BOFIT blog

Falling oil prices reduce Russia's budget revenues

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Russia's government finances are very sensitive to changes in global oil prices. Last year, oil & gas earnings accounted for about 30 % of total federal revenues and 16 % of consolidated government revenues.



World market prices for crude oil have dropped dramatically in recent weeks in response to demand uncertainty caused by US tariff policies and OPEC's decision to increase global supplies. Benchmark Brent crude oil futures predict that the oil price will average around $64–65 a barrel to the end of 2026. Russia's government finances are very sensitive to changes in global oil prices. Last year, oil & gas earnings accounted for about 30 % of total federal revenues and 16 % of

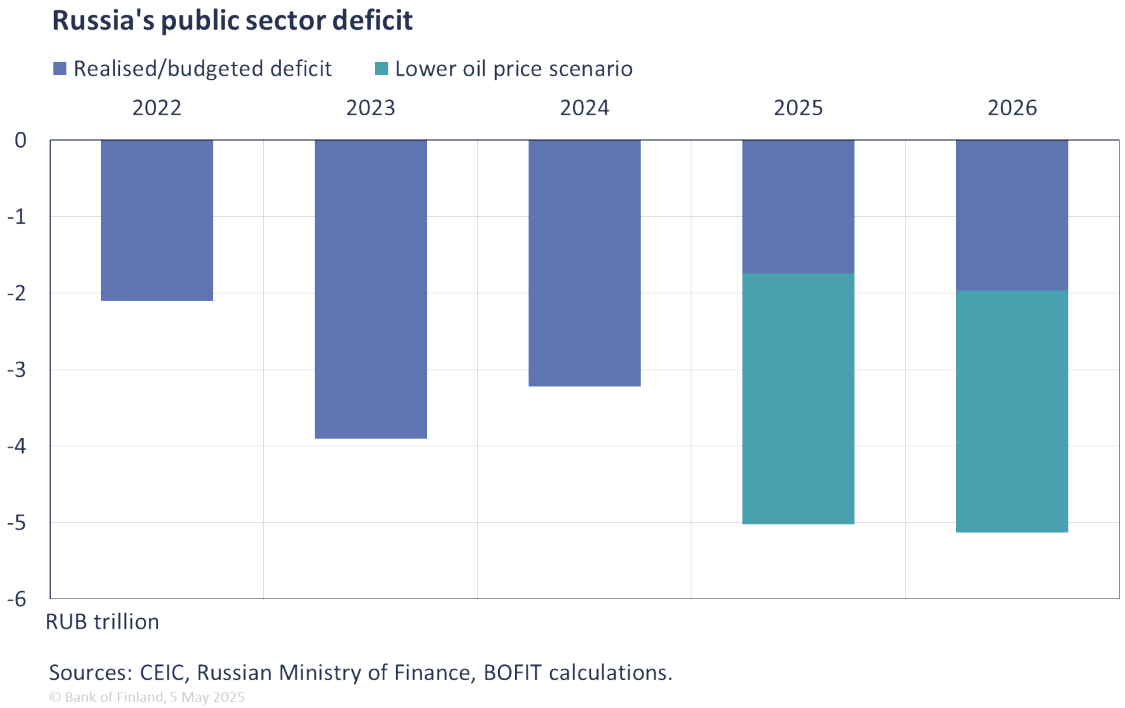
consolidated government revenues.

This year's budget framework assumes that the average export price of Russian crude oil is $70 a barrel[1]. The 2026 budget assumes an average export price of $66 a barrel. The ruble's average exchange rate this year is assumed to be 96.5 rubles to the US dollar and 100 rubles to the dollar next year. Under these assumptions, the budgeted deficit for the public sector would amount to 1.7 trillion rubles this year and 2 trillion rubles next year (a deficit of about 1 % of GDP each year).

The International Energy Agency (IEA) reports that the export price of Russian oil averaged $63 a barrel during the first three months of this year. Russian crude carried an average discount of $12 a barrel compared to the benchmark of North Sea Dated. If the discount on Russian oil remains the same, the average export price of Russian crude would be about $55 a barrel this year and $53 next year. For January-April, the average RUB-USD exchange rate has been 91 rubles per dollar, which is somewhat stronger than budget assumption. If the ruble's average rate remains at its April level until the end of 2026, it would average 86 rubles to the dollar this year and 83 rubles next year.

If the Brent oil price as predicted by futures markets would materialise, the discount on Russian oil would remain unchanged and the ruble's exchange rate would stay at its current level, Russian budget revenues would decrease substantially. The oil price calculated in rubles would be about 30 % less than the budget assumes, meaning that oil & gas revenues raised in 2025–2026 could be about 30 % below budgeted. Without additional measures to reduce the budget shortfall, the budget deficit would rise by about 3 trillion rubles in both years, to a deficit of about 5 trillion rubles (2.3 % of GDP) each year. While the the ruble-denominated deficit would be substantially larger in ruble terms than in recent years (Figure 1), it would change little in size relative to GDP.

Chart 1.

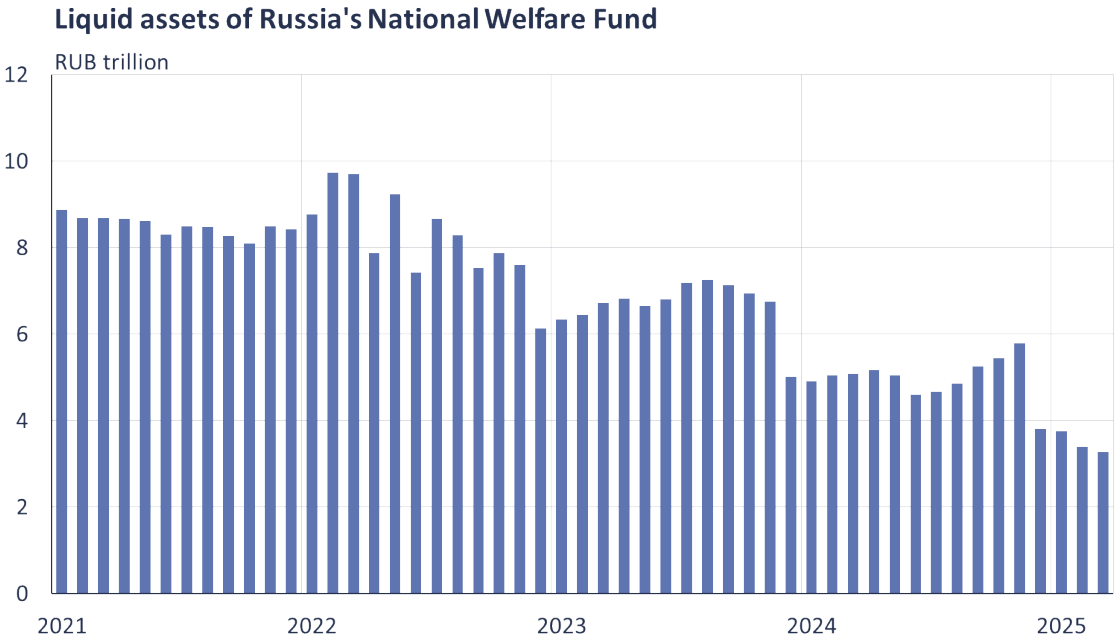


Sources: CEIC, Russian Ministry of Finance, BOFIT calculations.

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In the current situation, a deficit totalling 10 trillion rubles could cause difficulties for Russia. Government finances have been running in deficit already three years. At the same time, government indebtedness has risen. Although Russia's government debt is moderate (20 % of GDP) by international standards, debt-servicing costs have risen due to higher interest rates. Russia has also drained much of its savings from oil & gas earnings (Figure 2). As of end-March, the liquid assets (readily accessible) in the National Welfare Fund amounted to around 3.3 trillion rubles (1.5 % of GDP).

Chart 2.



Source: Russian Ministry of Finance.

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A lower oil price can also reduce Russian budget revenues if economic growth slows. If the average export price of Russian crude oil is $55 a barrel in 2025 and $54 in 2026, rather than the respective $70 and $60 assumptions of the budget framework, BOFIT's forecasting model indicates that Russian GDP growth would remain about one percentage point lower in both 2025 and 2026. Lower economic growth could reduce other government revenue streams than those from oil & gas earnings (for example, sales taxes and profit taxes paid by corporations).

Oil revenues for Russia, however, may not necessarily drop as much even if the realized benchmark Brent crude price would follow future market expectations. The discount on the Russian oil price is partly due to the price cap mechanism imposed by Western countries. Since the export price of Russian crude is currently below the cap of $60 a barrel, Russian oil can be transported in Western-owned tankers without violating sanctions. In addition, the ruble's exchange rate has remained relatively strong despite the drop in oil prices, so it could weaken in the coming weeks. This would support the government income in rubles.

In any case, Russia will sustain war spending despite higher deficits. Russia has multiple ways in which it could cover these upcoming deficits such as tightening taxation and reducing spending in other budget categories. The government could also increase its indebtedness, and – if necessary – resort to central bank financing. Such a move would increase already high inflationary pressures and could drive the Russian economy into crisis over the longer term. Russia's leadership at the

moment could hardly be less concerned about this outcome, however, as the war effort remains its top economic priority.

Notes

1. Under the current budget framework, the export oil price assumption is the weighted average of the export prices for Urals and ESPO crude oil blends (Urals blend 0.78 and ESPO blend 0.22). ↑

Keywords

budget, oil, Russia