The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Fiscal Discipline Wavering Despite Budget Rule

By The Moscow Times

May 26, 2013

Just last year, Russia's government reimposed a rule meant to restrain spending and borrowing and channel substantial amounts of the country's energy revenues into its wealth fund.

Economists say this signals that fiscal credibility will lose out to President Vladimir Putin's need to revive the country's $2 trillion economy, which has slowed to a crawl a year after his return to the presidency.

"It looks like the government might try to cling to its decade-old fiscal approach of fixing issues by raising government spending," Kai Stukenbrock, a sovereign analyst at ratings agency Standard and Poor's, said.

The scope to raise spending has, however, "decreased significantly in recent years," added Stukenbrock. S&P has a BBB rating on Russia, in the lower reaches of investment grade.

Siluanov's cabinet colleagues want him to spend more to boost growth that slowed to 1.6 percent in the first quarter — the weakest since the 2009 slump — and he has been forced to raise his mid-term borrowing targets.

As a result, Russia will miss its goal of balancing the budget by 2015.

"The budget rule was introduced with such fanfare, but I don't know any expert who took it seriously even at the time," said Julia Tsepliaeva, chief Russia/CIS economist at BNP Paribas.

"The majority of the country does not want any changes or reforms, they want the show to go on, so that wages and pensions continue to rise."

Natalia Orlova, chief economist at Alfa Bank, said the decision not to cut spending meant it was "de facto easing the budget rule to support GDP growth."

As a result, the oil price at which the budget would balance in 2015 will rise to $115 per barrel — $10 higher than originally planned, she commented.

Economists say the government has already found a way to weaken the fiscal rule, which sets the 1 percent borrowing cap on the basis of the long-term average oil price.

The trick has been to tap energy revenues this year that would normally have been channeled into the Reserve Fund. As a result, only $4.8 billion will be parked in the rainy-day fund in 2013, instead of the $11.9 billion earlier penciled in.

That will keep sovereign debt at 11 percent of GDP in 2015, as originally planned, but only at the expense of weakening Russia's ability to withstand an oil price crash. A $10 drop in oil cuts revenues by an estimated 1.1 percent of GDP.

That, critics say, undermines the entire justification for the fiscal rule. It replaced an earlier long-term target, scrapped after the 2008 crash, which stripped out oil and gas revenues when calculating borrowing as a percentage of GDP.

The International Monetary Fund has called on Russia to reinstate the old rule, under which the non-oil deficit would have fallen below 5 percent of GDP by mid-decade from 10 percent currently.

"The IMF has warned us that there are some loopholes in the budget rule and that we may not violate it in practice but violate it in spirit," Deputy Finance Minister Alexei Moiseyev said.

"Such risks remain, but I would remind you that all of our leaders have reaffirmed their commitment to the budget rule."

Original url:
https://www.themoscowtimes.com/2013/05/26/fiscal-discipline-wavering-despite-budget-rule-a24343