Stepping Up Sanctions Pressure on Russia in a Challenging Geopolitical Environment

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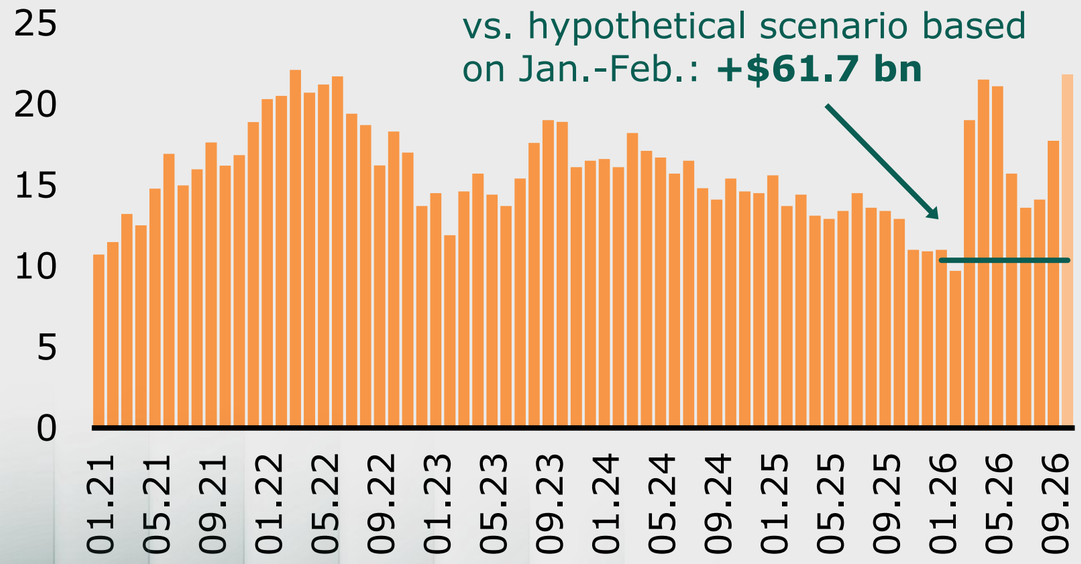
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Elephant in the Room: Iran War

RUSSIA CONTINUES TO EARN WINDFALL REVENUES

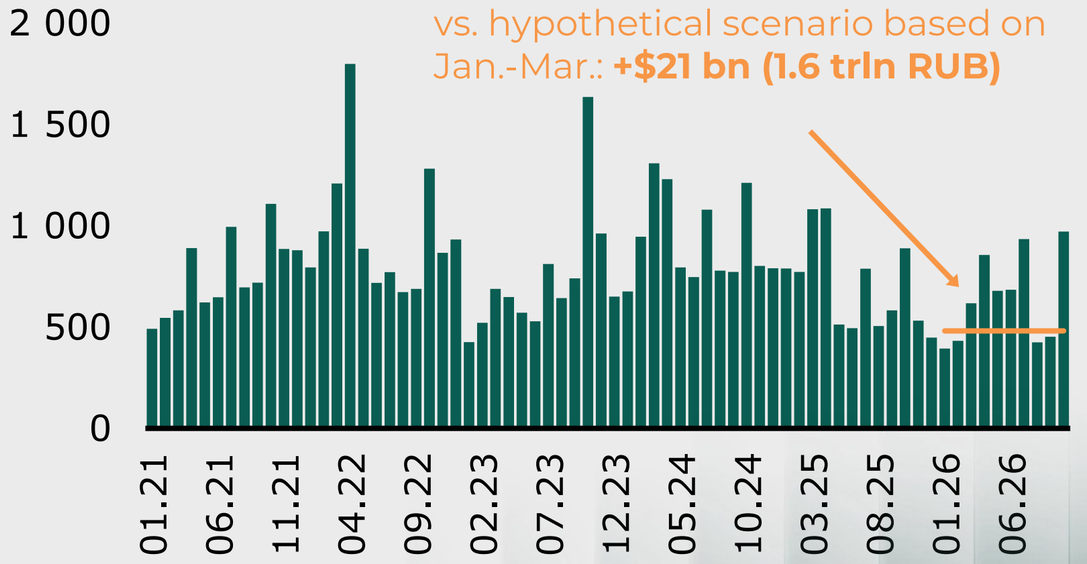
- Oil **export earnings** and O&G **budget revenues** have **risen significantly** due to the Iran war.
- Russia earned **an additional ~$62 bn** in export revenues and **$21 bn** in budget revenues compared with a hypothetical no-war scenario.

Oil export earnings, $ bn



Source: IEA, KSE Institute assessment for October 2026

Oil and gas budget revenues, ₽ bn



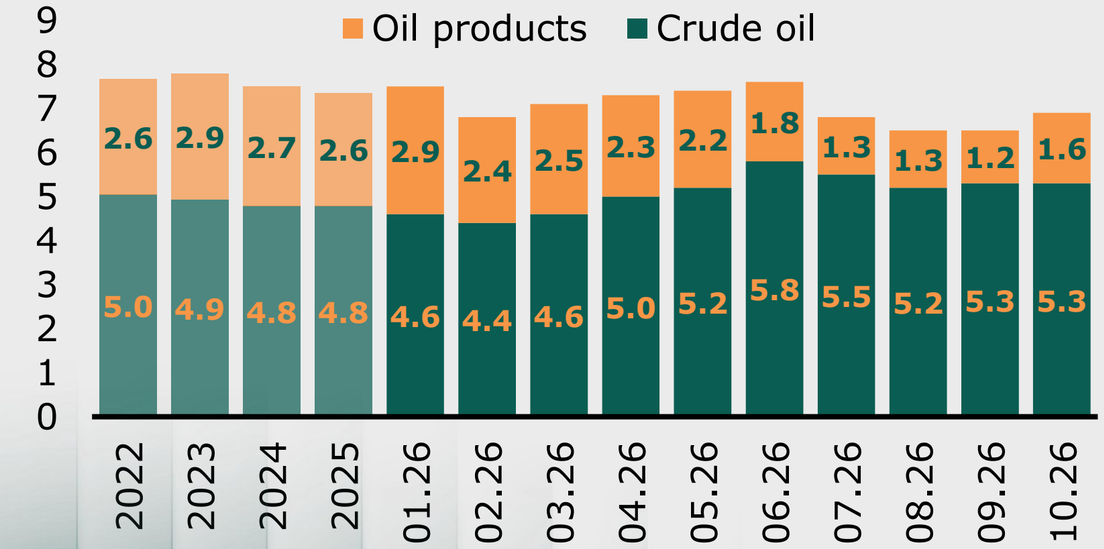
Source: Ministry of Finance, KSE Institute

Elephant in the Room: Iran War

SEPTEMBER-OCTOBER REVENUES SURGE DRIVEN MAINLY BY HIGHER PRICES

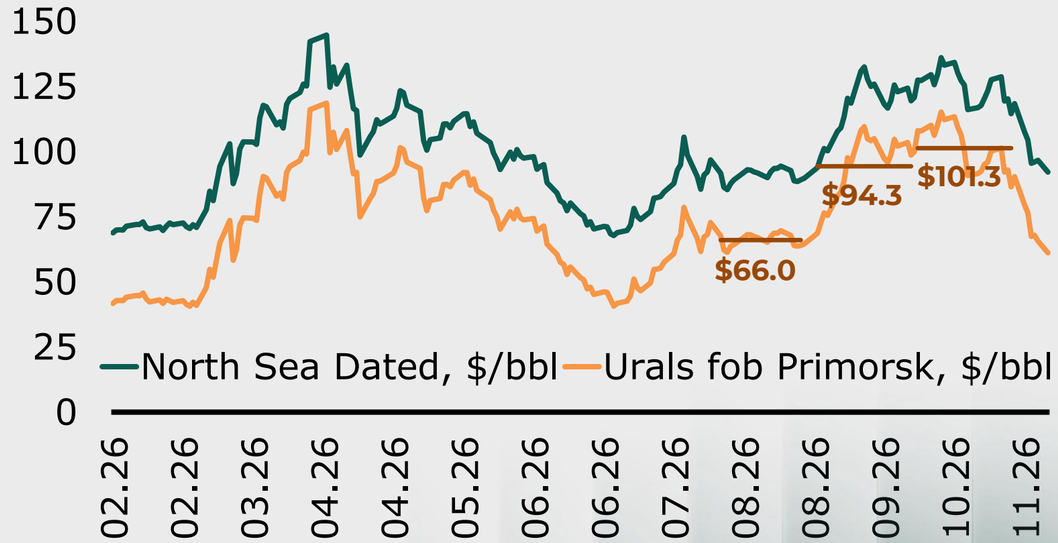
- **Total oil** exports **remained subdued** in October, despite a rebound in oil products exports.
- **Urals** crude reached **$101.3/bbl**, up **7%** from September and **53%** from August.
- **High October oil prices** will **boost** budget oil and gas revenues in November.

Russian oil exports, mb/d



Source: IEA, KSE Institute

Crude oil prices, $/bbl



Source: Argus, KSE Institute

Kinetic Sanctions Curbed Russia’s Windfall Revenues

AS NEW ENERGY SANCTIONS STALLED, UKRAINIAN STRIKES IMPOSED SIGNIFICANT COSTS

Impact on export volumes

Oil product exports remained 30% below their level a year earlier in October, following declines of up to **50% in July–September**.

Forced shift in export composition: oil products’ share fell from **35% in 2025 to 18% in September**, before partially recovering to **23% in October**.

Lasting impact

Russian refinery throughput is projected to **remain 22% below its 2025 level** through the **end of 2027. BUT** the IEA projection does not account for renewed attacks.

Economic losses

$9.1 bn

Lost oil export revenues vs. potential earnings during the war in Iran in the absence of Ukrainian strikes.

$15 bn

Budget compensation to refineries to offset the gap between export and domestic prices and contain fuel prices.

~$0.9 bn
(lower-bound estimate)

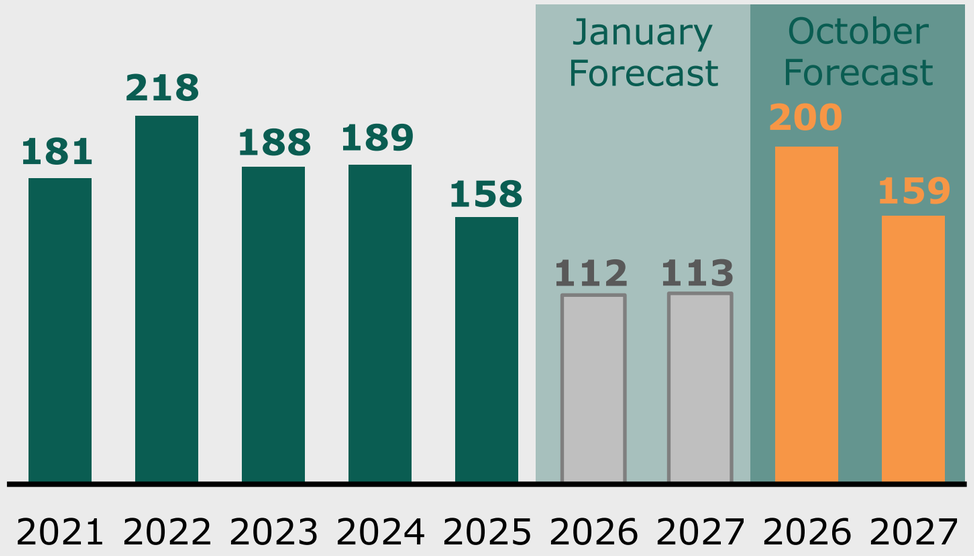
Russia’s **spending on seaborne oil product imports,** with **90%** sourced from Turkey, India, Morocco and South Korea.

Black Swan in the Room: Unblocking Hormuz

IRAN WAR HALTED REVENUE DECLINE—HORMUZ NORMALIZATION WILL REVERSE ITS GAINS

- **Oil export revenues are projected to reach $200 bn in 2026**, up **$42 bn from 2025**, before falling to **$159 bn in 2027**.
- **This marks a sharp departure from expectations earlier this year**.
- As crude supplies from Persian Gulf countries continue to recover, **Russian oil discounts widened again in early November**, reaching **$28/bbl for Urals FOB Primorsk** and **$31.5/bbl for Urals FOB Novorossiysk**, both relative to North Sea Dated.

Oil export revenues forecast, $ bn



Source: Bank of Russia, KSE Institute

Windfall revenues bought Russia only temporary relief. Recovering Persian Gulf supplies are expected to drive crude prices sharply lower, while renewed Ukrainian kinetic sanctions will further squeeze Russia's export revenues.

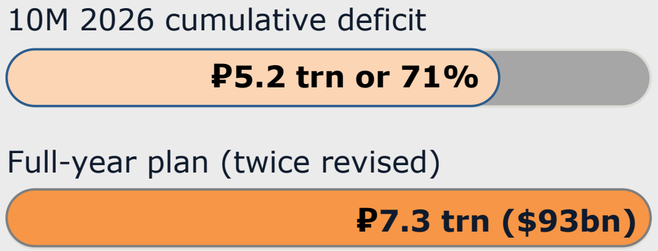
Russia’s Budget Under Strain

DESPITE TEMPORARY IMPROVEMENT, SIGNIFICANT FISCAL PRESSURE PERSISTS

Federal Budget Deficit

$63 bn

or ₽5.2 trln, +25% YoY (10M 2026)



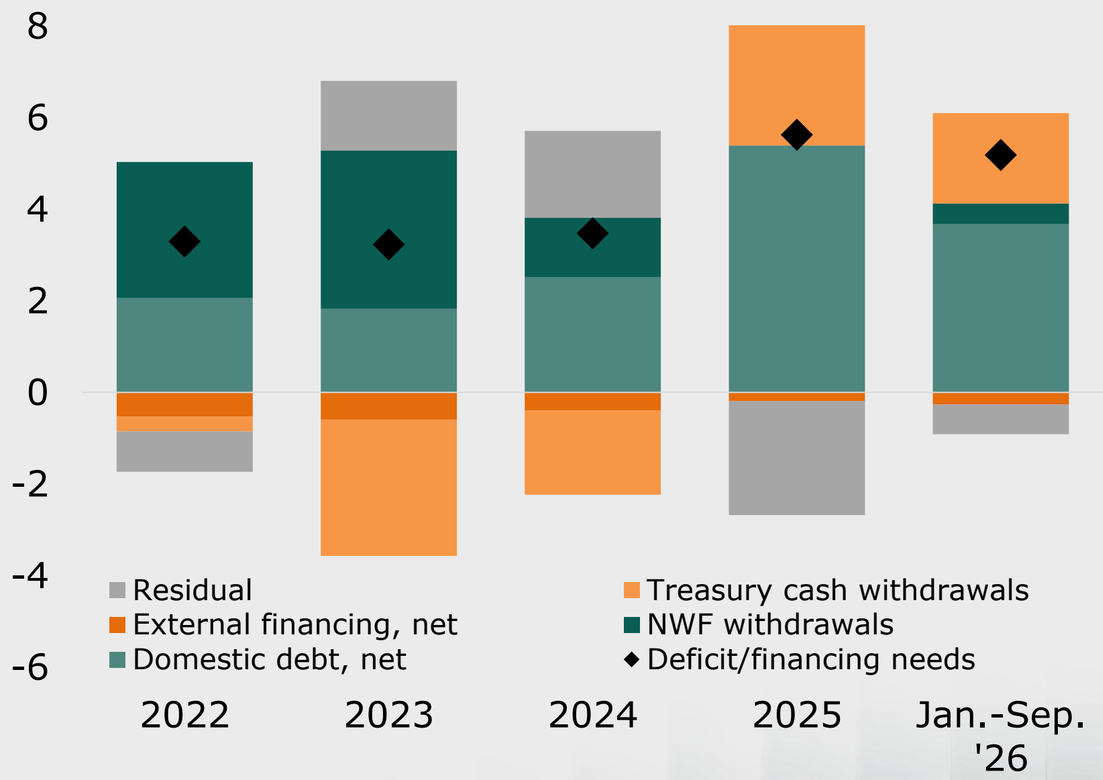
- **The 2026 is likely to exceed the revised target,** although Russia’s MinFin still has accounting tools at its disposal (shifting some spending to regional budgets and extrabudgetary funds).
- **Fiscal consolidation is not expected**. As the Strait of Hormuz fully reopens**, the fiscal situation is likely to deteriorate rapidly.**

Nor Are They Sufficient to Close the Budget Gap

SHARP SHIFT IN BUDGET FINANCING FORCES CBR TO TAKE MORE ACTIVE ROLE

- **2022–24: domestic borrowing** + **withdrawals from the NWF** + build up of Treasury cash balances
- **2025–H1 2026: no utilization of the NWF** + **heavy reliance on OFZ issuance and Treasury cash**
- **Q3 2026: lower financing needs** due to favorable budget dynamics; **two-month halt of OFZ auctions** (July–Aug.); **large OFZ placement in early Sep.**

Budget financing needs and sources, RUB trillion



Source: CBR, Ministry of Finance, Treasury, KSE Institute

Signs of Fiscal Fragility Are Hard to Hide

DESPITE OIL WINDFALL REVENUES, TOUGH DECISIONS ARE KNOCKING AT THE DOOR

Delay of Military Salary Payments

Russia is **considering postponing December military pay until January**, excluding personnel deployed in Russia's war against Ukraine.

The apparent aim is to reduce traditionally high December spending, **shifting part of the budget deficit into the following year**.

Major Oil-Producing Region Under Pressure

Khanty-Mansi Autonomous Okrug raised its planned 2026 budget deficit by 65% in October.

Local authorities **cut projected tax revenues by 8%**, reflecting lower payments from oil producers.

As well as, they have **announced auctions for credit lines totalling ₽20 bn** to finance the deficit and repay existing debt.

Available Budget Financing Options

THE ERA OF RELATIVELY CHEAP AND EASY DEFICIT FINANCING HAS ENDED

In active use

Market-based approach

Already happening at:

- Higher rates
- Other attractive terms
- Liquidity provision (CBR repos)

Negative implications:

Likely insufficient on its own; long-term debt unsustainability; inflationary pressures

In limited use

Fiscal adjustment

- Raising taxes (announced)
- Cutting budget spending (announced)
- Additional rents from economy
- Increasing revenues through depreciation

Negative implications:

Weaker economic growth, pressure on economy, inflation risks from depreciation, political constraints on spending cuts

"Decisions of last resort"

Extending financing capacity

- Directing banks to buy OFZs
- Quantitative easing
- Mobilizing household savings
- External financing (China)
- Seizing assets

Negative implications:

Greater financial repression, inflation/FX pressures, banking system stability risks, erosion of household/investor confidence, vassalage to China, societal backlash

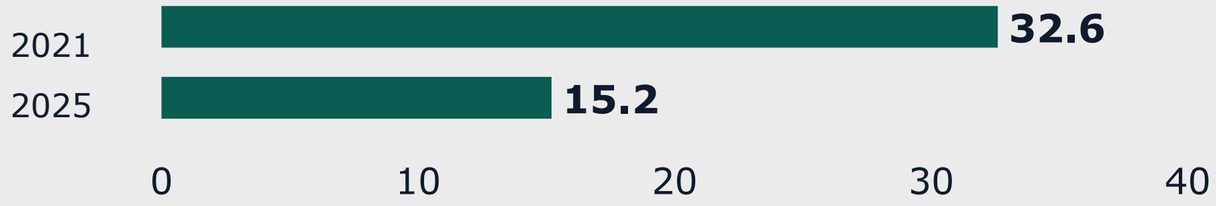
Oil Windfalls Do Not Fix Accumulated Problems

INDUSTRIAL WEAKNESS PERSISTS DESPITE HIGHER OIL REVENUES

Steel exports

−53%

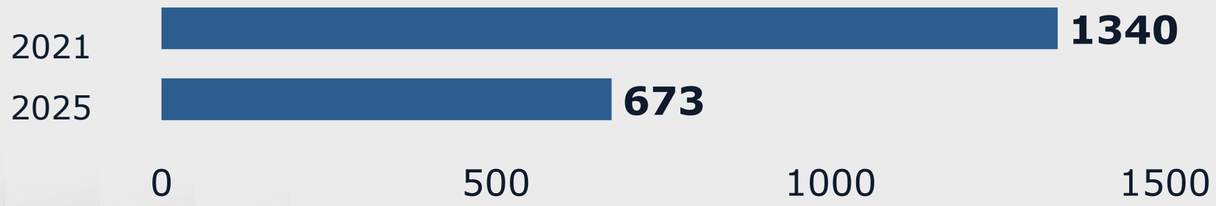
mln tonnes



Passenger car production

−50%

thousand vehicles



Fuel shortages disrupt logistics

China–Russia routes, June 2026:

+$700

per truck journey in additional fuel-related costs

−17–29%

Daily truck mileage decline on routes from China

Problems Persist Across Russia’s Industrial Sectors

LOSSES, INVESTMENT CUTS AND EQUIPMENT SHORTAGES CONSTRAIN INDUSTRIAL RECOVERY

Coal: recovery without profitability

RUB 408 bn

Sector-wide loss before tax in 2025

Coal exports recovered by 7% to 211 mln tonnes, but the sector remained deeply loss-making.

Mining: equipment constraints

Nornickel, the world’s largest palladium producer, forecasts a 10–11% output decline in 2026, citing ore depletion and sanctions-related equipment constraints.

Investment and capacity cuts

−25%

Russian Railway’s investment programme

2026 cut, after net profit fell around 22-fold in 2025.

60%

MMK capacity utilisation

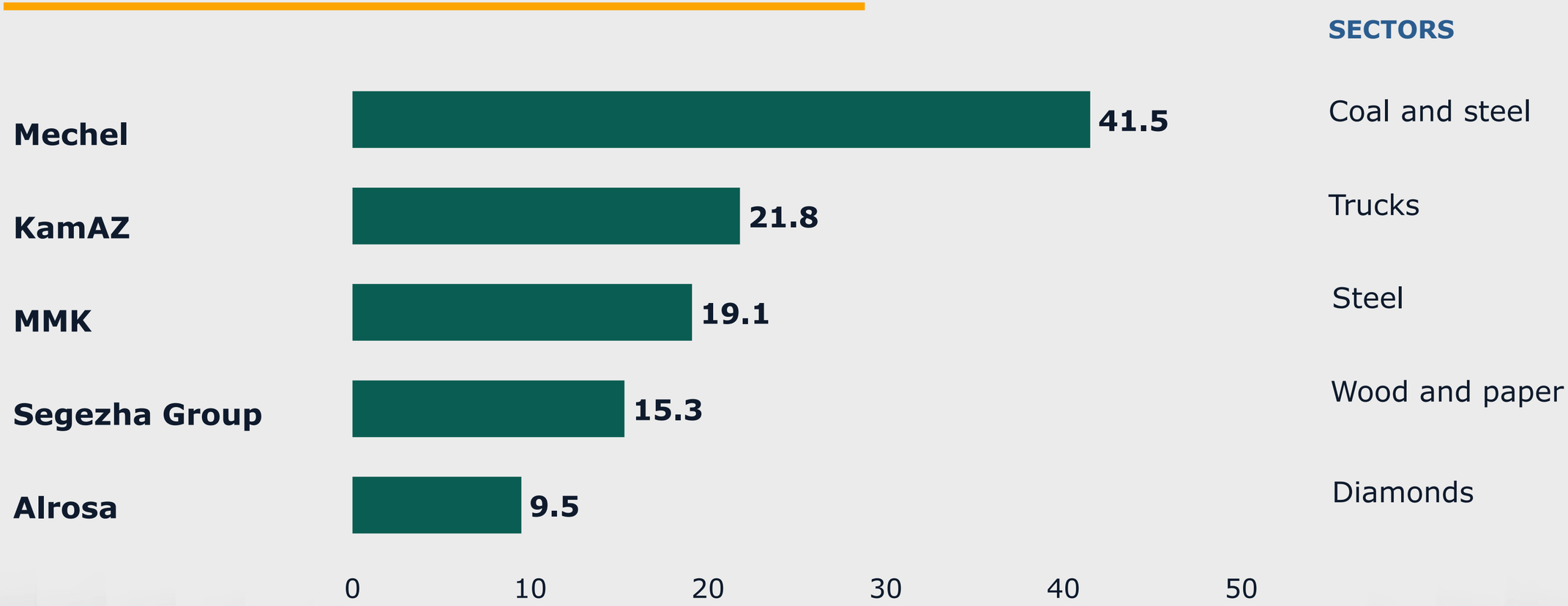
Investment freeze and a 10% cut in management staff.

Aviation: domestic deliveries lag

In August 2025, Reuters reported that **Russian manufacturers had delivered only 1 out of 15** commercial aircraft planned for 2025.

Major Industrial Companies Remain Loss-Making

IFRS NET LOSSES, H1 2026, RUB BN



Oil windfalls have not resolved Russia’s industrial weaknesses. Sanctions, weak demand and high financing costs continue to weigh on major companies across multiple sectors.

Military-Industrial Hiring Cools Down

HEAVY WEAPONS FACE THE SHARPEST CUTS, WHILE MISSILES AND UAVS REMAIN MORE RESILIENT

−25% **Military-linked industrial vacancies**

~155k → ~116k per month, year on year (May-Sep 2026)

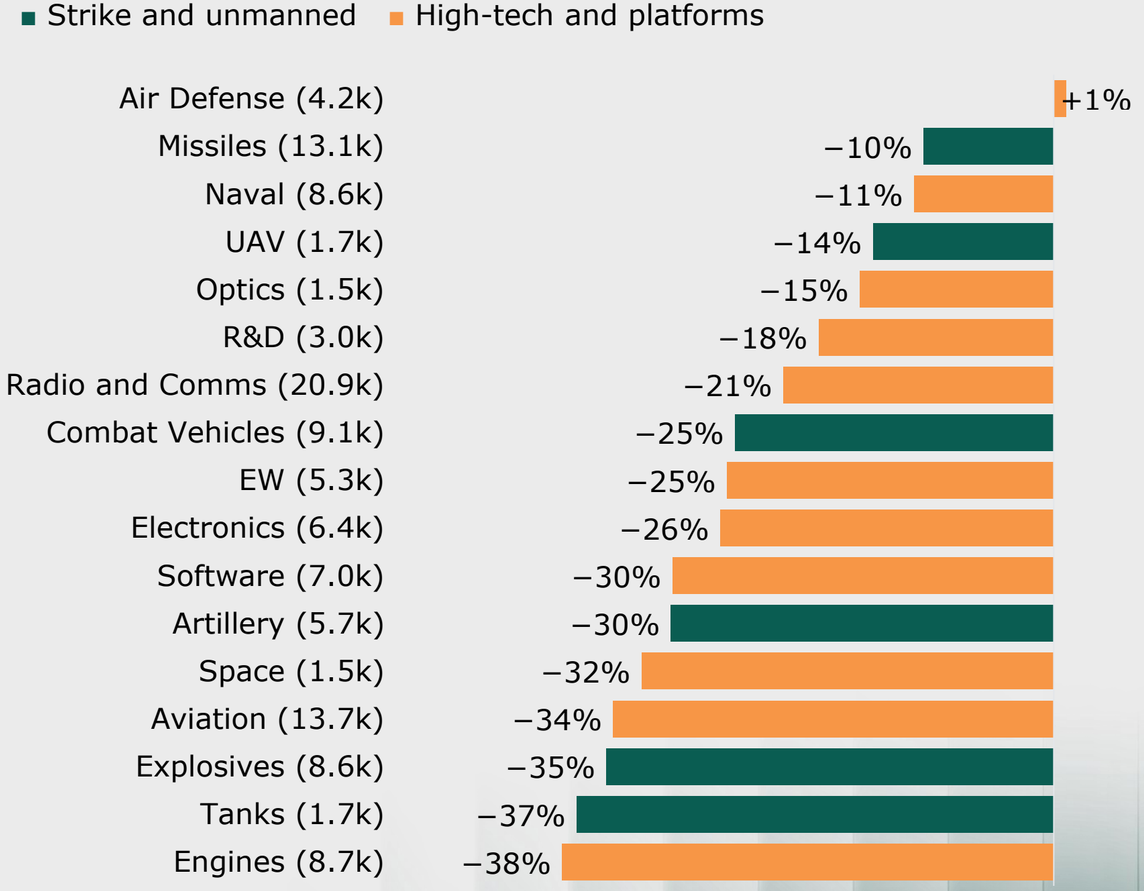
109–123k **Monthly vacancies since Jan 2026**

The drop came in November 2025 and has not reversed

Traditional heavy-weapons areas shrink fastest: tanks −37%, explosives −35%, artillery −30%, combat vehicles −25%.

Growth comes only from a few plants and outliers: clothing and gear makers, shipyards, missile and space makers.

Change in workplaces by product, %



Source: KSE Institute analysis based on job vacancy data

Next Pressure Points on Russia

THERE IS NO SINGLE MAGIC PRESSURE POINT, SANCTIONS WORK SHOULD CONTINUE

CLOSE GAPS & STRENGTHEN ENFORCEMENT

Move to rolling listings

Update designations continuously to respond to emerging sanctions-evasion networks.

Review remaining trade

Close exemptions and derogations, and address goods not yet covered by restrictions.

Lock in sectoral measures

Extend sectoral sanctions for three years to strengthen predictability.

Target shadow fleet enablers

Go beyond vessel designations to cover ownership, management and enabling services, with a special focus on those servicing designated vessels.

TAKE LONG-OVERDUE DECISIONS

Reconsider the OPC

Finally make it work or
Discontinue it or
move towards Maritime Service Ban / Maritime Service Surcharge alternatives.

Restrict Rosatom cooperation

Start by designating subsidiaries and limiting nuclear-sector engagement.

TIGHTEN FINANCIAL PRESSURE

Defend sovereign debt restrictions

Maintain measures; discourage third-country entities from filling financing gaps.

Close remaining banking channels

All remaining Russian banks should be subject to sanctions across coalition jurisdictions.

Increase pressure on third-country banks

Expand sanctions on third-country banks facilitating sanctions circumvention, forcing financial institutions outside the coalition to choose between Russian and Western markets.

THANK YOU!

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