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INDEPENDENT NEWS FROM RUSSIA

Putin's Cabinet Plans to Up State Spending

By Anatoly Medetsky

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VEB has been designated to manage the government's involvement in the international equity fund that Medvedev ordered to be created jointly with foreign capital to foster foreign investment in non-ene **Igor Tabakov**

The Cabinet agreed Thursday to boost spending by 4 percent this year as soaring oil prices push revenues up.

Federal expenditures would grow by 420 billion rubles, Prime Minister Vladimir Putin said, bringing the total to about 11.1 trillion rubles.

The measure has to pass the parliament and gain President Dmitry Medvedev's approval — a mere formality — to take effect.

A significant part of the additional spending, Putin said, would go toward raising retirement pensions later this year — a decision the government will make depending on the inflation rate in the year's first half. Some of the money will pay for higher salaries for schoolteachers, renovation of museums and libraries and provision of technical aids to the handicapped, he said.

Putin said 180 billion rubles would be used to support the economy's industrial sector, with another 13 billion rubles going to the agricultural sector. He didn't elaborate.

Another 62 billion rubles will serve as the government's contribution to the international equity fund Medvedev ordered to be created jointly with foreign capital to foster foreign investment in non-energy businesses. VEB, which has been designated to manage the government's involvement in the fund, and Putin, as its chairman, will discuss the issue Friday.

The Cabinet also started working on next year's budget Thursday by approving anticipated scenarios for economic development for the period — assumptions the Economic Development Ministry often rewrites several times a year, given the country's dependence on the volatile oil price.

The basic scenario backed Thursday assumes that Russian oil will sell for an average of $93 a barrel, down from the latest official estimate of $105 for this year, which gained the Cabinet's endorsement at the same session, Deputy Economic Development Minister Andrei Klepach said after the meeting.

The economy will expand by 3.5 percent, down from the 4.2 percent expected this year, he said.

One of the reasons for the slower growth will be swelling imports, he said. This year alone, imports are projected to increase 20 percent, while demand will only be 10 percent higher, Klepach said.

"Our products are not competitive so far," he said.

Before the Cabinet session, Putin met with senior members of the Russian Union of Industrialists and Entrepreneurs, a big business lobby group, to discuss — among other things — the ruble exchange rate, which could harm exporters if it stays at the current level or strengthens further on the back of expensive oil. Putin ordered the Central Bank and the Finance and Economic Development ministries to get together to consider ways of influencing the rate, said billionaire union member Viktor Vekselberg.

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