

13 December 2018  
Snap

## Russia: Facing lean Christmas due to stringent budget

The 2018 budget surplus could exceed the official RUB2.1 trillion target thanks to non-fuel revenue growth and restrained spending. If not for the risk of sanctions, this would have been a nice gift for rating agencies and bondholders, while local consumers and producers are clearly looking at a lean Christmas

**RUB3.4tr** 11M18 budget surplus  
3.7% GDP

Higher than expected

The Russian federal budget was executed with a RUB3.4 trillion (3.7% GDP) surplus, which is higher than consensus and our expectations by RUB0.3 trillion. Around one-third of the outperformance was caused by the acceleration in non-fuel revenue growth from an already high 15% year-on-year (YoY) in 10M18 to 23% YoY in November. The remaining two-thirds was a result of a surprising 2% YoY drop in expenditures in November after a very modest 1% YoY growth for 10M18.

Based on the strong 11M18 performance, we expect the full-year surplus to total RUB2.6 trillion, which is RUB0.5 trillion higher than the recent target set by the Finance Ministry. Given that the outperformance is not related to oil prices but rather reflects a tightening in tax collection efficiency and stringent cost control, this result is positive news for fiscal and overall macro stability.

We consider the conservative approach to budget policy, which allows for a budget breakeven oil price of around US\$50/bbl, the lowest level since 2007, as adequate for the external risks faced by Russia. With a high budget surplus and low state debt within 15% of GDP, Russia has one of the strongest fiscal positions among Emerging Markets and some commodity peers. Had there been no risk of additional sanctions, Russia's budget policy would have been a strong argument for a more favourable view from the rating agencies and bond investors.

The flipside of the tight budget policy, which the government is looking to continue into 2019-2021 (breakeven expected to remain at US\$50/bbl, expenditures to remain at a modest 17% of GDP, VAT and oil taxation to be increased), suggests little support to economic activity unless structural measures are taken. As the latter is not our base case scenario, the near-term economic trends both on producer and consumer sides are likely to remain under pressure, with GDP growth likely to decelerate from 1.6% in 2018F to 1.0% in 2019F. As a result, one of the key local policy dilemmas for 2019 will be between preservation of the macro buffers or using the budget as a tool to support growth.

Russia 2019: Risk-averse mode <https://think.ing.com/articles/russia-2019-risk-averse-mode/>

**Dmitry Dolgin**

Chief Economist, Russia

+7 495 771 79 94

[Dmitry.Dolgin@ingbank.com](mailto:Dmitry.Dolgin@ingbank.com)

### **Disclaimer**

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.