

Russia Dismantles Fiscal Rules as Oil Volatility Rattles Budget

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- ▶ Government suspending fiscal rule, shifting to one-year budget
- ▶ Mechanism that capped spending may be dropped, Ulyukayev says

Step by step, Russia is undoing the budget policy assembled during the past decade as it tries to ride out turmoil on the energy market.

The government is halting the so-called budget rule a week after announcing plans to drop three-year fiscal plans in favor of a one-year program for 2016. That rule, which went into effect in 2013 and sought to cap public spending based on average long-term oil prices, may be modified, reinstated or dropped entirely, Economy Minister Alexey Ulyukayev told reporters Tuesday in Paris.

The world's biggest energy exporter is tearing down its fiscal mechanisms as it contends with fluctuations in the price of oil, which together with gas accounts for about half of budget revenue. Crude is down more than 25 percent from this year's closing peak in May, helping deepen Russia's first recession since 2009 and putting the budget on course for its widest deficit in five years. Finance Minister Anton Siluanov has blamed turbulence on energy and financial markets for forcing the government to shorten its fiscal-planning horizon.

"There's a clean slate now," Ulyukayev said. "We're in a situation with different options, there's nothing predetermined."

Ruble, Oil

Russia has allowed the economy to adjust to slumping oil prices via the ruble, the world's worst performer against the dollar in the past 12 months with a 46 percent drop. Brent crude, used to price Russia's main export blend, Urals, climbed 2.3 percent, to \$48.74 a barrel on the London-based ICE Futures Europe exchange.

The budget gap, which reached 2.8 percent of economic output in the first seven months, is projected at 3 percent for this year, according to Siluanov.

"Keeping the rule in place would make fiscal policy less credible because it prescribes drafting the expenditure side of the budget on the basis of Urals above \$80 a barrel," Tatiana Orlova, the chief

Russia economist for Royal Bank of Scotland Group Plc in London, said by e-mail. “It’s better to be flexible than to have your hands tied.”

Russia began drafting three-year budgets eight years ago under then-Finance Minister Alexei Kudrin, who led the push to improve the country’s fiscal planning, check spending and divert windfall energy income into rainy-day funds.

The International Monetary Fund advised Russia to modify the budget rule to “help support medium-term fiscal sustainability,” according to a [report](#) in August. Improvements are needed allow for faster fiscal adjustments and generating more savings, the IMF said.

Fiscal Outlook

Russia will draft next year’s budget based on an average oil price of \$50 a barrel and doesn’t plan to replenish the Reserve Fund next year, Siluanov said Monday. The Finance Ministry will modify the budget rule after 2016, according to Siluanov.

By choosing not to apply the fiscal rule next year, the government may also create a hurdle for the central bank, said Dmitry Polevoy, an economist at ING Groep NV in Moscow. A risk of fiscal easing “would complicate the Russian central bank’s job with further policy easing,” he said in a report.

“The idea of having a one-year budget instead of the normal three-year plan is not the best for Russia, where the government has been generally reluctant to consistently act in accordance with any medium-term plans,” Polevoy said. “This creates extra uncertainty related to fiscal policy and could make it less prudent without the budget rule.”

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