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Low Oil Prices, Strong Ruble Squeezed Russia's Budget in February

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The Novorossiysk Port Oil Terminal. **Igor Onuchin / TASS**

Low oil prices and a strong ruble are continuing to erode Russia's key source of budget revenue, even as global crude prices surge amid conflict in the Middle East.

Oil and gas companies paid 423.3 billion rubles ($5.5 billion) into Russia's federal budget in February, down 44% from the same month a year earlier, according to Finance Ministry data. The government has now recorded a sharp drop in resource revenues for a second consecutive month.

For January-February combined, oil and gas revenues totaled 826 billion rubles ($10.7 billion), down 47% from 1.56 trillion rubles in the same period last year.

Receipts from Russia's main resource extraction tax — the mineral extraction tax — were slightly lower in February than in January, at 437.7 billion rubles versus 440.3 billion.

That decline came even as the average price of Russia's Urals crude rose modestly from $41 to

$45 per barrel.

The drop likely reflects lower production as Russian oil companies began cutting output late last year amid difficulties selling crude to India, economist Sergei Aleksashenko said.

The slump in energy revenues is weighing on the federal budget. Analysts at Alfa Bank estimate the deficit may have reached about 1.5 trillion rubles ($19.4 billion) in February and around 3.2 trillion rubles ($41.3 billion) for the first two months of the year — close to the government's full-year deficit target of 3.8 trillion rubles.

Russia's Finance Ministry is now effectively hoping that rising global oil prices will ease the pressure. Brent crude has surged above $100 per barrel amid the war involving Iran, while Russia's Urals blend has risen to nearly $70, Aleksashenko noted.

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Russia's budget could benefit significantly from higher oil prices if Iran continues to resist and shipping disruptions through the Strait of Hormuz last for at least three months, he said.

Alfa Bank forecasts oil and gas revenues could rise to 800-900 billion rubles in March if Urals averages $50–$60 per barrel.

However, the overall budget outlook may not improve dramatically because government spending remains high.

Federal spending reached 19% of the annual plan in the first two months of the year, while revenues accounted for only 15%.

Aleksashenko said the recent surge in oil prices would not materially affect March revenues, which are typically calculated using earlier price data and would instead show up in April.

He estimates the budget may receive an additional 45-50 billion rubles in March from higher prices, bringing total oil and gas revenues for the first quarter to about 1.5 trillion rubles — still roughly 42% below last year's level.

Meanwhile, the conflict involving Iran has also affected Russia's oil trade. The United States has allowed Indian refineries to resume purchases of millions of barrels of Russian crude that had been stranded on tankers after U.S. sanctions targeted Russia's Rosneft and Lukoil, companies responsible for more than half of the country's oil production and exports.

Russia's Urals crude, which only months ago was sold in Indian ports at record discounts, is now trading above Brent, according to market data cited by analysts.

"Putin and his advisers have likely determined that war in Iran serves Russia's interests in the short term: higher energy prices, global distraction from a Ukraine war that Putin is not ready to settle, and America at risk of entrapment in another Middle Eastern quagmire," said Robert Person, a senior research fellow at the Foreign Policy Research Institute in Philadelphia.

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