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Officials Call for Budget Discipline

By Irina Filatova

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Finance Ministry and Central Bank officials on Thursday called for strict adherence to existing budget policy, saying the measure is critical to achievement of the high rates of economic growth set by Prime Minister Dmitry Medvedev.

Attaining an annual 5 percent increase in gross domestic product is "very ambitious," but pursuing "an understandable budget policy" makes that target realistic, Finance Minister Anton Siluanov said at an extended Cabinet meeting chaired by President Vladimir Putin.

"We adopted budget rules and must clearly implement them over the next few years to ensure a fixed level of budget spending," Siluanov said, adding that the measure will also help the government honor its obligations regardless of the economic situation in external markets.

Siluanov said creating favorable conditions for investors, rather than expanding budget spending, is the real driver of the country's economic growth. For the economy to grow 5 percent a year, investment should increase 10 percent annually, Medvedev said at the World

Economic Forum last month.

The finance minister said stricter regulation of the country's financial markets, which would involve amendments to legislation and creation of a common regulator for the financial and banking sectors, is required to bring this plan to life.

Speaking at the Cabinet meeting, Putin voiced concern about the decline in economic growth the past two quarters and about the increase in interest rates, which he said negatively affects the volume of lending to businesses and individuals.

In an effort to fight inflation, the Central Bank in September raised the refinancing rate by 0.25 percentage points to 8.25 percent.

Central Bank chairman Sergei Ignatyev, who also participated in the Cabinet meeting, vowed that rates will be cut once inflation slows. Ignatyev, whose third and last term in office ends in June, was optimistic about consumer prices in the future, saying that annual inflation of up to 4 percent is realistic.

He sided with Siluanov, urging the government to deliver on its obligations and strictly adhere to the budget rule, which links government spending to average oil prices.

Siluanov said the government should focus on fighting inflation as one of the key drivers of economic growth.

Slowing inflation of consumer prices will help Russia maintain low interest rates and increase lending activity, the finance minister said.

"We should primarily use such institutional measures to ensure economic growth," he added.

Russia saw consumer prices rise 6.6 percent in 2012, above the Central Bank's target of 5 percent.

Economic Development Minister Andrei Belousov last week expressed doubts about the Central Bank's role in resolving inflation problems, which he said result primarily from the rise in global food prices.

"The Central Bank's role is not very significant here," he said.

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