

## Russian fiscal savings to catch up on de-dollarization

The Russian Finance Ministry is **proposing** to invest the sovereign wealth fund into precious metals, diluting the share of USD, EUR, GBP. We believe the potential rebalancing of fiscal savings will not require additional market transactions, as Minfin's needs are fully covered by the large and diversified balance sheet of the central bank



Source: Shutterstock

The liquid FX portion of the sovereign wealth fund (NWF) is de facto the government's FX deposit with the Russian central bank (CBR). As of early November, its size was equivalent to US\$115.2bn, comprising of USD, EUR and GBP in a 45:45:10 ratio, in accordance with the NWF investment memorandum. Meanwhile, international assets (reserves) of the CBR significantly exceed these liabilities and total an equivalent of US\$582.8bn, including monetary gold worth US\$138.7bn (Figure 1). Therefore it is possible to incorporate gold into the NWF structure through an internal transaction within the CBR.

The Russian central bank has been an active buyer of gold in recent years as part of its

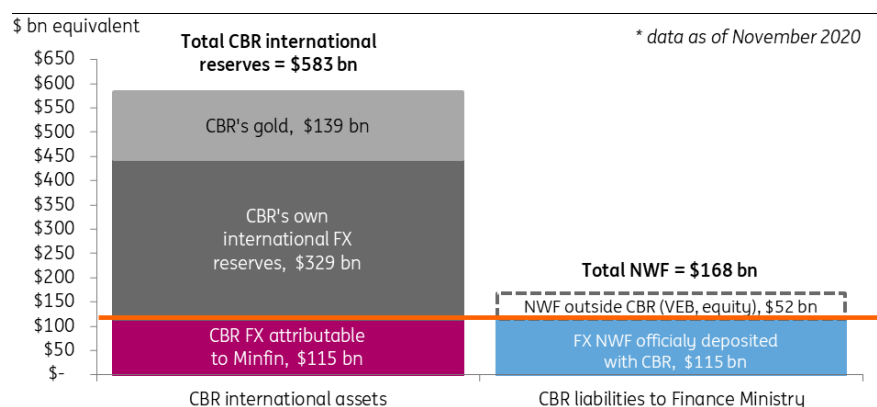
diversification strategy. On our estimates, the CBR bought 1.3kt of gold between 2014 and 2019, leading to a share of gold in Russian international reserves that is more than double the global average. In 2020, the purchases stopped but the dollar value of it kept growing thanks to the spike in the gold prices (Figure 2).

In general, the proposed change in the NWF structure could be aimed at greater synchronisation with the CBR, which has been spearheading Russia's de-dollarization efforts since 2018 (Figure 3). As a reminder, the Russian central bank materially **reduced** its USD holdings in 2018 in response to increased risks from the US OFAC, replacing USD with EUR, gold and RMB. As a result, the share of USD dropped to around 20-25%, where it has remained until now (the latest available data on the CBR reserve structure is for 1Q20), which is substantially lower than the relatively stable global average of 60%. The grounds for a lower share of USD in the Russian international reserves go beyond foreign politics given the EU-heavy structure of foreign trade and the growing share of China.

Meanwhile, the Finance Ministry has so far remained constrained by its investment memorandum, lagging behind the CBR on de-dollarization (Figure 4). This year, the share of USD in the overall NWF slightly declined, but that was the result of entering RUB **equity** of SBER, Russia's largest lender, while the share of USD in the liquid FX portion of the NWF remained unchanged.

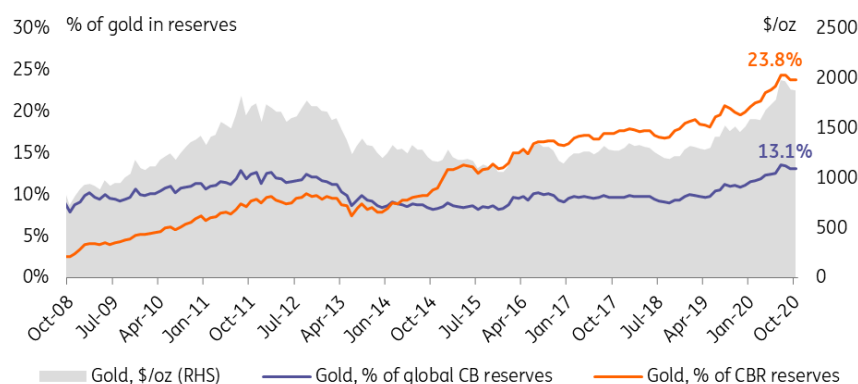
Overall, the diversified FX assets of the Russian central bank allow a rebalancing of the NWF structure (Figure 5) without tapping markets. This is also true for potential inclusion of RMB, mulled previously. We note that the CBR held the equivalent of US\$68bn in RMB as of 1Q20.

## Figure 1: NWF rebalancing could be done internally within the central bank's balance sheet



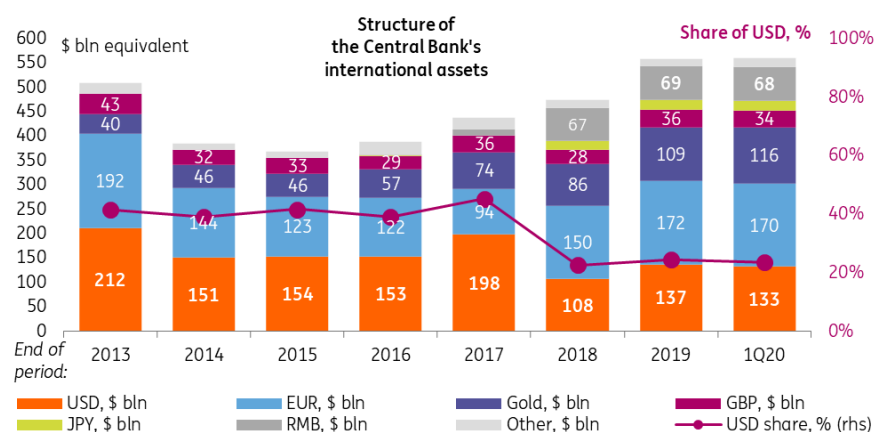
Source: Finance Ministry, Bank of Russia, ING

**Figure 2: Russian central bank had been actively buying gold until 2020; in 2020, the US\$ value of gold has been propelled by prices**



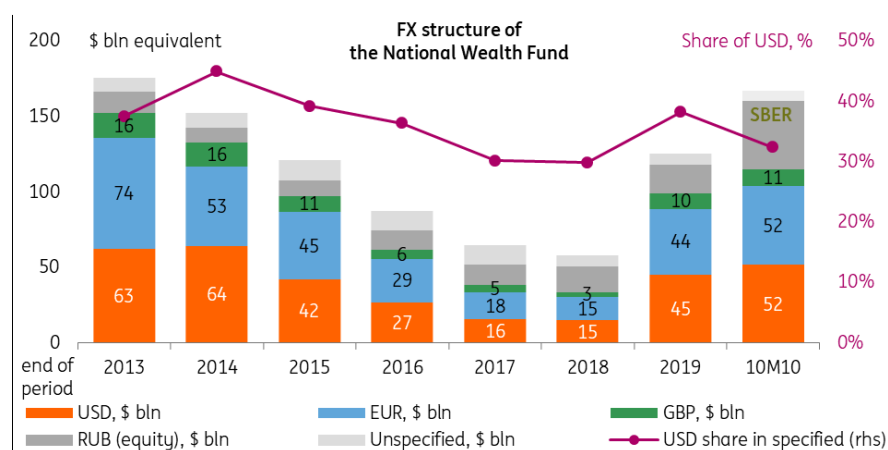
Source: IMF, Bank of Russia

**Figure 3: Russian CBR has de-dollarized its assets since 2018 on renewed foreign policy tensions with the US**



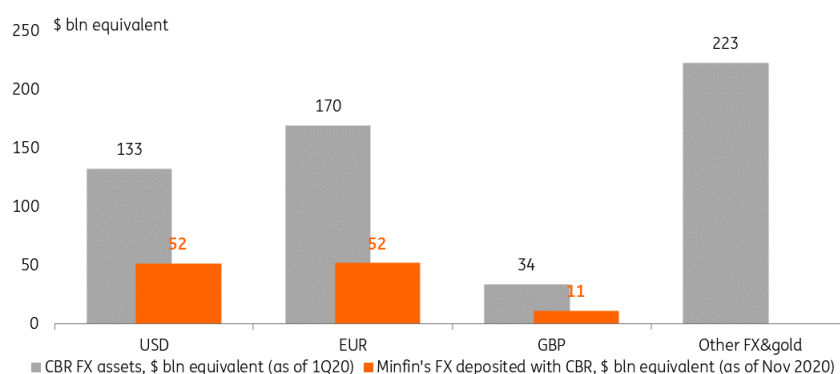
Source: Bank of Russia, ING

Figure 4: Russian Minfin has yet to catch up on de-dollarization



Source: Finance Ministry, media, ING

Figure 5: CBR has enough FX and gold to accommodate Minfin's diversification needs



Source: Finance Ministry, Bank of Russia, ING

## Author

**Dmitry Dolgin**

Chief Economist, CIS

[dmitry.dolgin@ing.de](mailto:dmitry.dolgin@ing.de)

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