

Cash-Strapped Russian Budget Plans Raid on Central Bank Profits

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The Russian government may start helping itself to a bigger share in its Central Bank's profits, in the latest attempt to plug up holes in a federal budget under pressure from Western sanctions and a sharp economic slowdown.

In a move not expected to seriously affect the regulator's operations, 75 percent of the Central Bank's profits for 2013 and 2014 would be siphoned into the federal budget over the next two years, up from the usual 50 percent, under a Finance Ministry bill approved Tuesday by the government's legislative commission. The government is to consider the proposal at an upcoming session.

"We're probably taking about the equivalent of \$1 billion to \$2 billion [a year]," said Alexander Morozov, chief economist for Russia at HSBC. According to the bill, the ratio would

return to 50 percent in 2016.

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This extra 25 percent of its profits, which would previously have stayed on the Central Bank's balance sheet, could now go to bolstering a state budget under siege from slowing economic growth and a resulting slump in corporate income taxes, a major source of federal funds.

Extra expenses such as propping up the economy of Crimea, annexed from Ukraine in March, and fulfilling social spending commitments made by President Vladimir Putin with his return to office in 2012 have only added to the strain.

As a result, the Finance Ministry has been scrambling to find extra sources of income. Last month, the government opted to redirect employees' contributions from private pension funds into state coffers for the second year in a row, depriving Russia's nascent private pension industry of an estimated 550 billion rubles (\$15 billion) in 2015 and retarding the development of capital markets by weakening key institutional investors.

Russia may also allow regional government to introduce a 3 percent sales tax from next year in a move that economists say would push up already high inflation and further hamper economic growth.

Since \$1 billion to \$2 billion is quite small from the perspective of the Central Bank — which was sitting on foreign reserves worth more than \$468 billion on Tuesday — it will likely have "minimal effects" on the regulator, but will also have little impact on the budget and economy at large, Morozov said.

See also:

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