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Kudrin Says Oil Prices Help Reduce Borrowing

By The Moscow Times

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Russia will curb borrowing plans this year as higher revenue from oil narrows the budget deficit to less than 2 percent of gross domestic product, Finance Minister Alexei Kudrin said.

The Finance Ministry won't use its sovereign Reserve Fund to finance the shortfall, which is officially forecast at 3.6 percent of GDP, Kudrin told Prime Minister Vladimir Putin on Monday, according to a transcript published on the government's web site.

"This year we were planning to spend the rest of the Reserve Fund," Kudrin said. "But since market prices for oil are good, we won't use the Reserve Fund at all."

Urals crude, Russia's main export blend, has surged 21 percent since the start of the year because of concern that unrest in the Middle East will lead to supply disruptions.

Putin said last week in Brussels that Russia wasn't interested in unlimited gains in the price of oil that would pose a "serious" threat to the global economic recovery.

An upgrade to Russia's rating was "highly probable" if the budget deficit remains in check as the economy grows, Fitch Ratings said in January. Fitch put Russia on "watch positive," indicating optimism, in September after cutting it one step to BBB, the second-lowest investment grade, in February 2009.

Russia raised 40 billion rubles ($1.4 billion) in its first ruble-denominated eurobond last week at a yield near what it pays for similar domestic debt. The Finance Ministry raised 53.2 billion rubles in an auction of 2013 notes on Feb. 2, the largest amount for a single security.

While borrowing to cover its fiscal gap remains "high," the country must rebuild its Reserve Fund to curb inflation and create a new safety net in case high oil prices "aren't permanent," Kudrin said.

The Reserve Fund, which collects excess oil revenue up to 10 percent of GDP, may grow to 1.45 trillion rubles this year, from 775 billion rubles at the start of 2011, Putin said Feb. 22.
The government must save the oil revenue to avoid stoking inflation, he said.

Consumer prices rose an annual 9.6 percent in January, prompting the Central Bank to boost its key interest rates and raise mandatory reserve requirements on Feb. 25.

The Central Bank will probably raise rates again by another quarter-point in March and then pause to avoid boosting capital inflows, Alexandra Yevtifyeva, an economist in Moscow at VTB Capital, said Feb. 25 by e-mail.

"A big help to the Central Bank would be tighter, or at least non-expansionary, fiscal policy," said Yevtifyeva, who correctly predicted the rate hike. Putin's announcement that Russia will start saving oil revenue is "very encouraging," she said.

The Reserve Fund stood at $26 billion in January, down from a record $142.6 billion in August 2008.

"Given the situation on the domestic market and the impermissibility of excess money growth, even if it's coming from oil, we'll continue with some amount of borrowing," Kudrin told Putin. "Maybe it will be about 2 percent or even less, but part of our deficit must be covered through debt."

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