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Russia Turns to State Banks to Help Finance Mounting Wartime Budget Deficit

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Finance Minister Anton Siluanov. **Sergei Silver / Roscongress**

Russia's Finance Ministry is preparing to raise funds from state-controlled banks to help finance a widening wartime budget deficit after struggling to sell government bonds on the open market, analysts said.

On Thursday, the ministry registered two new issues of floating-rate federal loan bonds (OFZs): one worth 500 billion rubles ($6.45 billion) maturing in 2037 and another worth 1 trillion rubles ($12.90 billion) maturing in 2042.

Analysts at VTB said the move indicates the ministry is preparing to arrange large, pre-agreed bond placements with major banks, primarily state-owned lenders, which have traditionally been the main buyers of floating-rate OFZs.

The shift comes as Russia's budget deficit reached nearly 6 trillion rubles ($77.40 billion) in the first half of the year, driven by record military spending, while rising borrowing costs have made it increasingly difficult for the government to raise money through conventional bond auctions.

The Finance Ministry has frequently relied on large placements of floating-rate bonds during periods of fiscal pressure. In November 2025, when budget conditions deteriorated sharply, it raised 1.7 trillion rubles ($21.93 billion) through such bonds, followed by another 2 trillion rubles ($25.80 billion) in December 2025.

Selling conventional fixed-rate OFZs has become increasingly difficult.

On July 20, the ministry suspended regular government bond auctions indefinitely after four consecutive unsuccessful offerings. Two auctions were canceled, one failed entirely and the only successful sale raised just 9 billion rubles ($116.10 million) against a quarterly borrowing target of 1.5 trillion rubles ($19.35 billion).

VTB analysts said the Finance Ministry is unwilling to borrow at current market rates after yields on long-term OFZs climbed above 16.5% following the Central Bank's decision to slow the pace of interest rate cuts and parliament's approval of legislation allowing the government to increase spending and borrowing without statutory limits.

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According to Bloomberg, Russia's military spending this year is expected to exceed the original budget by 4-5 trillion rubles ($51.60-$64.50 billion), with the Finance Ministry planning to finance roughly half of the additional costs through new borrowing of 2-3 trillion rubles ($25.80-$38.70 billion). The Central Bank forecasts the federal budget deficit could reach 8.2 trillion rubles ($105.78 billion) this year.

"The government bond market is currently in a very difficult state," Vladimir Chernov, an analyst at Freedom Global, said.

"Investors are unwilling to buy long-term bonds at the yields acceptable to the Finance Ministry, while the ministry does not want to lock in borrowing at such expensive rates for many years. As a result, the primary bond market has effectively stopped performing its normal function."

Analysts at Vector Capital said the Finance Ministry appears to be preparing for "the worst-case scenario," in which it will have to finance the deficit by issuing more floating-rate debt and assuming greater interest rate risk.

Unlike conventional OFZs, which pay a fixed coupon throughout their lifetime, floating-rate bonds require the government to pay higher interest if market rates rise.

Although Russian banks formally purchase government debt, former Central Bank deputy governors Sergei Aleksashenko and Oleg Vyugin have previously argued that the financing is ultimately supported by the Central Bank.

The Central Bank provides banks with funding through repo operations using OFZs as collateral. Banks then use those funds to purchase additional government bonds, which ultimately remain on the Central Bank's balance sheet.

As of July 22, outstanding Central Bank repo operations totaled 6.243 trillion rubles ($80.53 billion), up 2.6 trillion rubles ($33.54 billion) since the start of the year.

Aleksashenko and Vyugin have previously described the mechanism as effectively creating new rubles to help finance government spending.

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