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# DRAFT FEDERAL BUDGET FOR 2027–2029: PRIORITIES REMAIN UNCHANGED, BUT THEIR FUNDING INCREASINGLY DEPENDS ON PUBLIC DEBT

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*On October 29, 2026, key parameters of the draft federal budget for 2027–2029 were approved by the State Duma after the first reading. Revenues are expected to grow in line with GDP growth, while expenditures are projected to decline from nearly 21% of GDP this year to 19.1% of GDP in 2029. The budget will remain in deficit, but the deficit will hover around 2% of GDP. Overall, based on the parameters approved by the State Duma, it can be assumed that – given the significantly increased tax burden on businesses and the population, coupled with restrained spending growth – the budget is essentially passing the baton for stimulating economic growth to monetary policy led by the Central Bank of the Russian Federation.*

The key parameters of the draft federal law "On the Federal Budget for 2027 and for the Planning Period of 2028 and 2029" (hereinafter referred to as the "Draft Law") are defined based on the Forecast of the Socio-Economic Development of the Russian Federation for 2027 and the Planning Period of 2028 and 2029 (hereinafter referred to as the Forecast[1]), prepared by the Ministry of Economic Development of Russia, as well as in accordance with the requirements of budgetary rules (*Table 1*)

It should be noted that the draft law revises the ***revenue*** projections relative to the amounts approved for the planning period in the Federal Budget Law for 2026–2028[2] – from Rb42.9 trillion to Rb43.3 trillion in 2027; the changes for 2028–2029 are less significant.

The structure of federal budget revenues was also revised, primarily due to lower expectations for oil and gas revenues: from previous estimates of Rb9.0 trillion in 2027 to Rb7.0 trillion projected in the draft law, respectively – that is, Rb2 trillion less than projected a year earlier. For 2028, Law No. 426-FZ had projected approximately Rb9.7 trillion in oil and gas revenues, and in the

1 In the forecast, the average annual exchange rate in 2026 is estimated at Rb79.5 per dollar, with a subsequent depreciation to Rb87.4 per dollar in 2027, Rb92 per dollar in 2028, and Rb96 per dollar in 2029. The forecast for the export price of Russian oil is $53 a barrel, $52 a barrel, and $51 a barrel, respectively, compared with an expected $61.2 a barrel at the end of 2026. Inflation is slowing from 6.8% in 2026 to 4% in 2027 and will remain at that level thereafter.

2 Federal Law No. 426-FZ of November 28, 2025, "On the Federal Budget for 2026 and the Planning Period of 2027 and 2028" (hereinafter "Law No. 426-FZ").

current draft law, this figure has been reduced to Rb7.6 trillion. The decline in oil and gas revenue in the draft law is offset by growth in non-oil and gas revenue sources – in 2027, from Rb33.9 trillion in the Law No. 426-FZ to Rb36.3 trillion in the Draft Law, and in 2028 from Rb36.2 trillion to Rb38.2 trillion, respectively.

*Table 1*

Principal characteristics of the Federal budget, Rb bn.

| Indicator | 2025 (actual) | 2026 (estimate) | 2027 (draft law) | 2028 (draft law) | 2029 (draft law) |
|---|---|---|---|---|---|
| **Revenues** including: | **37 284** | **41 182** | **43 297** | **45 835** | **48 620** |
| *in % to GDP* | *17.4* | *17.7* | *17.4* | *17.4* | *17.3* |
| Oil and gas | 8 477 | 7 584 | 7 003 | 7 634 | 7 726 |
| *in % to GDP* | *4.0* | *3.3* | *2.8* | *2.9* | *2.7* |
| Non-oil and gas | 28 807 | 33 598 | 36 294 | 38 201 | 40 894 |
| *in % to GDP* | *13.4* | *14.5* | *14.6* | *14.5* | *14.5* |
| **Expenditures** | **42 910** | **48 527** | **48 740** | **50 954** | **53 865** |
| *in % to GDP* | *20.0* | *20.9* | *19.6* | *19.3* | *19.1* |
| **Deficit (-) / Surplus (+)** | **-5 626** | **-7 345** | **- 5 443** | **5 119** | **-5 245** |
| *in % to GDP* | *2.6* | *3.2* | *2.2* | *1.9* | *1.9* |
| ***Non-oil and gas deficit*** | **-14 103** | ***-14 929*** | ***-12 447*** | ***-12 753*** | ***-12 971*** |
| *in % to GDP* | *6.6* | *6.4* | *5.0* | *4.8* | *4.6* |

*Source:* Explanatory note to the Draft law.

Overall, in the medium term, federal budget revenues will continue to exhibit relatively low volatility as a share of GDP, fluctuating within the range of 17.3–17.7% of GDP. It is worth noting the relatively high quality of the Russian Ministry of Finance's forecasts, which generally align with our own estimates of upcoming budget revenues. The stability of budget revenues – given that all major cyclical taxes are concentrated at the federal level – can provide the necessary stability to the entire budget system, despite increasing sanctions pressure and the slowdown in the Russian economy.

However, the relatively moderate growth in revenues from 2027 to 2029 masks a significant restructuring of the revenue base. In particular, the share of oil and gas revenues in total revenues is projected to decline from 18.4% in 2026 to 15.9% in 2029. VAT remains the main pillar of the federal budget, with its share projected to rise from 39.7% in 2025 to 46.2% by the end of 2027. In other words, the decline in the oil and gas component is accompanied by an increased reliance on a single tax rather than a more even diversification.

While in 2022 there was virtually parity between rent-based and non-rent-based federal budget revenues (44% to 56%, respectively), by the end of this year – as well as in 2027 – the ratio may reach 1 to 4 in favor of non-rent-based sources of budget revenue. The trend toward a decline in the contribution of rent-based revenues to budget revenues signifies a reduction in the federal budget's dependence on raw materials, which in turn contributes to strengthening national financial sovereignty.

The federal budget ***expenditures*** over the 5-year period under review will increase from Rb42.9 trillion in 2025 to Rb53.9 trillion in 2029, or by 25.5% in nominal terms. Compared to the levels approved in Law No. 426-FZ,

expenditures will increase by Rb2.6 trillion, or 5.7%, in 2027, and in 2028 by Rb1.5 trillion, or 3.2%, in nominal terms, with projected inflation of 4.0% in 2027–2028, indicating a fairly moderate increase, according to the plans of the Russian Ministry of Finance.

It should be noted separately that, for the upcoming three-year period, the requirement to maintain a primary structural balance in the federal budget is subject to a provision allowing for a temporary excess of the expenditure ceiling during the 2027–2028 adjustment period (by Rb1.5 and Rb0.5 trillion, respectively). At the same time, it should be noted that revising federal budget expenditures upward during the budget execution process without an equivalent increase in revenue sources[1] ultimately leads to a violation of the budget rule, which greatly diminishes the practical usefulness of the rule as an institutionally disciplining norm of budget legislation.

Given the projected GDP growth, the federal budget expenditure ratio could return to 20.0% of GDP as early as 2027, followed by a further decline. According to estimates by the Russian Ministry of Finance, the fiscal impulse will shrink to near-zero levels in 2027. On the one hand, this could significantly reduce pro-inflationary pressure on the ruble from the budget and allow the Central Bank to move toward more aggressive cuts in the key rate. On the other hand, over the past five years, the Russian economy's growth rate – which was quite high given the macroeconomic conditions – has been sustained primarily by the fiscal impulse. However, in the event of a significant reduction in budget expenditures in 2027 compared to 2026, in real terms – against the backdrop of the cumulative negative effect of the tax burden, which has increased significantly in recent years – the state budget's impact on economic growth will inevitably decline, and the country's potential for further development will depend primarily on the availability of credit financing and private demand.

In the expenditure structure, more than one-third (35.2%) of the federal budget in 2027 will be allocated to national defense. Second in the expenditure structure is funding for social policy (13.6%), while third place is effectively shared by two expenditure categories – the national economy (9.5%) and servicing of state and municipal debt (9.3%). The fact that interest payments will equal budget spending on the development of the Russian economy in terms of volume is cause for some concern: the financial burden of servicing "past" expenditure obligations is beginning to outweigh the financial importance of building the country's future economic potential. In turn, this shift in the structure of federal budget expenditures will negatively impact the Russian budget's ability to respond actively and in a timely manner to the dynamics of the economic cycle.

Throughout the entire three-year period, the federal budget will remain ***in deficit***; however, the annual budget deficit will decrease from 2.2% of GDP in 2027 to 1.9% of GDP in 2029. This deficit level is, in and of itself, quite "comfortable" for maintaining long-term fiscal sustainability, but it depends primarily on the achievement of revenue targets.

Domestic government borrowing will be the main source of financing for the federal budget deficit in 2027–2029: the Russian Ministry of Finance plans to raise net borrowing (excluding repayments) from the market in the amount

1 By the end of 2026, actual non-interest expenditures (even excluding the balance of budgetary and intergovernmental loans) may exceed the calculated threshold for them by more than Rb2 trillion.

of Rb5.7–6.1 trillion annually.[1] It should be noted that in recent years, the volume of net borrowing has remained consistently above Rb5 trillion, with an upward trend, which inevitably affects the dynamics of domestic public debt. Ultimately, total public debt is expected to increase from Rb35.1 trillion (16.4% of GDP) at the beginning of 2026 to Rb68.0 trillion (24.1% of GDP) by the end of 2029. Although the level of accumulated public debt at the end of this three-year period will still remain well below the corresponding figures for the vast majority of OECD and G20 countries, nevertheless, as early as 2027, public debt will exceed the psychological threshold of 20% of GDP, which has long served as a "cornerstone" in the system of indicators for the sustainability of the country's fiscal system. Furthermore, the accumulation of public debt amid high interest rates means locking in "expensive" debt for the long term.

1 In the structure of public debt by source, the share of domestic liabilities will continue to rise and will exceed 91% by the end of the planning period (up from the current 87%).