The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Why High Oil Prices Won't Fix Russia's Budget Crisis

By Sergei Shelin

March 19, 2026



Yegor Aleyev / TASS

The pressure on Russia's finances has grown so acute that even a sustained surge in oil prices driven by turmoil in the Strait of Hormuz will not be enough to plug the widening deficit.

Even as oil prices climb, the Kremlin is moving quickly to tighten fiscal policy. President Vladimir Putin's technocrats have begun a new cycle of localized budget cuts, stricter conservation of dwindling reserves and increased creative accounting on his orders.

The shift began quietly. Three days before the United States and Israel launched their campaign against Iran, Prime Minister Mikhail Mishustin addressed the lower-house State Duma and hinted at a sharp, and likely unpopular, change in economic policy.

He did not announce it outright. Instead, in the carefully coded language of the Russian system, he framed it as an answer to a question from Andrey Makarov, a loyal lawmaker often

used to pose uncomfortable questions on cue.

Makarov asked how the government planned to deal with the deficit. Mishustin replied that he and senior officials had spent "many, many hours" in discussion with the president searching for the best solution.

Such remarks are never casual. In Russia, even the fact of a meeting with the president is tightly controlled information. Mishustin's apparent openness showed a difficult decision had already been made, approved at the highest level and thus no longer subject to debate.

Days later, the details emerged that the government had suspended its so-called budget rule.

The budget rule was designed to stabilize the ruble and insulate the federal budget regardless of fluctuations in oil prices. If, for example, Russia's Urals blend sold below the cutoff price (around $60 per barrel), then yuan and gold would be taken from the National Wealth Fund, sold on the open market and the proceeds would be used to plug the budget gap.

For most of this year, that is exactly what they had been doing. Oil prices were low in January and February, so oil and gas revenues totaled only 0.8 trillion rubles ($9.6 billion), half the figure in the previous year. In February alone, gold and yuan worth $3 billion were sold from the National Wealth Fund, roughly 6% of the fund's assets.

Before the invasion of Ukraine, the fund held the equivalent of a little over 8 trillion rubles ($96.3 billion). Half of that money is gone and the government will surely not allow it to be exhausted completely. But abandoning the rule — or maintaining it nominally while sharply reducing the cutoff price — means weakening the ruble and, after some time, triggering an inflationary surge.

For that reason, it had been assumed that the authorities would only scrap the budget rule by the autumn, when the National Wealth Fund had shrunk by another factor of two, making further delay impossible.

Related article: Moscow's Lavish Spending Has Become a Political Problem

But Putin suddenly decided not to postpone freezing the rule, with reserve sales having fallen sharply. When the rule is reinstated, it will likely be rewritten with a cutoff price set low enough to minimize the need to draw on reserves at all.

At first glance, the authorities' haste looks strange. All the more so because oil prices have soared since the war with Iran.

But a closer look reveals such depths of Russia's financial crisis that the regime's efforts to tighten the screws appear to be too little, too late.

When the federal budget for 2025 came in with a record but not extraordinary deficit of 5.6 trillion rubles ($67 billion), or 2.6% of GDP, the picture was not as bad as had been expected.

We now know that the Finance Ministry's sleight of hand massaged the figures. It turns out that the consolidated budget deficit — the sum of the deficits of the federal budget with

budgets of state extra-budgetary funds and regional governments — jumped in 2025 from 1.7% of GDP to 3.9%.

Regions were left with larger deficits. Extra-budgetary funds, which finance pensions and healthcare, swung from surplus to deficit. Federal transfers that once covered a fifth of regional spending now cover only about 15%.

Last year, as has now emerged belatedly, Russian public finances slipped out of control for the first time since the invasion began. What, then, should one expect this year?

The numbers for early 2026 suggest the situation is deteriorating quickly.

In January and February, federal revenues totaled 4.8 trillion rubles ($55.8 billion), while spending reached 8.2 trillion ($95.36 billion). The resulting deficit is already close to the full-year target of 3.8 trillion rubles ($44.2 billion).

Compared with a year earlier, revenues have fallen sharply, while spending has continued to rise. Even after accounting for inflation, the government has made only limited progress in restraining expenditures.

The real problem lies on the revenue side.

Oil and gas revenues have dropped dramatically, but the weakness extends beyond energy. Non-oil revenues are barely growing and are declining in real terms.

The state machine's inability to extract sufficient resources from other sectors is perhaps even more important than selling cheap oil. The days when oil accounted for half of Russia's budget revenues are gone. In 2025, oil and gas revenues, 8.5 trillion rubles ($102 billion), made up only 23% of federal revenues. In 2026, their share was supposed to continue gradually declining to 22%, even as their nominal volume rose slightly.

In reality, the share of oil and gas revenues was 17% of total revenues for the first two months of 2026, and for the year as a whole, Finance Minister Anton Siluanov is already expecting less than 20%.

Thanks to rising oil prices, it is unlikely that the worst-case scenario for Russia will come to pass. But the deficit will inevitably continue to rise because of the shortfall in non-oil-and-gas revenues. Judging by the first two months of this year, that will be around 1.5 trillion rubles ($17.4 billion). Even if that figure rises, spending on the war has exceeded projections every year since 2022.

Related article: As Manpower Shortages Deepen, Russia Recruits Foreign Women for War

Freezing the budget rule is only the first step in a broader fiscal tightening. With the National Wealth Fund no longer being spent, the deficit will now have to be covered almost entirely through domestic borrowing — refinancing last year's debt before issuing more for this year. This would necessitate printing more money, increasing inflation.

By early March, money supply growth was already slightly faster than in 2025. But inflation

takes time to accelerate. Still, most Russians already do not agree with the authorities' claim that prices have stabilized.

Most households have noticed their shopping baskets steadily becoming more expensive while also declining in quality and variety. Prices for imported electronics may appear stable — but only until the ruble weakens.

As for utilities, people know that bills rose sharply in January, despite official reassurances to the contrary. This discrepancy will persist until October, when tariffs are formally increased again.

Higher taxes and levies are also inevitable. Without the VAT increase, non-oil revenues would have fallen even in nominal terms. For now, technocrats have decided to accelerate excise hikes on tobacco, alcohol and sugary drinks.

But this is only the beginning. Cuts to already approved spending are also expanding. But military spending, of course, is untouched. Overall, this will likely slow — but not stop — the growth of federal expenditures.

Still, the very return of sequestration on a level unseen for a decade signals that the regime is tired of staging a façade of apparently normal life for Russians.

At the regional level, cuts are also accelerating. Healthcare spending is being reduced in some regions. Moscow's plans to lay off staff and cut investment programs by 10% look more like symbolic gestures for now. But deficits in poorer regions are too large to be addressed by cosmetic reductions alone.

Economic problems in Russia are growing faster than previously thought. The regime is barely trying to conceal them anymore. It is now conserving resources, shrinking its list of non-military priorities and paying ever less attention to its citizens.

The views expressed in opinion pieces do not necessarily reflect the position of The Moscow Times.

Original url:
https://www.themoscowtimes.com/2026/03/19/why-high-oil-prices-wont-fix-russias-budget-crisis-a92257