The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Huge Budget Shortfalls Risk Wiping Out Oil Savings

By The Moscow Times

December 05, 2013

Russia will face huge fiscal shortfalls in the next two decades unless it cuts spending, and it could wipe out its oil savings in as little as three years, according to sources and a strategy document obtained by Reuters.

The country's funding gap could reach $300 billion between 2017 and 2020, the Finance Ministry's budget strategy to 2030 shows. That is three times the current value of the Reserve Fund, a rainy-day fund of windfall energy revenues.

The document will probably raise questions about President Vladimir Putin's plans to hike spending — above all on defense — which would impose an increasingly severe burden on public finances later in the decade.

The strategy from the hawkish Finance Ministry comes a day after the Economic Development Ministry, a proponent of higher spending in order to assist growth, said the country would stagnate in the next three years.

It also comes after the government admitted for the first time that economic growth will average just 2.5 percent over the next two decades. That will lag global growth and undermine Putin's ability to deliver rising living standards.

The Finance Ministry says in the document that Russia may fail to meet even those forecasts because of higher inflation that would limit exports and greater dependence on imports, as well as deteriorating business conditions.

"In the forecast period, there are still risks of not reaching the estimated growth rates and federal budget revenues," the ministry said in the document, addressed to Prime Minister Dmitry Medvedev.

Revenue shortfalls may be so great that the country might spend within three years its entire Reserve Fund, which on Dec. 1 stood at 2.89 trillion rubles ($89.9 billion), one government source said.

"Even if oil prices remain the same ... there are risks that there will not be a Reserve Fund in the next three years," the source said.

This leaves the Finance Ministry with few options if it does not want to increase foreign borrowing: raise taxes, collect more of the taxes due or re-evaluate and cut planned spending.

Rainy Days

The budget faces major challenges: lower-than-expected privatization proceeds and difficulty collecting taxes. Tax shortfalls may come to $50 billion in the next three years, according to the strategy.

The strategy assumes relatively high prices for oil, the country's main export, of $90 to $110 per barrel between 2013 and 2030. Oil and gas's share of GDP will decline by half, from 20 percent of GDP this year to 10 percent, however.

The ministry calls for higher natural resources taxes. But its main emphasis is on re-evaluation of spending. That includes spending stemming from pre-election promises by Putin, maternity benefits and support of selected industries.

"These should be more clearly linked to the public policy objectives," the ministry said.

Growing gaps in the state pension fund present both a challenge and an opportunity to reform the system, the ministry said. The country's aging population only increases the problem.

The budget deficit is supposed to reach no more than 1 percent of gross domestic product, in 2015, then shrink to 0.6 percent in 2016. After that, it is not to exceed 0.5 percent, according to budget rules.

The Reserve Fund can be used to cover budget shortfalls only after the fund reaches 7 percent of GDP, which the Finance Ministry expects will take at least nine years. An amendment permits dipping into the fund to cover planned revenues that have not materialized.

"In case of smaller federal budget revenues, first of all an option to forgo earlier conditionally approved spending will be used and then funds will be transferred from the Reserve Fund," the document says.

But with Putin facing re-election in 2018, a radical cut in spending is unlikely.

"We are more likely to spend every penny that we have saved than cut spending substantially by then," another government source said.

Original url:
https://www.themoscowtimes.com/2013/12/05/huge-budget-shortfalls-risk-wiping-out-oil-savings-a30228