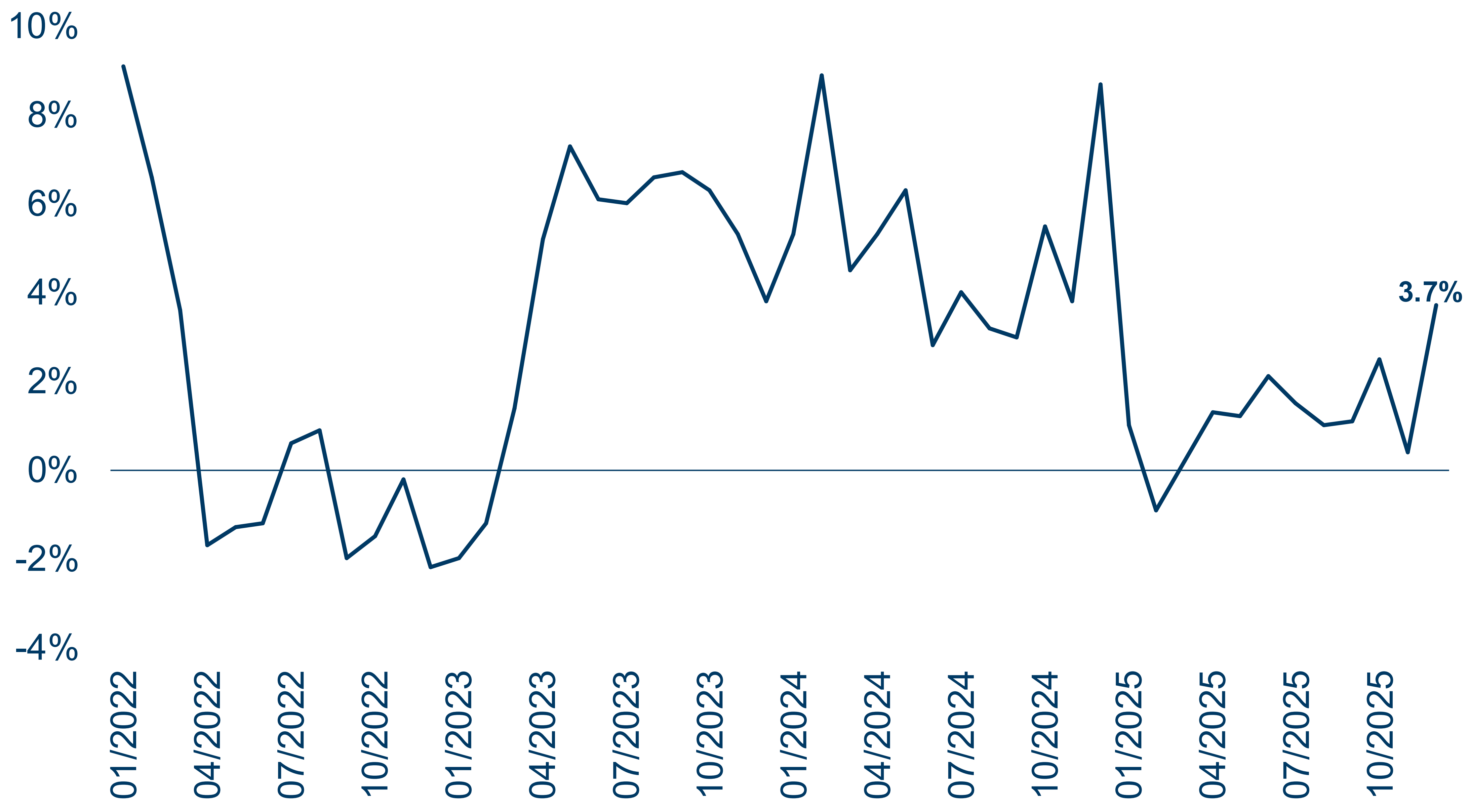


Source: Rosstat, KSE Institute

Industrial production cools as structural constraints limit further expansion.

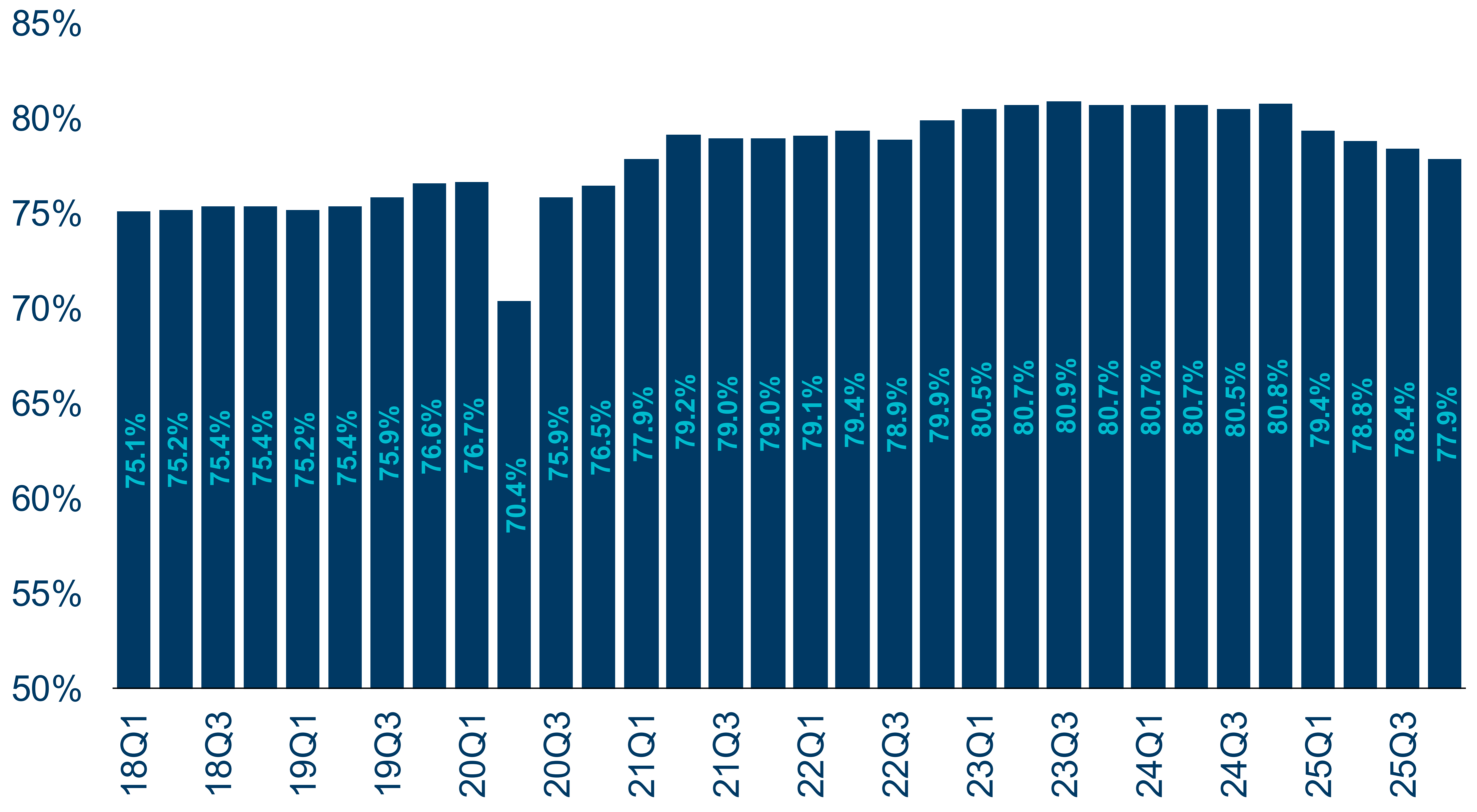
- Industrial production growth cooled significantly throughout 2025 but increased to 3.7% in Dec.
- At the same time, capacity utilization is falling from its historic highs, dropping to 77.9% in Q4 2025.
- Together, this indicates that the initial wartime manufacturing boom has exhausted its potential.

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



Source: Bank of Russia, KSE Institute

Capacity utilization, in %



Source: Bank of Russia, KSE Institute

KSE | Institute

Previous editions of KSE Institute's Russia Chartbook

- January 2026

- December 2025
- November 2025
- October 2025
- September 2025
- August 2025
- July 2025
- June 2025
- May 2025
- April 2025
- March 2025
- 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