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Managing sovereign wealth funds of Russia, budget risks and federal budget planning: influence on the economic security and business

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Abstract: The article analyzes the development and management of investments and problems of the Reserve Fund and National Welfare Fund as an important element of economic security of Russia at the present stage. The authors consider a number of factors that affect the performance of the Fund. As an institutional instrument of state economic policy, accumulating extra-budgetary financial resources and / or tangible assets and being designed to address the priorities of economic development, including the achievement of the economic security and long-term development goals at the national and international level, the sovereign wealth funds require the development of a clear mechanism of their management. The article examines budget risks as a category which refers to the federal budget and the financing of its deficit from the Reserve Fund and National Welfare Fund as well. The article is devoted to the search for possible solutions to the problem.

Keywords: sovereign wealth funds, the Reserve Fund and the National Welfare Fund, oil, Russia, the economy, the price of oil, prices for hydrocarbons, sanctions, disappearance, budget risks.

SOUVEREIGN WEALTH FUNDS OF RUSSIA AND THE PROBLEM OF FINANCING OF THE FEDERAL BUDGET DEFICIT

For a long time, sovereign wealth funds (SWFs) have been active actors of the world economy. According to the data of the Institute of sovereign wealth funds (SWFI) [1], in December 2010 the assets under management were \$ 5.049 trillion, in June 2016 their value already reached \$ 7.428 trillion (\$ 6.510 trillion according to Preqin [2]), in June 2016 – already \$ 7.437 trillion [1].

Overall, in March 2015 45 per cent of the SWFs noticed that their assets increased for the previous 12 months, 36 percent of SWFs observed a decrease of their assets and 19 per cent did not see any changes in assets. Increasing proportion of SWFs begins to actively invest in alternative assets, while investing in assets with fixed income and holdings in packets of state shares still make up the bulk of most portfolios.

About 62 percent of SWFs invest their assets in the real estate and the infrastructure, a number of SWFs prefer to invest in private equity, their share increased from 47 percent in 2015 to 55 percent this year, 35 percent of SWFs prefer investing in private debt [2].

Recent macro-economic conditions have set a specific set of problems. With the fall in commodity prices, which are the source of funding for many funds, a number of countries are faced with great difficulties.

The sharp decline in oil prices to around \$ 40 per barrel has negatively affected the replenishment of the budget and sovereign wealth funds and their management in the oil-exporting countries, such as Norway, Russia and Saudi Arabia. Such a change in the world market and the reduction of budget revenues in their volume places the priority to ensure the economic security of states.

The main factors of formation of the economic security should include, first, the specific socio-economic conditions of the subject of economic security; second, the process control ability, which impact on the state and development of the economic security, and third, the number and quality of the processes that determine the economic security [3].

There is also a number of external economic threats that include: currency outflow abroad; increase in the external debt; non-functional use of foreign currency; raw material orientation of exports; loss of competitiveness on the international market; the loss of foreign markets; the concentration of a controlling stake in the leading companies of the country for foreign investors.

Economic security is considered a state in which a sovereign state can, without external interference, determine the ways and forms of its own economic development.

The first sign of possible economic system to protect themselves from the danger of destruction by external and internal factors is the ability to maintain their own status and structure in accordance with certain social mission, which is characterized as the resistance of the system.

The second sign of the economic security, which is directly linked and is derived from the stability of the system is the ability to resist the development of obstacles. The concrete manifestation of the latest features of the system is manifested in the ability to achieve the goals of that management is defined as the effectiveness of the system. Thus, the most significant signs of the economic security of the system is its ability to resist the destruction of the organizational structure (resistance) and hinder the achievement of development goals (efficiency).

For the purposes of ensuring the economic security of the country and implementation of the State's expenditure obligations in the event of reduction of revenues of oil and gas revenues to the federal budget in Russia on the basis of the former Stabilization Fund of Russia were established two sovereign wealth fund - the Reserve Fund and National Welfare Fund [4], but this measure did not allow to solve all the existing problems.

The crisis in the economy is constantly reflected in the country's economic performance. Thus, the federal budget deficit by the end of 2016 by plans will be 3.66% instead of 3%.

The Ministry of Finance has prepared the following amendments: the average price of oil Urals - \$ 40 per barrel, whereas the previously expected price of was \$ 50 per barrel on average in the end of 2016. Budget for the year 2016 is counted on the basis of the average annual price of oil Urals on the level of \$ 50 per barrel, the average annual rate of 63,3 rubles for \$ 1, and the growth of the economy by 0.7%.

Assessment of inflation, which is also used to calculate the budget, has been reduced from 6.4% to 5.8%. As the result, the expected size of the budget deficit of 2016 increased from 2,360 trillion to 3.034 trillion rubles. The budget revenues have been reduced from 13.738 trillion to 13.368 trillion rubles, expenses increased - from 16.098 trillion to 16.402 trillion rubles.

In addition, the Ministry of Finance increased the expected size of the GDP in 2016 from 78.673 trillion to 82.815 trillion rubles. The evaluation of the Reserve Fund, forecasted in the budget plans, was increased from 5.507 trillion to 5.797 trillion rubles. The upper limit of the state internal debt increased from 8.818 trillion to 9.868 trillion rubles, of the external debt - reduced from 50.1 billion euros to 49.7 billion euros. The amount of domestic borrowings has increased from 300 billion rubles up to 500 billion rubles and the amount of the foreign borrowings - has not changed: \$ 3 billion [5].

National Welfare Fund

As of November 1, 2016 the volume of the National Welfare Fund amounted to 4 541 930 000 000 rubles, which is equivalent to US \$ 72.20 billion, including [4]:

- 1) In separate accounts to record funds of the National Wealth Fund with the Bank of Russia:
 - US \$ 19.56 billion;
 - 20.76 billion euros;
 - 3.83 billion pounds sterling.
- 2) deposits in Vnesheconombank - 195.03 billion rubles and \$ 6.25 billion;
- 3) in debt securities of foreign states on the basis of a separate decision of the Russian Government, without requiring long-term credit rating - US 3.00 billion;
- 4) in securities of Russian issuers related to the implementation of the self-supporting infrastructure projects, a list of which is approved by the Government of the Russian Federation - 112.63 billion rubles and \$ 4.11 billion;
- 5) in preferred shares of the credit institutions - 278 990 000 000 rubles.
- 6) on deposit in VTB Bank (PJSC) and the Bank of GPB (JSC) for the purpose of self-supporting of the financing of infrastructure projects, a list of which is approved by the Russian Government - 164.43 billion rubles.

The aggregate calculated income from placing the funds of the National Welfare Fund into the foreign currency accounts with the Bank of Russia, recalculated in USD, for the period from 15 January to 31 October 2016 amounted to \$ 0.21 billion, which is equivalent to 12.90 billion rubles. Exchange differences

Table 1
Allocation of National Wealth Fund's assets to preferred equities of Russian banks as of 1 December 2016

No.	Full name of the bank	Amount of purchased equities	Face value of each equity in rubles	Purchase price in rubles per equity
1	VTB Bank (Public Joint-Stock Company)	21 403 797 025 000	0,01	0,01
2	Joint stock company Russian Agricultural Bank	25 000	1 000 000,00	1 000 000,00
3	«Gazprombank» (Joint-stock Company)	39 954 000	1 000,00	1 000,00
Full name of the bank		Amount of funds invested in equities in rubles	Share of the charter capital, %	Purchase date
VTB Bank (Public Joint-Stock Company)		214 037 970 250,00	32,88	29 September 2014
Joint stock company Russian Agricultural Bank		25 000 000 000,00	7,47	16 October 2014
«Gazprombank» (Joint-stock Company)		39 954 000 000,00	21,00	30 December 2014
Total		278 991 970 250,00		

Source: Ministry of Finance of Russia

Table 2
Allocation of National Wealth Fund's assets to deposits in Vnesheconombank as of 1 December 2016

Eligible investments of National Wealth Fund's assets allocated to deposits/purpose of allocation	Maximum overall amount of allocation	Actual amount of allocation	Maximum period of deposit	Annual interest rate	Interest payment frequency	
Subordinated loans to Russian banks	410.00 bln. rubles ¹	75.03 bln. rubles			Quarterly	
			Including			
			30.88 bln. rubles	31 December 2019	6.25	
			44.15 bln. rubles	31 December 2020	7.25	
Not regulated	175.00 bln. rubles ²	50.00 bln. rubles ³	8 June 2020	6.25	Semi-annually	
Loans to small and middle enterprises	30.00 bln. rubles ²	30.00 bln. rubles	31 December 2027	6.25	Quarterly	
Loans to joint-stock company "The Agency for Housing Mortgage Lending"	40.00 bln. rubles ⁴	40.00 bln. rubles	1 June 2020	6.25	Quarterly	
Vnesheconombank's capital increase	5.966 bln. US dollars (7% of overall volume of	2.462 bln. US dollars	26 September 2034	LIBOR ⁶ + 2.75 ⁷ ,025 ⁸	Annually	

(contd... Table 2)

<i>Eligible investments of National Wealth Fund's assets allocated to deposits / purpose of allocation</i>	<i>Maximum overall amount of allocation</i>	<i>Actual amount of allocation</i>	<i>Maximum period of deposit</i>	<i>Annual interest rate</i>	<i>Interest payment frequency</i>
	National Wealth Fund as of 6 September 2014) ⁵				
		3.504 bln. US dollars	26 September 2034	LIBOR ⁶ + 3.00,025 ⁸	Annually
Not regulated	X	0.288 bln. US dollars	26 September 2034	LIBOR ⁶ + 3.80 ⁷ ,025 ⁸	Annually
Total	655.00 bln. rubles	195.03 bln. rubles	X	X	X
	X	6.254 bln. US dollars	X	X	X

[1] Federal law No.173-FZ dated 13 October 2008 "Additional measures to support financial system of the Russian Federation", article 4; Requirements to the financial assets, National Wealth Fund's assets could be invested in, approved by the Regulation of the Government of Russian Federation No.18 dated 19 January 2008, clause 12, subclause "b".

[2] Requirements to the financial assets, National Wealth Fund's assets could be invested in, approved by the Regulation of the Government of Russian Federation No.18 dated 19 January 2008, clause 12, subclause "b".

[3] Placement on deposit to finance Vnesheconombank's investment in "Gazprombank" (Joint-stock Company) equity stake.

[4] Federal law No.173-FZ dated 13 October 2008 "Additional measures to support financial system of the Russian Federation", article 6.2. In case of early repayment may be allocated to deposit in the same amount maturing before 1 June 2048.

[5] Budget Code of the Russian Federation, article 96.10, clause 4; Requirements to the financial assets, National Wealth Fund's assets could be invested in, approved by the Regulation of the Government of Russian Federation No.18 dated 19 January 2008, clause 12, subclause "c1"; Decree of the Government of Russian Federation No.1749-p dated 6 September 2014, clause 1.

[6] Six month US dollar LIBOR rate.

[7] From 26 September 2014 till 30 December 2015.

[8] From 30 December 2015 till day of deposit repayment.

Source: Ministry of Finance of Russia

from the revaluation of the Fund for the period from 1 January to 31 October 2016 amounted to a negative value (-) 678 490 000 000 rubles, including [4]:

- On balances in the accounts in foreign currency with the Bank of Russia - (-) 545.10 billion rubles;
- For funds placed on deposits in US dollars with Vnesheconombank - (-) 62.41 billion rubles;

- For funds placed in debt securities of foreign states on the basis of a separate decision of the Russian Government, without requiring long-term credit rating to - (-) 29.94 billion rubles;
- On foreign currency denominated securities of Russian issuers related to the implementation of self-supporting infrastructure projects, a list of which is approved by the Government of the Russian Federation - (-) 41.05 billion rubles.

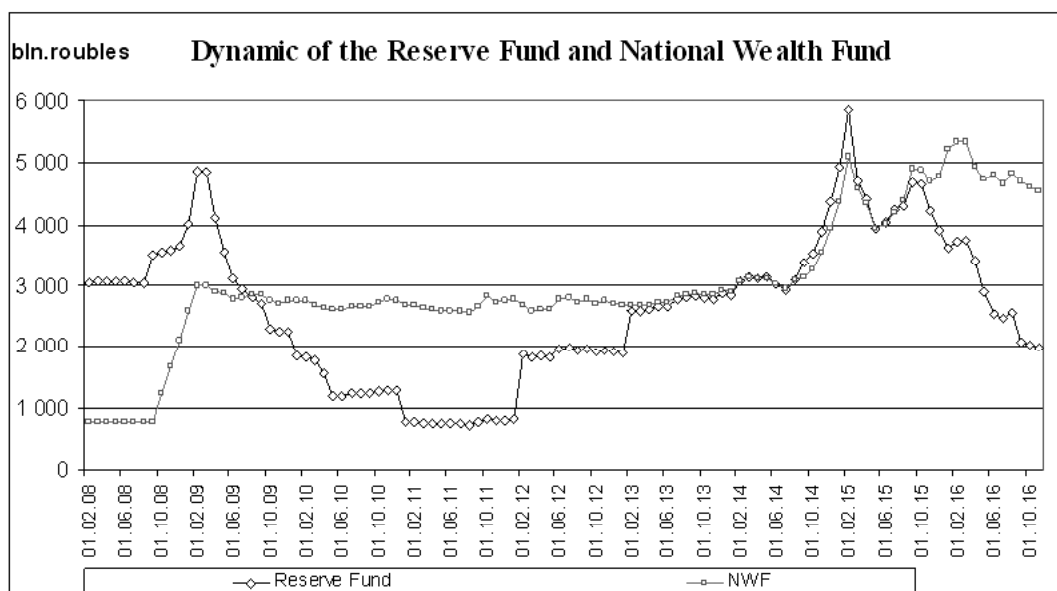
In October 2016 the federal budget received the following income from placing funds of the National Wealth Fund [4]:

- subordinated loan to VTB Bank (PJSC) - in the amount of 6.19 billion rubles, which is equivalent to 0.10 billion US dollars;
- deposits with Vnesheconombank - in the amount of 2.39 billion rubles, which is equivalent to 0.04 billion US dollars;
- in securities of Russian issuers related to the implementation of self-supporting infrastructure projects, a list of which is approved by the Russian Government - in the amount of 0.22 billion rubles, which is equivalent to 0.004 billion US dollars.

The total income from the placement of the Fund's assets in the eligible financial assets, with the exception of funds in the accounts with the Bank of Russia, from January to October 2016 amounted to 34.76 billion rubles, which is equivalent to US \$ 0.53 billion [4].

Reserve Fund

As of November 1, 2016 the volume of the Reserve Fund was 1 991.61 billion. rubles, which is equivalent to US \$ 31.66 billion. Balances in separate accounts to record funds of the Reserve Fund amounted to [4]:



Graph 1: Dynamics of the Reserve Fund and National Wealth Fund, data:industry of the Finances of Russia.

- US \$ 14.50 billion;
- 13.15 billion euros;
- 2.30 billion pounds.

The aggregate calculated income from placing funds of the Reserve Fund in foreign currency accounts with the Bank of Russia, recalculated in USD, for the period from 15 January to 31 October 2016 amounted to \$ 0.21 billion, which is equivalent to 13.26 bln. rubles. The exchange rate difference from recalculating balances of these accounts for the period from 1 January to 31 October 2016 amounted to a negative value (-) 478 960 000 000 rubles. [4].

Since February 2016 the volume of the National Welfare Fund started to decline from 5.34866 trillion rubles to 4.54193 trillion rubles in 2016. The crisis in the economy while reducing the size of the Russian sovereign wealth funds generates negative outlook of development. According to Reuters, with reference to the Ministry of Finance proposal to the budget 2017-2019, “the reserve funds airbags” that Russia accumulated in the fat years of high oil prices, will soon be exhausted.

According to the agency, the next year will reset the Reserve fund, its balance will be equal to 0, and in order to cover budget deficit from the National Welfare Fund, the Ministry of Finance plans to take 783 billion rubles in 2017, 883 billion rubles in 2018 and 87 billion rubles in 2019. Thus, in three years it will be reduced to 2.97 bln. rubles from the current 4 675 360 000 000 rubles.

Net domestic borrowing in accordance with the forecasts will grow up to 1.29 trillion rubles in 2017 to 300 billion rubles in 2016. In 2018-2019. they will increase to 1.47 and 1.44 trillion rubles respectively. Earlier, Finance Minister Anton Siluanov did not exclude that the volume of net borrowing can be increased to \$ 1 trillion rubles in 2017 and that financing of the deficit in the next year will be necessary from the NWF. “If the Reserve fund runs out of funds, the National Welfare Fund is the same reserve fund by its character”, - said the Minister.

The budget deficit in 2016 of 3% of GDP will be financed mainly by means of the reserve fund. According to the law of the budget, the Ministry of Finance can spend on deficit financing 2.1 trillion rubles. The reserve fund could shrink to 900 billion rubles by year's end, as warned earlier the Deputy Finance Minister Alexei Lavrov.

This is due to the increase in the deficit for 520 billion rubles due to the general decline in revenues. The budget deficit for the first six months amounted to 4.3% of GDP. In the first half of 2015 revenues were reduced by 12% - the budget has already lost more than 700 billion rubles of income, said Deputy Finance Minister Maxim Oreshkin: “With regard to graphics, embedded in the law on the budget, we go now lower by 1.3 trillion rubles even in the case of preservation in oil prices at the current level, which is not guaranteed” [6].

In 2017 the Ministry of Finance also suggests 3% of GDP budget deficit, which is planned to decrease by 1 percentage point per year. Total deficit in the 2017-2019 may reach 5.6 trillion rubles based on the current Ministry of Economic Development's forecast made by the nominal GDP (which may be reduced due to lower forecast for inflation).

“To finance such a large the budget deficit (though it counts as 3% in percents), taking into account the reduction of reserves at the expense of domestic borrowings - it is a big risk,” - said Siluanov earlier [6].

NWF was originally created to support the pension system. But in the crisis of 2008-2009 its funds were used to support the banks, and now are sent for infrastructure projects as well.

NWF' status is described in very general terms, amendments to the law are not required in order to direct its resources to the financing of the budget deficit, said earlier the head of the Economic Expert Group Evsei Gurvich. A year ago a working group of the assessment of the fiscal risks of the public council under the Ministry of Finance proposed to transfer to the Reserve fund the liquid part of the National Welfare Fund [6].

One of the measures offered by the Ministry of Finance for the next budget cycle, and with which the government has already agreed to the Budget Commission - to freeze the budget expenditures in nominal terms at the level of 15.78 trillion rubles per year for every 3-years period of time [6].

According to the chief economist at ING in Russia and CIS Dmitry Polevoy, in this situation there are only two scenarios. "The first option – to borrow resources on the both foreign and domestic markets.

This scenario can be allowed, but it is coupled with a number of risks, given into consideration the lack of long-term sources of funding in the context of the freezing of pension savings, in the absence of completion of the pension reform, and so on "- quoted expert of BFM. He also reminded that there are sanctions that bring limits in terms of scope, the possibility of raising funds through the external market [7].

"The second way - reducing the budget deficit, there has not been invented anything else as either cut spending or increase revenues. We understand that to cut costs in nominal terms is already difficult enough, so it was decided to fix the volume of the expenditures of the federal budget at the level of the year 2016, and in this regard the latest news about the recent proposals of the Ministry of Finance on the tax increase have quite clear outlines. This may well be a realistic scenario on the horizon after 2018", - said the analyst. [7].

According to the study "Development Centre" of the High School of Economics (HSE) called "Comments of the state and business", published on August, the crisis in the Russian economy in the first half of the year has increased, economic activity resumed its decline, dropping to the mid-year, lower than the minimum values since the beginning of the current crisis [7].

In this case the process of the compression of the economy was "broad front", affecting virtually all sectors, and now it is early to speak of any recovery in economic activity in Russia. In these circumstances, the loss of oil revenue threatens the exhaustion of the Reserve Fund before the end of the year, warn analysts of the HSE [7].

"It was completed only the first, the most acute phase of the economy to adapt to the "new normal reality", - the report says. - The economy once again began to fall, hit the bottom, with GDP that characterizes the issue of the economy as a whole, which struck the bottom in the first quarter of 2016, while in the second quarter, according to our estimates, it was at 1.4% and below the bottom and for 5, 5% lower than the average level of 2014 [7].

In this regard, experts say, it remains a major threat to the reduction of the budget revenues due to falling oil prices. Already in the first half of 2016 the government had to use 780 billion rubles to cover the federal budget from the Reserve Fund deficit. By the end of the year according to the HSE assessment the Reserve fund can be fully exhausted [7].

In August of 2016 the Ministry of Finance for the third time since the beginning of the year spent the resources of the Reserve Fund to finance the budget deficit. As the result, less than 7 trillion rubles were left in the sovereign wealth funds of Russia. Russia has lost nearly a fifth of the Reserve Fund - it decreased by 18.4% up to 2.09 trillion rubles.

This is the largest reduction of the Reserve Fund in percentage of the year and a half, it follows from the statistical department data, including 390 billion rubles that have been spent in the past month to finance the federal budget deficit, the report said. The Finance Ministry has mobilized reserve fund to cover the budget deficit for the third time since the beginning of the year.

“Part of the foreign exchange reserves of the Reserve fund from the accounts of the Bank of Russia in the amount of \$ 2.92 billion, € 2.46 billion and £ 0.31 billion was sold for 390 billion rubles, and the funds received were credited to a single account of the federal budget”, - was stated in the Ministry of Finance’s report. Another 80 billion rubles the Reserve fund lost due to the negative revaluation of foreign currency accounts. The ruble has strengthened by 1.1% in August (suddenly, as the ruble declined in every August since 2007), follows from the data of Bloomberg [8].

Earlier, in 2016, the Ministry of Finance has twice implemented the reserves of the Reserve Fund to cover the federal budget deficit: in April and May 2016 the Ministry of Finance spent from the fund 390 billion rubles for these purposes. In total for eight months in 2016 to finance the budget deficit were allocated 1.17 trillion rubles. On the difference in current exchange rates (due to the strengthening of the ruble) since the beginning of 2016 the Reserve Fund lost 380.5 billion rubles, follows from the report of the Ministry of Finance [8].

The National Welfare Fund (NWF)’s reserves were not spent in August, but in this month the fund was reduced to 123 billion rubles (-2.5%) and amounted 4.72 trillion. rub. Since the beginning of the year the income from placing funds of the National Welfare Fund in foreign currency amounted to 15.41 billion rubles, and losses from the revaluation of the exchange rate reached 501.25 billion rubles.

Thus, by the beginning of September, less than 7 trillion rubles were left in two Russian sovereign wealth funds. The volume of the Reserve Fund fell to the lowest level since early 2013 [8]. Beginning from February 2015 the amount of the Reserve Fund has fallen from 5 864.90 billion rubles (7.3% of GDP) to 1 991.61 billion rubles (2.5% of GDP) as of 1 November 2016.

Totally in 2016 the Ministry of Finance planned to spend 2.1 trillion rubles from the Reserve fund. As informed the Finance Minister Anton Siluanov, it won’t be easy to keep the Reserve Fund spendings at this level in 2016 because the sum was formed on the basis of the oil price of \$ 50 per barrel.

Deputy Finance Minister Maxim Oreshkin expressed his opinion in August, that the expenditure of the Reserve Fund this year may come close to the mark of 3 trillion. rubles in the case of the changes of the terms of the privatization of “Rosneft”[8].

The Bank of Russia believes that financing the budget deficit for the entire 2016 will need to use 2.4 trillion. rubles from the Reserve Fund, of which 1.2 trillion. Rubles are already used. Expenditure of the Reserve Fund provides inflow of budget funds in the banking sector and thus contributes to the transition of the system to a structural surplus of liquidity deficit after five years.

Other sources of financing of the budget deficit, such as borrowing and privatization of state-owned companies, do not affect liquidity, but the Ministry of Finance has already exceeded the limit of the net domestic borrowing for this year (300 billion. rubles), and the privatization is delayed all the time.

Therefore, the Ministry of Finance's operations increase the likelihood of the formation of "substantial fiscal overhang" at the end of 2016, was said in an August in the review of the Central Bank "What do the trends".

At the end of 2016 Reserve Fund will be 980 billion. roubles, which will be exhausted in 2017, reported Reuters in July with the reference to the materials of the draft budget for the years 2017-2019.

In 2017, the government can use the resources of the National Welfare Fund (NWF) for budgeting purposes, said Siluanov in an interview with RBC in June. Now the NWF is not spent for the financing of the budget deficit, and about a third of its volume is placed with Vnesheconombank and in infrastructure projects [8].

According to our opinion, the possibility of exhaustion of the Reserve Fund exists, therefore it is necessary to improve the management and investment of funds' mechanism of Russian sovereign wealth funds, and develop other ways to cover the budget deficit.

SOUVEREIGN WEALTH FUNDS OF RUSSIA AND BUDGET RISKS

In recent years, the importance of the concept of the fiscal risks, which are the factors, the effect of which may lead to the deviation of actual budget performance from planned, such as the budget deficit.

Gamukin V.V. offers the following classification of the fiscal risks [1]: 3 groups of risks with 5 subgroups of risks in each of them. Group 1 - fiscal risks, arising, as a rule, outside the scope of the budget.

This external environment risks. 1.1. Risks associated with traditional financial and business transactions. 1.2. The risk of inflation. 1.3. Risk of discrete control. 1.4. Risk connected with the reduction of the solvency of the taxpayers. 1.5. The risk of political conjuncture.

Group 2 shows the budget risks that the budgetary system generates itself. These are the risks of the budget system. 2.1. Risk rhythm of receipts and payments. 2.2. The risk of budget revenues structure. 2.3. The risk of the budget expenses structure. 2.4. The risk of an imbalance of the budget. 2.5. The risk of dependence on external sources.

Group 3 are budget risks, the occurrence of which is probabilistic in nature. They are random risks. 3.1. The risk of error. 3.2. The risk of an objective situation of unpredictability. 3.3. The risk of economic crisis. 3.4. The risk of corruption. 3.5. The risk of the development of the budget.

At the moment the Russian federal budget is in deficit. What are the sources to cover the budget deficit can be used in case of exhaustion of the resources of sovereign wealth funds?

According to the proposals of the Director of the Institute of Economics of the Academy of Sciences Ruslan Grinberg, the exhaustion of the Reserve Fund is not yet the end of the world, because it remains several options for the country through which you can neutralize the absence of provisions: 1) a tax increase; 2) reducing costs; 3) foreign debt; 4) domestic debt; 5) depreciation; 6) economic growth [2].

In the first case, the increase of the tax rate may lead to the decrease of the tax collection. In the second case, the diminishing of expenses could lead to the reduction of investments, living standards and consumer demand.

The third option is risky enough under the current external economic situation, especially in the sanctions regime, moreover, foreign loans are quite expensive.

The fourth option would mean that the money will be withdrawn from the active circulation, and will be forwarded to the ensurance of the the internal debt that will inhibit investment and economic development in general.

After the diminishment of the sovereign rating of Russia up to the “speculative” level, the market of the internal state debt will not be open for the foreign investors. The regulations of the foreign financial institutions simply do not allow them to work with the “speculative” securities.

The fifth option leads the economy to a state of shock, can cause the decrease in imports and increase of inflation. The sixth option requires structural reforms and their implementation.

The head of the stock markets and financial engineering Department of RANHiGS, the former deputy chairman of the Central Bank Konstantin Korishchenko thinks that the national debt will grow and the cost of it will decline. “Costs have already been proposed to freeze, raising taxes is extremely dangerous for political and economic reasons. Therefore we will increase the national debt, since it is very small by any standards”. [3]

This year, the planned federal budget expenditures amounted up to 16.25 trillion rubles, of which 2.2-2.3 trillion rubles will be covered from the Reserve Fund. This deficit in the first half of the year exceeded 4% of GDP, while its value forecast for this year before is 3%.

The first alarm sounded, as expected, from the Ministry of Finance, which made a radical, but inevitable proposal: the legislation must limit the budget expenditures at the level of 15.78 trillion rubles for the next three years, that means to cut them in nominal terms, adjusted for inflation at 20% [3].

After that, the Treasury presented a deficit reduction plan with diminishment of the deficit from 3,2% of GDP in 2017 to 1.2% GDP in 2019, including the limits of the transfer of the Pension fund up to 3.8% of GDP per year.

However, the Treasury made the decision about the sources of financing of the budget deficit. Thus, one trillion rubles of the Reserve Fund still remains in it in the first half of 2017, then in the second half of the year 0.8 trillion rubles will be taken from the National Welfare Fund (it is planned to take from this fund in 2018-2019 another \$ 1 trillion).

If in 2016 the volume of the domestic borrowings amounted 300 billion rubles, in the following three years, the Ministry of Finance is going to borrow annually 1.3-1.5 trillion rubles, that is why the national debt by 2019 will be increased up to 13% of GDP [3].

Anyway, the government has no other choice: the revenue base is not growing, the economic growth is around zero, the reserves run out, and no one gave the mandate to the government for the reform in the conditions of the difficult socio-economic situation [3].

With regard to the federal budget of the Russian Federation, the experts of the Working Group on evaluation of fiscal risks [4] determine the following types of the budget risks: the risk of the loss of revenue, the risk of additional costs, the risk of limiting the sources of financing and the risks at the stage of the budget planning related to the planning accuracy, which leads to an underestimation or revaluation of fixed parameters of the budget.

The occurrence of these risks is capable to impact extremely negative on the federal budget and lead to the deficit that requires the use of active measures.

The risk of the loss of income is linked with [4]: 1) the price of oil on the world market; 2) the current exchange rate of the dollar against the ruble; 3) a slowdown in growth; 4) the degree of the tax collection.

The risk of additional costs is associated with: 1) the risks of support of the banking system; 2) the implementation of the implicit obligations in the non-financial sector; 3) the risks of regional budgets.

The financing of risks is associated with: 1) the volume of revenues and expenditures of the volume of the Russian sovereign wealth funds; 2) the borrowings in the foreign and domestic markets; 3) the privatization or sale of assets belonging to the state.

If the volumes of these sources are insufficient, the extreme measures, painful for the economy, are the direct emission of money the Central Bank and the default.

In order to exit this situation, the experts of the Working Group of the assessment of the fiscal risks [4] proposed three tools: 1) long-term budgetary planning; 2) the adoption and use of the modified fiscal rules; 3) improvement of the budgetary forecasting.

Also, they proposed the following types of the adaptation to the budget shocks: 1) a combination diminishment of expenses and / or increasing of the financing of the budget deficit; 2) budget borrowings.

At the same time, according to experts of the Working Group of the assessment of the fiscal risks [4], despite the fact that at the both levels is not possible to increase the borrowings, the shocks of the revenues at the federal level in the main are smoothed out, which is connected with the use of the resources of the Reserve Fund as an additional source of financing, while the procyclical expenditure policy is observed at the regional level, which is linked to the fact that such additional source of funding there does not exist.

The adaptation in the condition of the stable expenses is called “soft” adaptation, while the adaptation in the condition of the shrinking expenses is called “hard” [4]. It is necessary to agree that the problem of prevention of the fiscal risks should be of the great importance at the moment and it is needed to use all available means to solve this problem.

According to the experts of the Working Group for assessment of the fiscal risks [4], in the case of the choice of two options - the pro-cyclical fiscal policy or the accumulation of the fiscal reserves when conditions are favorable for their use in the case of the adverse conditions, the latter is more preferable.

As of November 2016, the Russian Federation passed the stage of the high world oil prices (over \$ 100 per barrel) and has accumulated some funds in sovereign wealth funds, the amount of which however turned out to be insufficient to finance the budget expenditures at the stage of the decline in world oil prices and finding them at the level of around \$ 40 per barrel.

Currently, the resources of the Reserve Fund of the Russian Federation melt, then it is forecasted to take resources from the National Welfare Fund, the amount of which is also at a relatively low level. Getting loans in foreign and domestic markets in the unfavorable economic conditions is connected with the great difficulties.

It is beneficial to increase their volume during the periods of favorable market conditions and to reduce their volumes in times of unfavorable external economic conditions (it allows to strengthen the counter-cyclical effect of the fiscal policy and reduce the cost of borrowings for the budget in case of internal borrowings and to the use of external markets in order to adapt to the adverse shocks and to gain from the exchange rate revaluation for external borrowing), but not vice versa.

The privatization and the sale of the state-owned assets can only be a temporary measure to cover the short-term cash gaps that can not be used to cover the long-term structural deficits.

One of the methods of reducing the financing risk is the method of diversifying its sources. In our opinion, it is better not spend all the resources of the sovereign wealth funds of Russia to their complete exhaustion. It is necessary to look for the new ways for the better investing of the sovereign wealth funds.

It is also needed to use the version of the budget cuts, and, if possible, to avoid the reduction of that types of costs that may further increase the scale of the economic downturn, as well as the priority of public investment, as well as to consider the option of raising funds from the other funds.

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