

Putin Warns Against Draining All Fiscal Reserves

By [The Moscow Times](#)

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NOVO-OGARYOVO, Moscow Region — President Vladimir Putin said Russia should not spend all of its fiscal reserves, lending support to fiscal conservatives who favor keeping most rainy-day funds invested in low-risk foreign assets.

Putin was addressing a meeting to discuss the use of the National Welfare Fund, an \$89 billion stash of energy revenues that has been saved to cover the rising long-term cost of state pensions.

"The National Welfare Fund is a security cushion for the Russian economy ... Those who suppose that we should allow ourselves to spend this fund entirely are deeply mistaken," Putin told senior officials at his official residence.

Putin appeared to be responding to proposals, reported in Kommersant on Wednesday, under which the government would commit most of the money to infrastructure projects.

The National Welfare Fund and its sister Reserve Fund were created by former Finance Minister Alexei Kudrin, who restored the public finances to health in the first decade of the millennium but was forced out of office in 2011.

With the economy slowing, calls have grown to plough more National Welfare Fund cash into infrastructure that proponents argue could boost growth in both the short and long run, much as the post-war construction of the U.S. interstate highway network did.

Economists warn however that, in a country with a history of official corruption and mismanagement, money could end up being wasted rather than put to good use.

Benefits from improved road and rail links would accrue mainly to the wider economy rather than the fund, warned Yevsei Gurvich, head of the Economic Expert Group, a think tank that advises the Finance Ministry.

"We should realize that we will need a return from the National Welfare Fund to support the pension system," Gurvich said.

Investment Cap

At the meeting in Novo-Ogaryovo this week proposals to increase the share of the National Welfare Fund that could be invested in domestic infrastructure to 50 or 60 percent were rejected, Deputy Prime Minister Igor Shuvalov said afterwards.

Under present rules, no more than 40 percent of the fund can be invested in Russia, a rule that is designed to diversify its investments to diminish risk.

Presently about two-thirds of the fund is held in low-risk bonds of western governments. The remaining third is largely deposited at state development bank Vneshekonombank.

Russia's other sovereign wealth fund, the \$87 billion Reserve Fund, is entirely invested abroad.

Whereas the Reserve Fund has a mandate to support the budget in the event of a fall in oil prices, requiring a conservative investment strategy, the National Welfare Fund has a vaguer mandate to secure the state pension system.

The Finance Ministry favors keeping most of the fund in liquid assets that could be easily tapped. But the Economic Development Ministry argues that it should be invested in growth-promoting projects. Putin came down somewhere between the two.

He has backed proposals that have circulated to invest National Welfare Fund cash in infrastructure bonds that would finance major projects.

"Holding reserves only in the form of securities and liquid money in bank accounts is insufficient," Putin said.

"We also need other instruments, able to secure both the income of the financial reserves, and also their more active work in the interests of the development of the Russian economy, for stimulating investment."

Boosting funding for such projects via the National Welfare Fund represents a way for the government to stimulate flagging economic growth, while formally complying with fiscal rules that limit its ability to boost budget spending.

The government approved an additional 150 billion rubles (\$4.6 billion) in infrastructure investments by the fund — a ring-road in the Moscow region, the Baikal–Amur railway in the Far East, and upgrading the Trans–Siberian railway.

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