



The impact of the global financial crisis on funding needs and borrowing strategies of the Russian Government

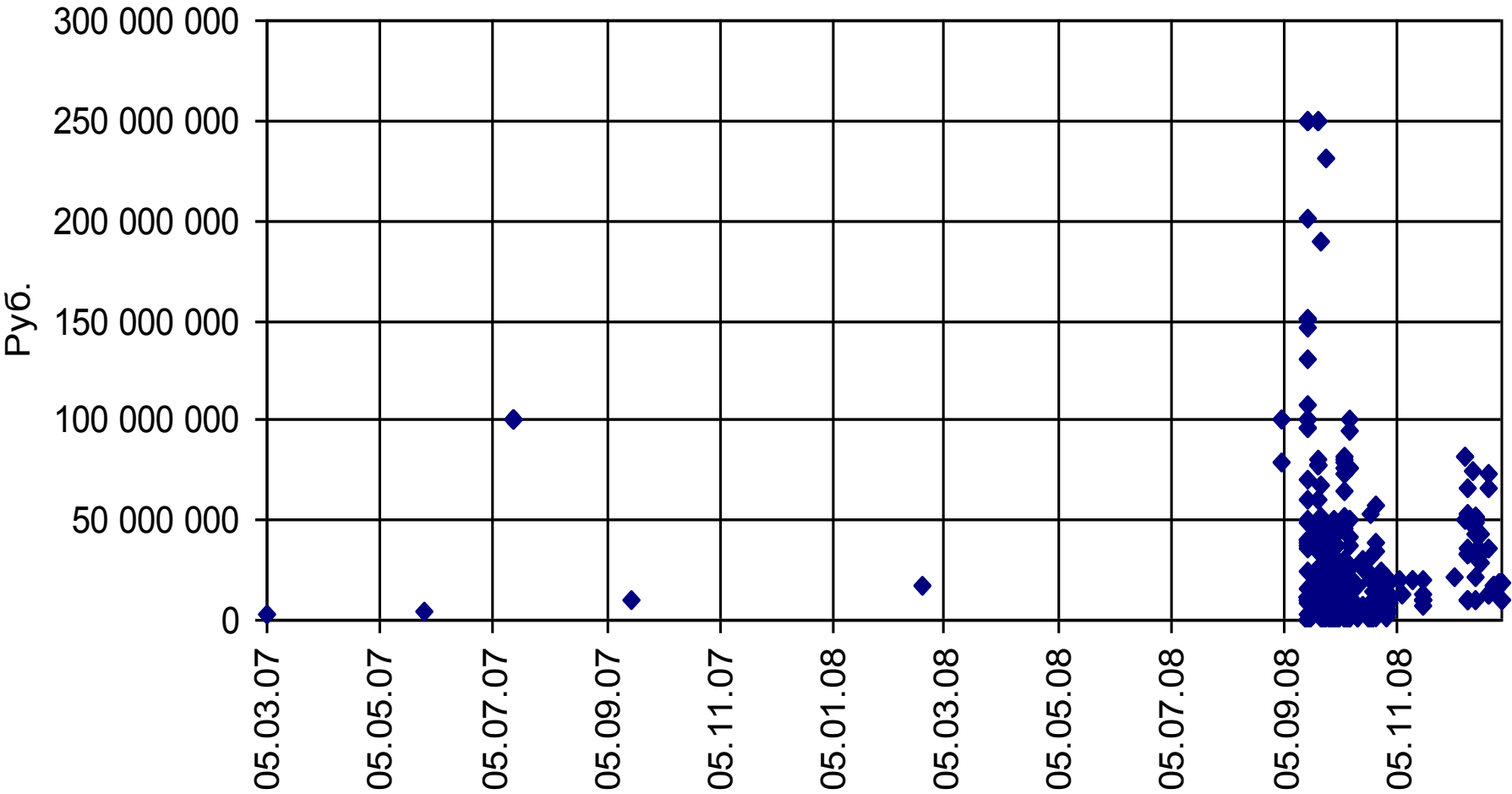
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Fall of 2008: Russia's financial cramps

- Credit crunch.
- Suspension of government bond auctions.
- Disruption of stock trading by numerous halts.
- Collapse of repo markets due to chronic fails (chart 1).

Chart 1. Repo markets strangled by fails



Source: MICEX

Growth of funding needs

- Massive government actions to limit further damage intensified the growth of government spending in 2008-2009.
- At the same time government revenues decreased reflecting Russia's dependence on the export of staples.
- For the first time since 1999 a budget deficit occurred (table 1).

Table 1. Federal Budget as % of GDP

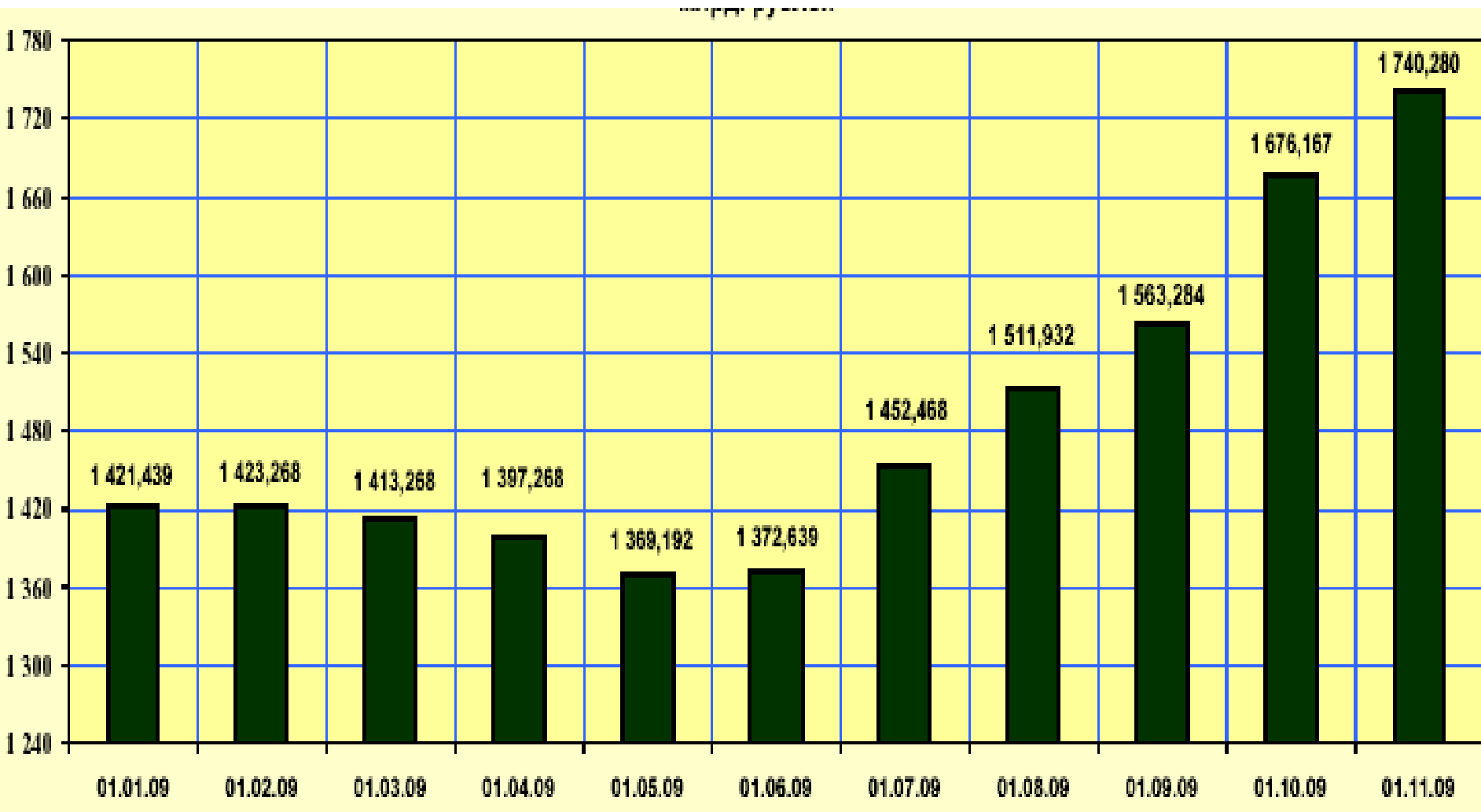
	2008	I-X.2009 (prelim.)	2010 (project)
Revenues	22	19	16
Expenditures	18	23	23
Surplus or deficit (-)	4	-4	-7
Bond and other domestic debt issuance	1	-0	-
Reduction of government account balances	-5	4	-
Reserve Fund	10	4	0

Source: Ministry of Finance.

Reserve Fund

- Being a petroleum exporting country Russia was able to accumulate sizable financial assets known as the Reserve Fund.
- In 2009 the deficit will be financed mainly by transfers from the Reserve Fund. In 2010 году the fund will be depleted, and the government will have to rely on debt financing (table 1).
- Domestic debt has already resumed its growth since the reopening of government bond auctions in May 2009 (chart 2). Higher growth rates are expected for external debt.

Chart 2. Domestic debt in 2009



Source: Ministry of Finance

Implementable debt management strategy...

- The Ministry of Finance made a list of six strategic objectives for 2010-2012. Objective 5 calls for optimization of management of public debt and financial assets.
- Objective 5 has two sub-objectives related to public debt management.
- These sub-objectives are translated into an implementable debt management strategy expressed in terms of measurable targets (table 2).

Table 2. Strategic objective 5: Optimization of management of public debt and financial assets

	2010	2011	2012	Strategic target
Debt / GDP, %	12,7	14,6	15,4	<20
Credit risk category	3	2	1	1
<i>Sub-objective 5.1. Economically justified debt level and structure</i>				
External debt, % to 2004 level	68	92	124	<130
Domestic debt / total debt, %	60	59	53	>50
<i>Sub-objective 5.2. Lower debt service cost</i>				
Debt service cost / expenditures, %	3	5	6	<7
Long-term bonds / domestic debt, %	>40	>30	>30	>40
Market debt / total debt, %	75	78	80	>55

Source: Ministry of Finance

Implementable debt management strategy

- After approval by the Cabinet these targets became strategic and the Ministry assumed responsibility for reaching them.
- Publication of the debt management strategy reinforces transparency and accountability.*

* Министерство финансов Российской Федерации. Доклад о результатах и основных направлениях деятельности на 2010-2012 гг. (Ministry of Finance of the Russian Federation. Report on Results and Main Directions for Activity in 2010-2012), <http://www.minfin.ru/ru/>.

End of Presentation