

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.

Author

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

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 N.V. 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. 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 authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. 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.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.