

Finance Minister: Russia Needs Backup Budget For Worst-Case Scenario

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Russia's Finance Minister Anton Siluanov speaks during the Reuters Russia Investment Summit in Moscow.

Russia must create a contingency budget to counter the threat that Western sanctions, economic stagnation and low oil prices will dash the country's hopes of restoring growth in the near term, Finance Minister Anton Siluanov said Friday.

“A budget cannot constantly have expenses that were drafted in a different economic reality. We must always have another version in case times like these continue,” Siluanov said in a speech to Russia's lower house of parliament, the State Duma, news agency RIA Novosti reported.

The latest budget for 2015-17, which faced its first reading in the State Duma on Friday, is based on the optimistic forecast that sanctions will ease and oil prices next year will average \$100 per barrel. The budget predicts GDP growth of 1.2 percent next year, 2.3 percent next year

and 3 percent in 2016.

This scenario looks increasingly far-fetched: Economic growth has crashed in 2014, with a recent World Bank forecast predicting growth of 0.5 for this year, 0.3 percent next year and 0.4 percent in 2016. Western sanctions on Moscow over its actions in Ukraine show no sign of letting up and the price of Brent crude oil — the global benchmark — was at \$86 per barrel on Friday amid a global supply glut that will likely keep prices depressed in the short term.

Siluanov has criticized the budget before. At an investment summit late last month he called the budget's forecast “optimistic” and said Russia “will have to try very hard to ensure the planned growth rates,” Reuters reported.

Experts polled by The Moscow Times noted previously that the 2015-17 budget is crippled by new expenses and past promises that are now too exorbitant to fulfill, including the cost of supporting Crimea — which Russia annexed from Ukraine in March — and the state's massive \$700 billion rearmament program.

Lower budget revenues led to a controversial decision earlier this year to use contributions to privately managed pension funds to fill gaps in the state budget for the second year in a row. The move was heavily criticized by economists, who said that it will both increase the state's future spending obligations and deprive nascent markets of strong institutional investors.

Siluanov on Friday also asked Russian lawmakers for permission to use, if necessary, up to 500 billion rubles (\$12 billion) from the government's Reserve Fund, an oil-revenue-funded piggy bank, to fulfill spending obligations next year.

“We created [the fund] for this, and there are now more than 3 trillion rubles [\$72 billion] in the Reserve Fund,” RIA Novosti quoted Siluanov as saying.

At the same time, the minister warned that the fund is “not infinite” and urged lawmakers to optimize government programs and bring state spending in line with the budget's limitations.

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