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IMF criticizes Russia for Rise in Secret Spending

By The Moscow Times

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Russian public spending that is classified as secret will nearly double by 2016 to reach a quarter of all expenditures, the IMF said Monday, urging more disclosure and analysis of budget risks.

The International Monetary Fund also said financial reporting on the public sector, which accounts for more than two-thirds of Russia's $2 trillion economy, was not comprehensive enough. The category includes government entities and state-controlled firms.

The amount of hidden, unspecified expenditure in the federal budget has increased in recent years, the IMF said in a report, with more areas of spending now classified as secret for national security reasons.

That share stood at nearly 14 percent of total expenditure last year and is forecast to increase to close to 25 percent in 2016.

The IMF did not give comparisons for all nations in the Group of 20 developed and developing economies but said several of them classify less than 1 percent of total budget expenditure as secret.

Giant Public Economy

In the 80-page report, the IMF gave good marks overall to the Finance Ministry, which requested the evaluation.

But it said fiscal reports left out a number of government-controlled firms with liabilities of at least 127 percent of gross domestic product in 2012.

The public sector comprised 81,954 separate institutional entities as of last year, including 31,092 public corporations. Of the latter, 308 were purely government corporations and more than 10,000 companies were "unspecified government-controlled entities."

"The size of the public corporation sector and the lack of transparency around its financial performance create significant fiscal risk for the government," the IMF said in its report.

The government itself, whose expenditures account for about 60 percent of the public sector, provides the most comprehensive financial reports but still leaves out some major entities.

No consolidated fiscal report covers the large public corporation sector, which also has large asset and liability holdings, the IMF said.

The largest 26 public corporations had liabilities of about 102 percent of GDP in 2012, compared with general government debt of 11 percent.

"Understanding the financial position of these entities and their relationship with the government is therefore critical to understanding the financial position and sustainability of Russia's public sector as a whole," the IMF said.

Risk Analysis Absent

The IMF said that Russia's management of fiscal risks has significantly improved, but reporting and analysis of short-term risks was incomplete and fragmented and forecasts of longer-term pressures were not forward-looking enough.

There was also no analysis of the implications for public finances from the government's different growth scenarios that take into account the oil price, the ruble's exchange rate and global developments, it said.

"While low government debt and large oil and gas reserves provide room to accommodate fiscal shocks, the fiscal risks it faces are large and diverse," the IMF said.

The main risks, it said, came from instability in oil and gas prices as energy accounts for more than one-fifth of GDP, two-thirds of exports and a third of government revenues.

"Given the volatility of international energy prices, it is not surprising that Russia's nominal GDP growth and government revenue growth have been among the most volatile in the G20

over the past decade," the IMF said.

A permanent reduction of $10 per barrel in the oil price or a 10-percent appreciation of the ruble would increase the budget deficit by about 1 percent of GDP next year, it estimated.

The IMF put the current value of government revenues from oil and gas reserves at around 200 percent of GDP, which is not included in the state budget.

The IMF's projections showed revenues from these reserves were likely to fall as a share of GDP — possibly from 9 percent now to 2 percent of GDP in 50 years.

If prices were to remain at current levels, then revenues would fall to around 0.5 percent of GDP by 2063.

"This type of analysis is particularly important, given the demographic trends ... which are likely to create additional demand for public sector expenditure on pensions and healthcare over the long-term," the IMF said.

The IMF estimated the government had unreported pension liabilities worth nearly triple GDP. It said that on current projections, the costs of providing pensions for Russia's aging population of 140 million through 2050 were among the highest in the G20.

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