

MONITORING OF RUSSIA'S ECONOMIC OUTLOOK

trends and challenges
of socio-economic development

Gaidar Institute



5(210) MARCH 2026

2026 FEDERAL BUDGET: THE REALISM OF ITS PARAMETERS

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The risks of chronic federal budget imbalance are increasing, which, given ongoing geopolitical uncertainty and price volatility, requires a more stringent budget and debt policy.

Overall, federal budget execution for the first two months of 2026 is in line with the target parameters of the budget law. Let's analyze how the continuation of the emerging trends in government revenue and expenditure dynamics could impact their budgeted annual values (*Table 1*).

According to a preliminary estimate by the RF Ministry of Finance, federal budget revenues in January-February 2026 amounted to Rb4.8 trillion, 10.8% lower than revenues in the relevant period of 2025. The main reason for this lower revenue is the dynamics of oil and gas revenues, which have continued a downward trend that began in May 2025 and amounted to Rb826 bn for the first two months of 2026, a 47.1% decrease compared to the relevant period of the previous year. As a result, the share of oil and gas revenues in total federal budget revenues fell to 17.3%, compared to 22.7% and 30.3% for 2025 and 2024, respectively.

The negative dynamics in oil and gas revenues are due to sanctions restrictions, the prevailing strong ruble exchange rate, and the decline in market prices for hydrocarbons due to increased supply on global markets. However, the latter factor (taking into account some temporary easing of US sanctions on Russian oil exports to India) after the start of the military conflict in Iran ceased to put pressure on oil and gas revenues, which should be confirmed by the budget revenue data for March.

It is difficult to determine the long-term impact of the change in oil and gas revenues to the federal budget, as it is virtually impossible to predict the duration and intensity of the armed conflict with Iran. If there are no significant improvements in the terms of Russian hydrocarbon trade and the ruble remains near its current level (around Rb80 per \$1), the federal budget may not receive up to Rb2 trillion in oil and gas revenues by the end of 2026, according to our estimates.

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Table 1

Key parameters of the federal budget for 2024–2026

| | 2024 (actual) | | 2025 (preliminary estimate) | | 2026 (plan) | | Execution in January-February 2026 (preliminary estimate) | |
|---|----------------|-------------|-----------------------------|-------------|----------------|-------------|---|--------------------|
| | Billion rubles | % GDP | Billion rubles | % GDP | Billion rubles | % GDP | Billion rubles | % of plan for year |
| Revenues, including: | 36 709 | 18.1 | 37 284 | 17.5 | 40 283 | 17.1 | 4 767 | 11.8 |
| oil and gas revenues, including: | 11 131 | 5.5 | 8 477 | 4.0 | 8 918 | 3.8 | 826 | 9.3 |
| <i>base volume of oil and gas revenues</i> | <i>9 831</i> | <i>4.9</i> | <i>8 393</i> | <i>4.0</i> | <i>8 957</i> | <i>3.8</i> | <i>1 161</i> | <i>13</i> |
| <i>Additional oil and gas revenues</i> | <i>1 300</i> | <i>0.6</i> | <i>84</i> | <i>0.0</i> | – | – | – | – |
| non-oil and gas revenues | 25 578 | 12.6 | 28 807 | 13.5 | 31 365 | 13.3 | 3 942 | 12.6 |
| Expenditures | 40 180 | 19.8 | 42 909 | 20.1 | 44 069 | 18.7 | 8 216 | 18.6 |
| Deficit | -3 471 | -1.7 | -5 625 | -2.6 | -3 786 | -1.6 | -3 449 | 91.1 |
| <i>For reference:</i> | | | | | | | | |
| State domestic debt at year end: upper limit according to Federal Budget Law for corresponding year in its original version | 26 637 | 13.2 | 29 385 | 13.8 | 37 436 | 15.9 | – | – |
| actual volume (in billion rubles and % of established upper limit) | 23 742 | 89.1 | 30 655 | 104.3 | – | – | 31 299 | 83.6 |

Source: RF Ministry of Finance, Rosstat, own calculations.

A similar position is shared by most experts surveyed by the Central Bank of the Russian Federation in January 2026¹, i.e., before the US-Iran conflict began: the average annual Urals crude oil price ranged from \$40–\$58 (median: \$50) per barrel, and the average annual US dollar/ruble exchange rate ranged from \$80–\$101.2 (median: \$85) per \$1. Consequently, the consensus forecast for the average annual ruble price of Russian Urals crude oil, excluding the conflict in Iran that began on February 28, is approximately equal to Rb4,250 per barrel, instead of Rb5,440 per barrel projected for 2026 in the federal budget law, i.e., 22% below the budget forecasts.

According to the budget rule, lost oil and gas revenues must be compensated up to the base level (*Table 1*) from the National Welfare Fund (NWF). Specifically, in January-February 2026, almost Rb400 bn from the liquid portion of the NWF were spent to finance the federal budget deficit. As of March 1, 2026, the NWF's volume amounted to Rb13.5 trillion, and liquid assets (funds in bank accounts with the Central Bank of the Russian Federation) amounted to Rb4 trillion. Further adherence to the fiscal rule is fraught with risks of halving the liquid portion of the National Welfare Fund by the end of 2026, with simultaneous strengthening of the ruble (due to the need to sell yuan on the foreign exchange market). Consequently, the RF Ministry of Finance has begun actively discussing options for redesigning the current fiscal rule, simultaneously deciding not to carry out foreign currency purchases and sales in March as part of the rule's implementation.

The shortfall in oil and gas revenues was partially offset by a nominal increase in non-oil and gas revenues (according to the RF Ministry of Finance, the increase amounted to 4.1% year-on-year). However, the slightly over Rb3.9 trillion received by the federal budget in the first two months of this year constitute only 12.6% of the annual forecast, indicating a slight lag behind schedule. The

1 The RF Central Bank's macroeconomic survey (February 2026). URL: https://cbr.ru/statistics/ddkp/mo_br/.

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RF Ministry of Finance specifically points out VAT revenues¹ of Rb2,237 bn over the past two months, which were 10.8% higher than for the same period last year. At the same time, it should be remembered that this tax is paid to the federal budget with a quarterly lag, meaning that budget revenues from VAT in Q1 2026 are a result of economic activity in Q4 2025. The federal budget will begin to feel the fiscal impact of the tax rate increase from 20% to 22% starting from April 2026. It should also be taken into account that VAT revenues to the budget in 2026, amounting to Rb17.5 trillion are affected by a certain slowdown in economic growth and estimates of the ruble exchange rate and inflation that differ from those stipulated in the federal budget law. Furthermore, it is difficult to assess the prospects for tax collection due to the inclusion of micro and small businesses operating under the simplified tax system and enjoying certain opportunities for tax optimization beyond legal means in VAT turnover. According to our estimates, there is a risk of a VAT shortfall of Rb0.5 trillion by the end of the year.

A shortfall of Rb100 bn-Rb120 bn in profit tax revenue to the federal budget also appears possible due to a slowdown in Russian economic growth. Consequently, in a worst-case scenario, non-oil and gas federal budget revenues could amount to approximately Rb30 trillion. According to the results of the current year, total revenues amounted to Rb37 trillion, which is below the nominal level for 2025 (*Table 1*). This reduction in revenues can hardly be considered critical, as the year-on-year decline will not exceed 10%, which generally speaks in favor of the relatively low vulnerability of the budget revenue side to exogenous and endogenous shocks.

Unlike revenues, federal budget expenditures are slightly ahead of schedule: Rb8.2 trillion were spent over the first two months, representing 18.2% of the annual plan (Rb44.1 trillion) and 5.8% higher over the same period last year. This dynamic in federal budget expenditures, according to the RF Ministry of Finance, was the result of the prompt conclusion of government contracts and the advance payment of certain contracted expenses. Given the typical practice of exceeding budget expenditure ceilings in recent years, budget expenditures may be adjusted upward this year (by approximately Rb1 trillion, according to our estimates). Given the existing risks of shortfalls in budget revenues, this could lead to a doubling of the deficit provided for by the law.

To avoid such a scenario, the RF Ministry of Finance is expected to conduct a 10% optimization of “unprotected” expenditure items.² The ultimate size of the optimization is still unclear, but given previous similar initiatives and the identified benchmarks, we estimate it could be in the range of Rb1–2 trillion. Such budget consolidation through targeted sequestration of expenditures seems to us to be a timely and justified alternative to further increasing their volumes to the detriment of long-term budget sustainability and the preservation of sovereign reserves. Moreover, this optimization will, with a high degree of probability, prevent the government from exceeding the expenditure ceiling established by the federal budget law.

For the first two months of this year, the federal budget posted a deficit of Rb3.5 trillion, while a year earlier, the budget balance for the same period was equal to Rb2.4 trillion. This means that the deficit in nominal terms increased

1 Traditionally, it is the main source of income for the federal budget: by the end of 2025, its share amounted to 39% of all federal budget revenues.

2 URL: <https://www.vedomosti.ru/economics/articles/2026/03/11/1182194-sokratit-rashodi-byudzheta>

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by more than Rb1 trillion, and in annual terms, the current deficit is very close to the plan for the entire 2026 (91%). The RF Ministry of Finance explains the high deficit figures at the beginning of the year by the advanced financing of expenditures within the year and believes that this “will not affect the implementation of the target parameters of the structural balance for 2026 as a whole.”¹

In recent years, the budget deficit has been financed primarily through domestic government borrowing. In 2025, the RF Ministry of Finance raised nearly Rb7 trillion from the market (the nominal value of OFZs issued exceeded Rb8 trillion), with national currency debt securities redemptions totaling Rb1.4 trillion. Net government borrowing is planned for 2026 at Rb4 trillion. Given that the federal budget's lost oil and gas revenues will be offset by additional borrowing, by mid-year the Russian Ministry of Finance may face the public debt ceiling established by the federal budget law (*Table 1*), which will require the adoption of corresponding amendments to the country's main financial document. Although current and expected public debt levels do not appear alarming in terms of their impact on economic growth and fiscal sustainability, if the economy continues to slow, such trends could lead to an undesirable rapid increase not only in the size of accumulated public debt, but also in the cost of servicing it (given a still-high key interest rate). A smooth and controlled weakening of the ruble would clearly help the budget; however, this measure has serious inflationary consequences and is therefore unlikely to resolve the issue of balancing the federal budget without significant expenditure optimization.▲

1 URL: https://minfin.gov.ru/ru/press-center/?id_4=40230-predvaritelnaya_otsenka_ispolneniya_federalnogo_byudzheta_za_yanvar-fevral_2026_goda