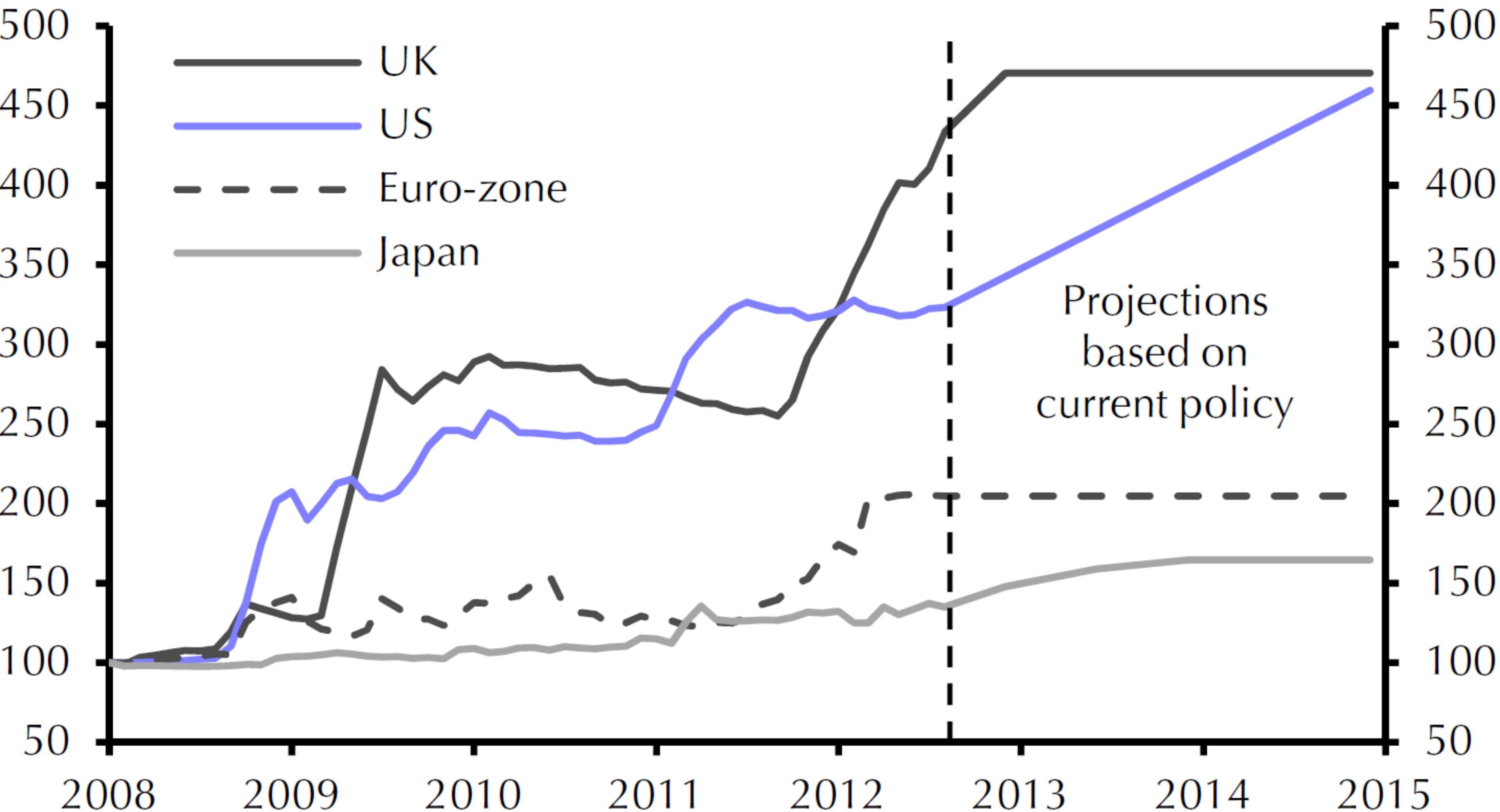
Russia's response to a volatile world:

Be Countercyclical!

Alexey Moiseev

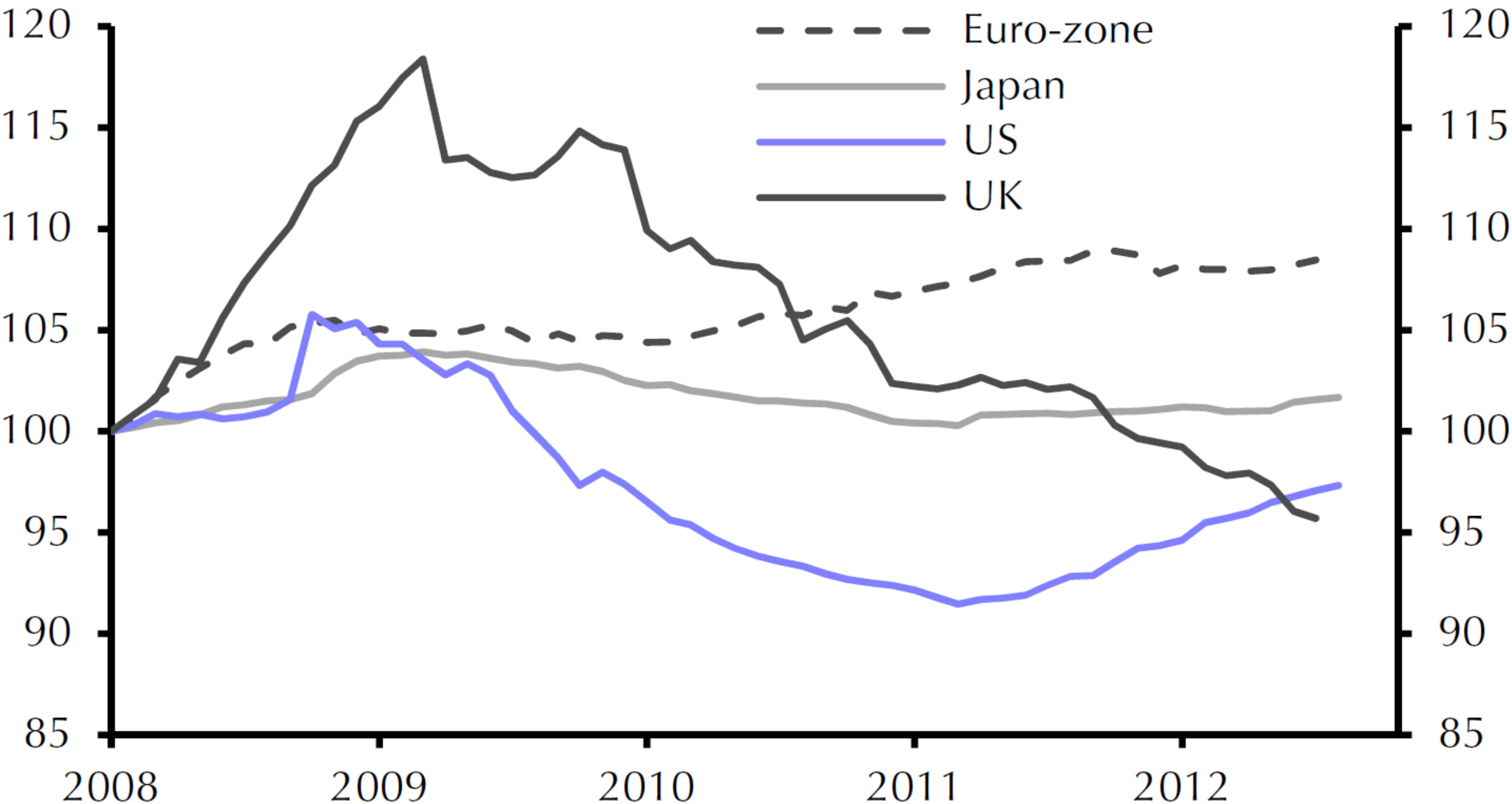
October 2012

Chart 1: Monetary Base (January 2008=100)



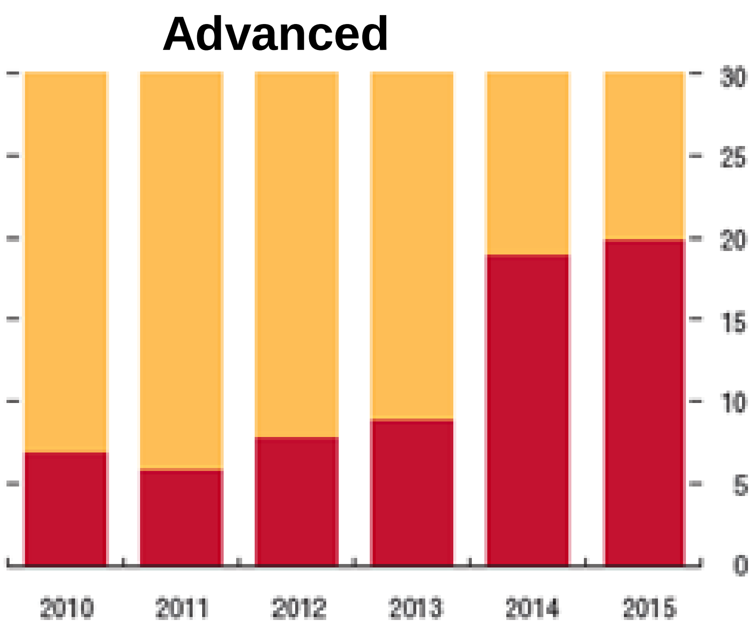
Sources – Thomson Datastream, Bloomberg, Capital Economics

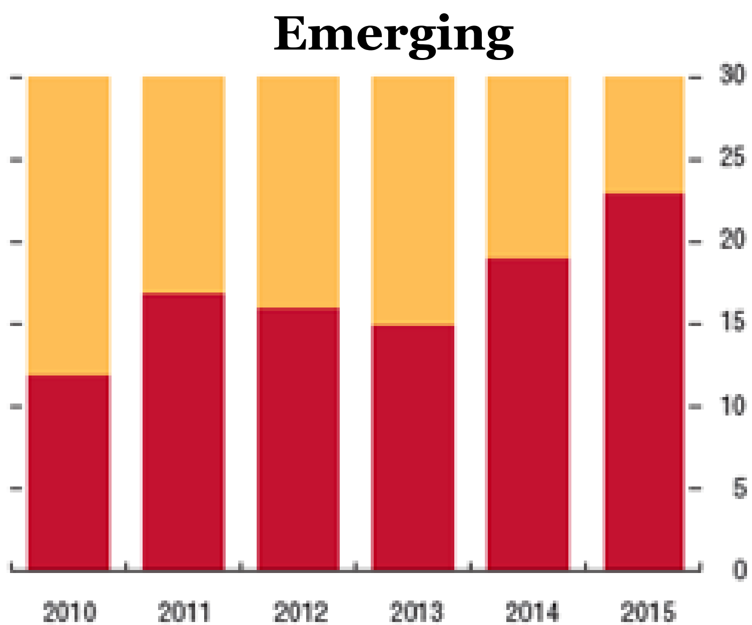
Chart 3: Bank Lending (January 2008=100)



Sources – Thomson Datastream, Bloomberg, Capital Economics

Number of Countries with Increasing/Decreasing Gross Debt to GDP

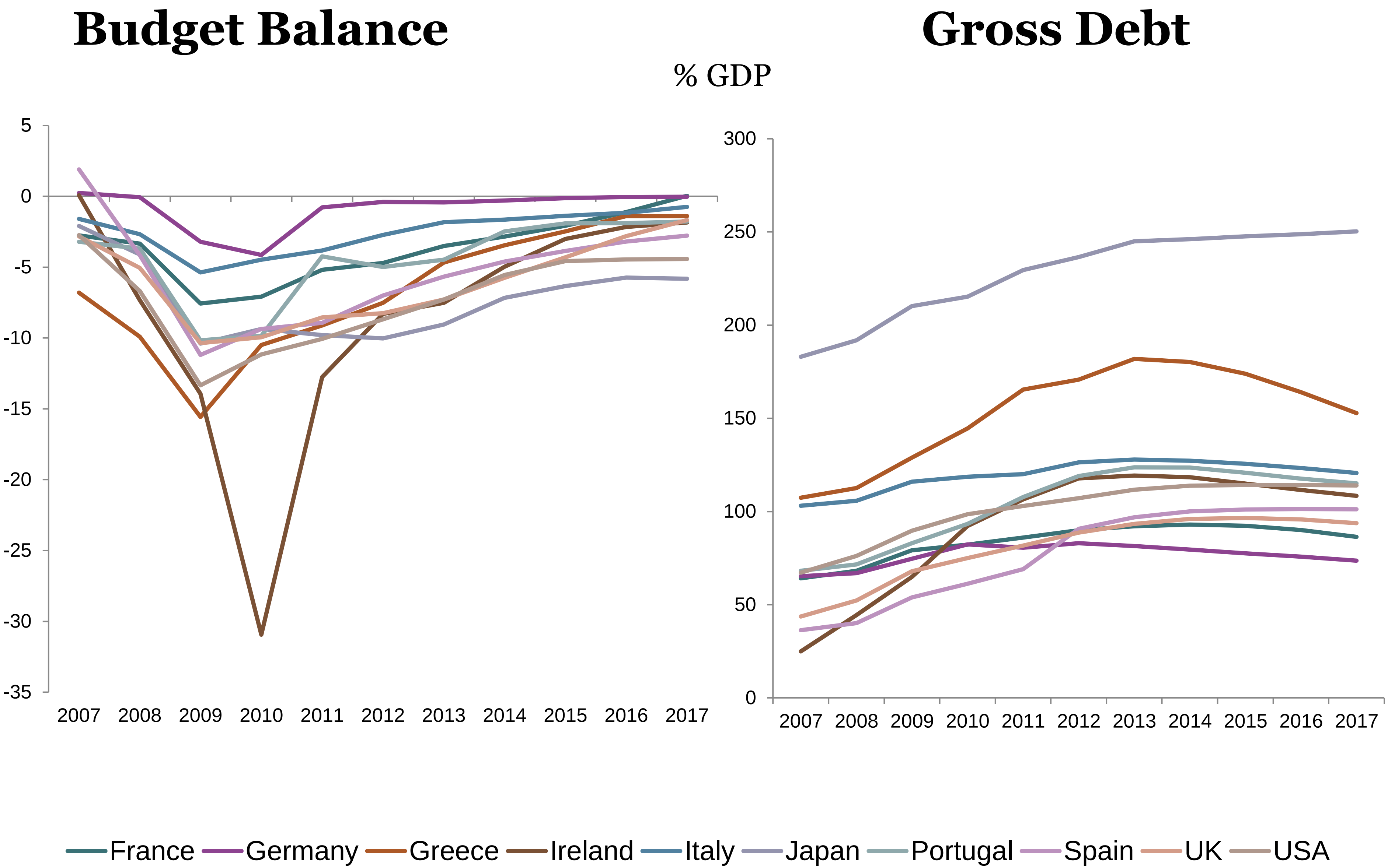




Increasing debt to GDP

Decreasing debt to GDP

Source: IMF, Fiscal Monitor, oct. 2012



Source: IMF, World Economic Outlook, oct. 2012

Budget Rules (1)

1. This mechanism to ensure that the expenditure level corresponds to the available resources.
2. In the recent decade dependence of the federal budget and the budget system of the Russian Federation in general on oil & gas revenues has significantly increased:
   1) whereas ***in 2000 share of oil & gas revenues in the total revenues of the federal budget was around 20% by 2004 it increased to 30% and in 2011 oil & gas revenues made up about half of all revenues***. In these circumstances significant decline in oil prices may lead to noticeable shrinkage of the revenue part of the budget and deficit growth;
   2) ***Non-oil & gas deficit grew from 2-3% in 2002-2007 to 10,6% in 2012***.

Budget Rules (2)

4. ***In 2004, the Stabilization Fund was established and budget rules were introduced*** to reduce dependency of the budget system on the global economic situation. ***In 2009, the budget rules were suspended*** due to steep fall in revenues of the federal budget (both oil & gas and non-oil & gas revenues). To offset decline in revenue and prevent spending cuts it was decided to use ***funds accumulated in the Reserve Fund***.

The Mechanism of Using Oil & Gas Revenues of the Federal Budget (1)

1. New budget regulations will come into force on January 1, 2013.
2. **Maximum expenditure level is determined by estimated volume of revenues under the oil price as determined by the rule + 1% of GDP**:

Expenditure ≤ [Revenue (at benchmark oil price) + **1% of GDP]**

3. Benchmark oil price will be defined on the basis of historical data. ***In 2013 it will be set at the level of average oil price during five-year period. This period will increase annually by one year to reach ten-year period by 2018***.

The Mechanism of Using Oil & Gas Revenues of the Federal Budget (2)

1. If forecasted oil price is higher than benchmark price ***additional oil & gas revenues shall be channeled to the Reserve Fund*** until it reaches its normative volume set at 7% of GDP.

2. When Reserve Fund reaches 7% of GDP:

   1) *no less than 50% of additional oil & gas revenues go to the* ***National Welfare Fund****,*
   2) *the remaining amount can be used to finance infrastructure and other priority* ***projects not entailing lasting obligations****.*