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Russian Minister Pushes Looser State Spending Rules to Spur Growth

By The Moscow Times

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Economic Development Minister Alexei Ulyukayev.

A fiscal rule that prevents Russia from raising government spending reflects "old realities" and should be relaxed, Russian Economic Development Minister Alexei Ulyukayev said in an article published Monday.

Government expenditure in Russia is tied to long-term oil prices and borrowing is limited to 1 percent of gross domestic product. However, this system faces criticism at a time when the economy, hit by Western sanctions over Ukraine, risks entering recession.

"Now it is evident that this mechanism has ceased to satisfy us fully," Ulyukayev wrote in the daily newspaper Vedomosti.

"We have denied ourselves possibilities for stimulating the economy with the help of fiscal policy at a time when we are close to recession. When it is necessary to activate measures aimed at softening the negative consequences from the rise of geopolitical tensions," he wrote.

Ulyukayev's article is the latest salvo in a battle between fiscal conservatives, led by Finance Minister Anton Siluanov, and officials such as Ulyukayev who advocate using looser fiscal policy to boost economic growth.

Official data released on Friday showed that the economy had contracted in annual terms in both July and June. This slowdown coincided with a surge in capital outflows and slumping investment, which analysts link to the Ukraine crisis and the impact of Western sanctions.

Western nations have imposed a range of sanctions on Russia over its role in Ukraine's conflict, with Moscow retaliating by banning a range of food imports from those countries.

Ulyukayev argued that if the deficit were raised to 2 percent of GDP, the Central Bank could help finance it through more active open market operations, increasing its balance sheet through the purchase of government bonds from banks.

Russia should also aim to raise more long-term debt finance from Asia, he argued. If the extra spending was aimed at reducing bottle-necks in "productive" sectors and infrastructure it would not be inflationary, he said.

Such views are likely to be opposed by the Finance Ministry, which argues that the existing caps on spending and borrowing should be retained given limited financing and the risk of falling oil prices that could hit budget revenues.

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