BOFIT blog

High oil prices help, but won't solve, Russia's economic troubles

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With the gyrating, generally upward trend in crude oil prices since the outbreak of the Iran war, oil price trends – particularly their impacts on Russian economic output and government finances – deserve consideration. While any analysis necessarily involves significant uncertainty from unfolding events, we can say higher oil prices traditionally support Russia's economy by increasing export earnings and tax revenues. The impact of oil prices, especially on government finances, also depends on the exchange rate.

Our first scenario is based on prevailing mid-March oil price expectations in futures markets. We use the same expectations as our underlying assumption in the latest BOFIT Forecast for Russia[1]. Our second scenario assumes only a brief spike in oil prices. The price of benchmark Brent crude rises in accordance to the March market expectations up to the end of June and then returns to the market's significantly lower pre-war price expectations. In the third scenario, the price of Brent crude is $120 a barrel in the April-June period and then holds at $100 a barrel until the end of 2027. We calculate the average export price of Russian crude using the discount estimate of the International Energy Agency (IEA). The discount for Russian crude relative to Brent blend this year has been averaging around $20 a barrel. Oil price trends in our three scenarios are displayed in Table 1.

Table 1.

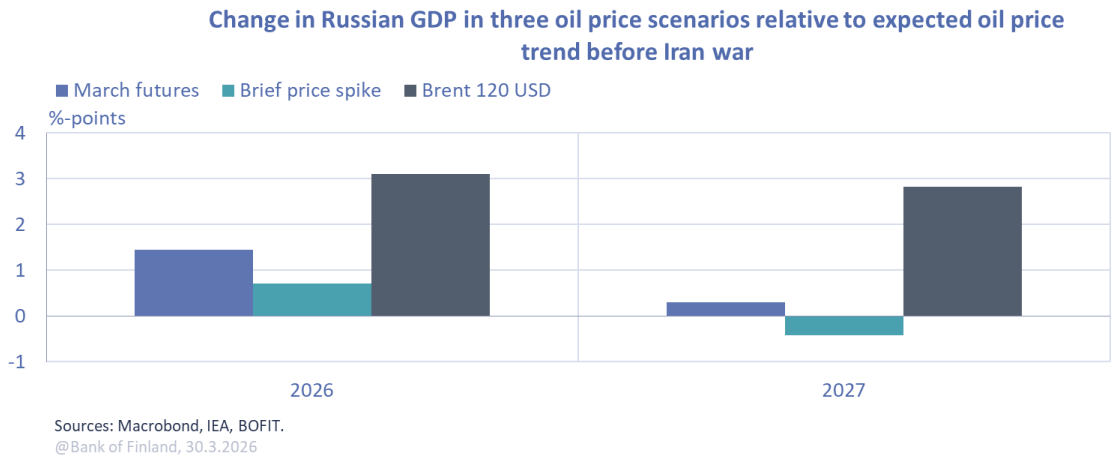
Average realised export price of Russian oil and alternative scenarios for 2026-2027				
	Average export price	**February futures expectation**	**March futures expectation**	**Brent price spike**
2023	62			
2024	69			
2025	56			
2026		50	61	55
2027		46	52	46

Sources: IEA, Macrobond.

The impact of oil price trends on Russian GDP can be examined using a simple vector autoregressive (VAR) model[2]. The model results are generally not taken directly for economic forecasting because the model is designed specifically for assessing the impacts of changes in oil prices. It does not take into account the many other factors that influence economic trends. In the calculations presented below, the model first assesses the development of Russian GDP based on prevailing oil-price expectations in the market as of end-February. We then calculate the model forecasts for GDP based on the various price trajectories presented above and compare them against the situation at the end of February.

If oil prices develop in line with the current futures market assumptions, our model shows Russian GDP grows by roughly 1½ percentage points more this year and slightly faster next year compared to the prevailing price expectation prior to the Iran war (Figure1). If the price spike is short-lived, GDP growth this year would be about ½ percent points higher. Growth next year, on the other hand, would be slightly lower than the end-February expectation. If oil prices remain high for a longer time, Russia enjoys significantly higher GDP growth. The model results show GDP would increase both this year and next year by about 3 percentage points more than implied by pre-Iran-war expectations.

Chart 1.



Sources: Macrobond, IEA, BOFIT.
@Bank of Finland, 30.3.2026

The price of oil continues to have a significant impact on Russian government revenues. Oil & gas revenues represented nearly a quarter of Russian federal budget revenues last year. In the first two months of this year, the government's oil & gas revenues declined sharply due to depressed export prices for Russian oil. The increase in oil prices in recent weeks is expected to boost Russian government revenues and provide state finances with a much-needed breather. If the price spike is transient, it will do little to resolve the government's longer-term financial issues.

Based on futures market prices and the discount prevailing in the first months of the year, the average export price of Russia oil this year is slightly higher than the price assumption used in Russia's budget framework calculations ($61 a barrel compared to the budget assumption of $59 a barrel). The Russian budget framework implies a deficit however, and that deficit persists even with higher oil prices. In addition, the budget plan calls for limiting the increase in government spending to just 4 % this year, a reduction from 2022–2025, when spending growth averaged 16 % a year. Accounting for inflation, real expenditures would not increase at all this year. The budget plan even calls for a cut in defence spending, an impossibility if the Ukraine war continues.

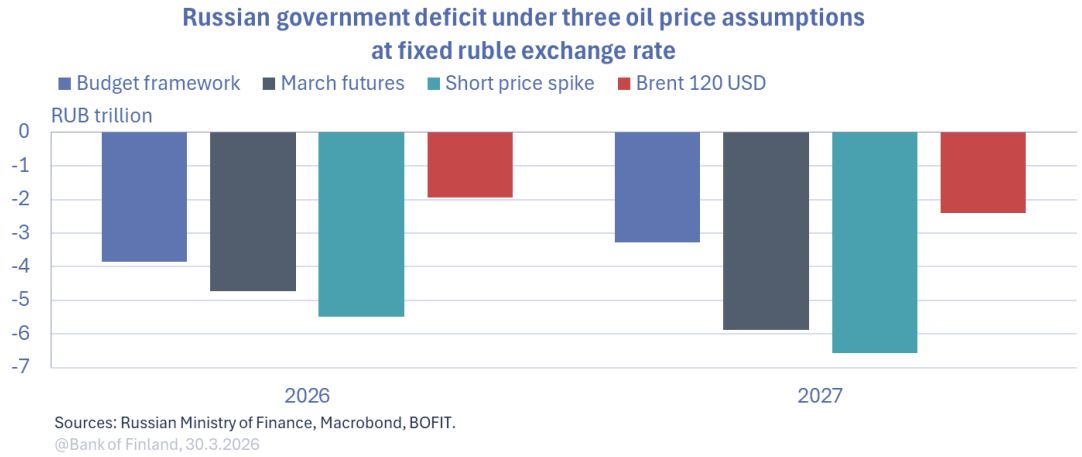
The ruble's exchange rate is also an important determinant of the budgetary impact from higher oil prices. This year's budget plan was drafted using a much weaker ruble-dollar exchange rate than the current rate (92 rubles to the dollar versus an average exchange rate in March of about 80 rubles to the dollar). Typically higher oil prices tend to rather strengthen than weaken the ruble, so it is possible that the budget assumption for this year never materialises. Naturally, Russia can steer the ruble's exchange rate to a certain extent, but doing so could have negative impacts elsewhere in the economy.

Despite a sharp increase in the dollar price of oil, a situation where the ruble-dollar exchange rate in 2026 and 2027 remains at its average rate in March this year would mean that ruble-

denominated oil revenues undershoot the budget both this year and next year (for the sake of simplicity, revenues are assumed to change in proportion to the ruble-denominated oil price). Considering the scenarios examined here, only the rise in the Brent price to $120 a barrel yields ruble-denominated oil revenues in excess of this year's budget plan. And even then, Russia's budgets for both this year and next year remain in the red.

Based on prevailing prices of March futures contracts and the ruble-dollar exchange rate, Russia's government deficit would *increase* by about 900 billion rubles to around 4.7 trillion rubles (about 2 % of GDP) even with higher oil prices (Figure 2). Barring other measures, a brief spike in oil prices with oil prices falling back to their pre-war trajectory would still result in government deficits this year and next year well above planned budget deficits.

Chart 2.



While we would expect the recent rise in oil prices to support the Russian economy, the size of the impact largely depends on how long elevated price levels last and how high they go. The ruble's exchange rate, as noted, also plays a key role in government finances. At the current exchange rate, the price of oil need to remain elevated for a long time to exceed planned budget revenues this year. If the rise in oil prices is short-lived and sanctions on Russian oil exports remain in place, Russian government economy will only enjoy a brief respite. In any case, the government will likely face increasingly difficult financial choices as long as Russia continues its war on Ukraine and sanctions limit its financing possibilities.

Keywords

oil, Russia