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Russia's Oil and Gas Revenues Fall 17% Year-on-Year in March

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Russia's budget revenues from oil and gas fell 17% year-over-year to 1.08 trillion rubles ($12.8 billion) in March, the Finance Ministry reported Thursday.

The government collected approximately 230 billion rubles ($2.7 billion) less in levies, which account for one-third of its total revenue, compared to March 2024.

Forced discounts on Russian oil, exacerbated by tougher U.S. sanctions and a sharp appreciation of the ruble, have significantly dented the country's budget revenues from raw materials.

For the second consecutive month, the Finance Ministry recorded a nearly 20% decline in raw material rents. Over the first quarter of the year, oil and gas revenues dropped 10% to 2.64 trillion rubles ($31.4 billion).

“The situation is sensitive. This is a noticeable loss that will have to be covered either by additional borrowing or by drawing from the National Wealth Fund, which has already been largely depleted," said Sofya Donets, chief economist at T-Investments.

Donets estimates that annual oil and gas tax revenues may reach only 2 trillion rubles ($23.8 billion) — just 18% of the projected 10.9 trillion rubles ($129.7 billion).

Oil prices and the ruble exchange rate are emerging as key challenges for the government: a barrel of Urals crude is trading below $60, well under the $70 price assumed in the budget.

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Meanwhile, the ruble's exchange rate against the dollar has risen to 84 rubles compared to the government's forecast of 96.5.

As a result, the ruble price of oil — a critical factor for budget revenues — has plunged to its lowest level since the summer of 2023, falling nearly 30% short of government projections.

"A strong ruble is a joy for Russian consumers, but a pain for budget," said Evgeny Kogan, an investment banker and professor at the Higher School of Economics. "We receive oil and gas revenues in foreign currency and then they are converted into rubles. The stronger the ruble, the fewer rubles exporters get at the end."

To close the growing budget gap — which in January and February was already three times the annual target — the government may have to devalue the ruble. The currency is currently overvalued by 20%, and Donets expects it to weaken to 100-105 rubles per dollar by year-end.

Meanwhile, the government has fewer reserves to offset declining revenues. The National Wealth Fund, built up over years through excess oil profits, has lost two-thirds of its liquid assets since the invasion of Ukraine three years ago. Only about $40 billion remains, the lowest level since the fund's inception in 2008.

According to economist Olga Belenkaya of Finam, the NWF's reserves should last about a year if Urals crude remains above $50 per barrel.

"The key question is how far oil prices will fall and for how long they will stay low," Belenkaya said.

Analysts at MMI have warned that if oil prices remain low, the government may have no choice but to slash expenditures to maintain fiscal stability.

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