Russia: May not need borrowing till year-end 2018

The Russian budget surplus hit RUB3.0tr for 10M18 and is on track to exceed the fresh 2018F target of RUB2.1tr thanks to non-fuel revenues. This lowers the need to place RUB235bn in local state bonds (OFZ) planned over the next 6 weekly auctions. If market conditions allow it, the Minfin will go for it ahead of 2019, which is less clear for the budget

Source: iStock

RUB3.0tr

10M18 budget surplus

3.6% GDP

Higher than expected

The Russian Finance Ministry reported a preliminary federal budget surplus at RUB3.0tr for 10M18, exceeding the RUB2.9tr expected by us and consensus. The key positive news is that the outperformance was caused not just by higher oil prices and a weaker FX rate, but also by better-than-expected non-fuel revenue growth of 15% YoY and stringent expenditure growth of 2% YoY.

The 10M18 budget execution suggests that the full-year surplus will likely exceed the newly proposed official plan of RUB2.1tr, made under the assumption of average Urals of US$69.6/bbl, USD/RUB of 61.7, non-fuel revenue growth of 11% YoY and expenditure growth of 2%.

We see the 2018F budget surplus at RUB2.5-2.6tr and around RUB150-250bn of the difference is explained by factors not directly related to oil prices, such as a weaker RUB and stronger non-fuel revenue collection. This, in our view, lowers the need to struggle with the current state debt placement programme, which prescribes a total of RUB235bn in OFZ to be placed over the remaining 6 weekly auctions scheduled until the year-end. This should give the Finance Ministry room to manoeuvre in case market conditions are not welcoming.

At the same time, we do not exclude that Russia will still prefer to continue OFZ placements, if allowed by the market, ahead of 2019, which holds a number of uncertainties for the budget policy and the borrowing needs. First, the discussion in the US Congress of the sanctions against the new state debt, apparently postponed till year-end 2018, may resurface next year. Second, the 2019 non-fuel revenues could be lower than the drafted 11.0% GDP in case of a weaker GDP growth trend and some tax concessions to the oil industry in order to prevent higher retail gasoline prices. Third, the expenditures could also be revised upwards from the stringent 17.0% GDP as a response to regional challenges affecting economic activity popular support.

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