

# Russia's Reserve Fund Ceases to Exist

**Budget deficits have exhausted the rainy day fund**

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Russia's rainy day Reserve Fund has ceased to exist as of Jan. 1, the Finance Ministry reported this week.

Set up in 2008 in the boom years, the Reserve Fund was a store of money designed to top up the budget in times of crisis, particularly when oil prices fell below the budget break-even price of \$70 now and \$115 in the boom years.

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The Finance Ministry has been making use of this facility in the last years after Russia began running a big budget deficit. But the fund has now been almost exhausted and had only \$17 billion in it at the end of 2017.

What remains in the fund has now been merged with the National Welfare Fund (NWF), a

second reserve fund that was supposed to be used to cover pension payments in the mid-term.

However, the NWF has been retasked as a general fund that can be used to top up the budget as well. The NWF has been largely untouched and had \$66.94 billion in it as of the start of December.

All-in-all Russia's international currency reserves grew in 2017 thanks to the rise in oil prices, rising from \$390 billion in January 2017 to end the year at \$432 billion. The Central Bank of Russia (CBR) has set a goal of building up the reserves to \$500 billion in the near future, but that will be a difficult goal to meet.

With the closing of the Reserves Fund, all excess oil and gas revenues earned by the government will now be paid into the NWF as part of the "budget rule" that has recently been reintroduced – a rule that means excess revenues earned from raw material exports is sterilised in the fund so it can't force the appreciation of the currency.

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