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Russia Must Cut All Budget Spending by 10 Percent, Finance Minister Says

By The Moscow Times

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Finance Minister Anton Siluanov

Russia's finance minister on Wednesday called for a cut in planned spending to weather an economic crisis, warning of a more than $45 billion drop in revenues this year if the average oil price is $50 a barrel.

In comments underlining the government's growing concern at the downturn, Finance Minister Anton Siluanov said all budget expenditure should be cut by 10 percent except defense, a priority for President Vladimir Putin.

Adding to the gloom, Economy Minister Alexei Ulyukayev said there was a "pretty high" chance Russia's credit rating would be downgraded to junk and a deputy, Alexei Vedev, said he expected inflation to peak at 15-17 percent in March or April.

A steep fall in the ruble, low prices for its main oil export and Western sanctions over

Moscow's role in the Ukraine crisis have hit Russia's economy hard, and Siluanov said overall expenditure in 2015 must increase by 5 percent, not the 11.7 percent previously budgeted.

Ulyukayev also highlighted the problems facing small and midsized businesses, saying they must be supported to try to spur Russia's oil-dependent economy, which the World Bank expects to contract by 2.9 percent this year.

"The global economy will never again be what it used to be in 2000-07 and the situation in Russia will never be the same," Ulyukayev said, referring to the economic boom years under Putin when the global oil price soared. "It will be much more complicated. It already is much more."

Russia's 2015 budget was based on an oil price of $100 a barrel but prices are now close to six-year lows at just above $46 a barrel.

"Regardless of having already curbed 2015 spending, we will ask parliament to cut by 10 percent all expenditure apart from defense spending," Siluanov added.

He said Russia needed to husband its reserves to overcome difficulties as the price of oil looked set to continue at low levels. The ruble, which fell about 40 percent against the dollar in 2014, has also continued its decline this year.

Siluanov said the Reserve Fund, a rainy day fund of around $90 billion to cover budget holes, would be increased by 370 billion rubles ($5.60 billion) from last year's savings, but Russia would need to spend more than 500 billion rubles from it in 2015 to cover the budget gap.

The 500 billion, currently invested in foreign currency assets, would be converted gradually on the forex market.

Siluanov said the ministry could invest part of the Reserve Fund in ruble bank accounts to take advantage of the weak ruble and earn high interest.

"We need to have a lot more resources so as not to spend, not to burn up the reserve funds," he said.

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