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Finance Minister Warns Budget Deficit May Eat Up Russia's Rainy-Day Fund

By The Moscow Times

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Finance Minister Anton Siluanov warned on Monday that if the budget deficit was not reduced Russia would quickly spend its entire emergency Reserve Fund and be forced to start printing money.

"We must use our reserves extremely conservatively," Siluanov told lawmakers in the lower house of parliament, where amendments to the federal budget were being discussed.

"3.7 percent of gross domestic product is a significant deficit," he said, referring to this year's expected shortfall.

Russia's Finance Ministry, which supports a tough budget policy, has found it hard to convince the Kremlin to cut state expenditure, despite an economic slowdown, lower oil prices and Western sanctions driving budget revenues sharply lower.

It has had to revise higher the projected budget deficit after only managing to agree spending cuts of some 300 billion rubles ($5 billion).

According to the amendments discussed in the State Duma on Monday, Russia could spend up to 3.1 trillion rubles ($53 billion) from its Reserve Fund this year, leaving just 2.6 trillion rubles in the fund.

"If we aren't going to cut the budget deficit, then having spent the Reserve Fund we could switch to direct monetary financing from the Central Bank, which is unacceptable," Siluanov said.

If the Central Bank were to start printing money to cover the budget shortfall, it would spur inflation — which is already at a 13-year high — and undermine confidence in the Russian economy.

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