

Russia's Economy Minister Slams Plan to Reintroduce 1990s Bonds

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Alexei Ulyukayev

Russia's Economic Development Minister Alexei Ulyukayev attacked a Finance Ministry proposal on Wednesday to reintroduce short-term bonds notoriously used during the 1990s to cover the budget deficit.

Ulyukayev's criticism exposes rifts within the Russian government over how to respond to the country's stagnating economy and financial problems exacerbated by Western sanctions against Moscow for its support of pro-Russian separatists in Ukraine.

"It's completely inappropriate," Ulyukayev told reporters when asked about the possibility of Russia again issuing short-term bonds, according to the Interfax news agency. "There is no demand for these innovations and I don't understand why we are making the business community nervous."

Russia defaulted on its short term bonds, also known as GKO's, in 1998 after using them throughout the 1990s to raise funds in an approach that experts compared to a state pyramid scheme.

Deputy Finance Minister Tatyana Nesterenko said Monday that GKO's could be issued next year to address short-term liquidity problems, rather than raise funds in order to reduce the budget deficit.

The move was supported by the Central Bank in a statement on Tuesday that said the new bonds could help manage the state finances more effectively, the TASS news agency reported.

Finance Minister Anton Siluanov told lawmakers in Russia's upper house of parliament on Wednesday that the only difference between the medium- and long-term treasury bonds, known as OFZs, currently issued by Russia, and the new GKO's would be their maturity, Interfax reported.

There will be sufficient market demand for the new GKO's, Siluanov said.

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