



## THE EFFECT OF LOW OIL PRICES AND SANCTIONS ON THE PUBLIC DEBT OF RUSSIA

Currently, the Russian economy is suffering from an economic slowdown. GDP of Russia decreased by 3.7% and 0.2% in 2015 and 2016, respectively. Under these conditions, it is not surprising that the country experiences the increase of public debt to GDP, which according to the Finance Ministry of Russia, will reach 14.6% or \$223.3 (hereinafter USD/RUB is 56.79) billion in 2017, while in 2016 the rate was 13.2% or \$195.6 billion. It was also noted that the Ministry expects that the ratio will be growing further. It is forecasted that in 2018 the public debt to GDP will reach 14.9% or \$242.6 billion, while in 2019 the rate will reach 15.3% or \$266.5 billion. It is important to note that the Russian Government is going to focus mostly on the internal sources of financing budget deficit. The Government plans to increase internal public debt to GDP from 9.5% in 2016 to 11.7% in 2019, while external public debt to GDP is expected to be almost the same (3.7% in 2016 and 3.6% in 2019.)

The rising ratio of public debt to GDP might create some concerns, but if we look at other countries, we can observe that despite current economic slowdown the situation with public debt in Russia is better than the situation in most advanced countries. For example, according to the International Monetary Fund (IMF), the average ratio of public debt to GDP in Euro Region was 80.1% in 2015. Moreover, the ratio reaches 105.2% and 88.9% in the United States and the United Kingdom respectively, while in Japan public debt exceeds the country's GDP 2.5 times in 2015.

This relatively good performance of the Russian Government is caused mostly by the fact that the country could manage to significantly decrease the share of public debt in GDP and have been keeping it below 15% during the period of high oil prices in the 2000s and early 2010s. In the 1990s, Russia had to borrow a lot from external and internal sources and its ratio of public debt to GDP was much higher. For instance, the World Bank shows that public debt to GDP in Russia reached 143.9% in 1998. It is important to note that in 1998 the country was in severe financial crisis. The country underwent all types of financial crises, such as currency crisis, sovereign debt crisis, and banking sector crisis. Moreover, in the same year, the Government of the country defaulted on its debt.

The country was able to overcome the financial crises very quickly. To overcome the

crisis the government adopted an "anti-crisis plan". The plan subsidies for the production of food, medicines, and other goods considered critical to the population; more strictly controlling the activities of natural monopolies; and imposing controls on using and holding foreign currencies; restructuring the banking sector and the tax system. The plan definitely had a positive effect on the economy, but the main fact that helped the country to overcome the crisis was high oil prices. Oil prices that started going up since the late 1990s, had a significantly positive effect on the Russian economy and the public debt to GDP ratio started to decline. For instance, data from the Federal State Statistics Service of Russia (FSSS) show that in 2000 the ratio of public debt to GDP was 61.4%, whereas by 2005 this rate decreased down to 14.2%. A one-digit (9.0%) public debt to GDP was reached in 2006 and it reached its lowest ratio (6.5%) prior to the global financial economic crisis, in 2008. This one-digit rate stood persistent until 2013 when the ratio reached 10.6%, and since then it has constantly increased. In 2014, the ratio increased up to 13.2%, while in 2015 it was 13.6%.

A relatively big leap (2.6%) from 10.6% in 2013 to 13.2% in 2014 occurred because of the fact that since the middle of 2014 oil prices started to decrease and in March-April 2014 some western countries imposed sanctions on Russia over the Ukrainian/Crimean crisis. Since oil revenues were one of the main sources of the state budget, the decreased oil prices seriously affected the economic situation in the country. Furthermore, sanctions that mostly targeted Russian arms, energy and financial state-owned entities had an additional negative effect on the economy causing the reduction of the budget revenues and triggering high budget deficit. For instance, the Russian Federal Budget deficit amounted to 3.4% of GDP or \$52.3 billion in 2016, while a year ago the deficit was 2.4% of GDP or \$34.5 billion. In the period of 2012-2014, the budget deficit was lower than 0.5% of GDP. Moreover, the FSSS reported that the share of oil and gas revenues in total Federal Budget revenues was 35.9% or \$85.1 billion in 2016, which is the lowest level for the last 10 years. The second lowest share of oil and gas revenues was in 2007 when it decreased to 37.2% of total budget revenues.

The Finance Ministry of Russia expects that the share of oil and gas revenues in total Federal Budget revenues will not change signifi-

cantly between 2017-2019 and will stay at the level of 36%-37%. However, it was also noted that the budget deficit will be decreasing in the next three years. It is expected that between 2017-2019, budget deficit will be 3.2%, 2.2% and 1.2% of GDP respectively. The country expects to achieve that goal by decreasing non-oil and gas budget deficit from 9.4% in 2016 to 6.6% in 2019. It is worth mentioning that the Government plans to decrease budget deficit by cutting budget expenses. For instance, the public social expenses to GDP is planned to decrease from 12.7% in 2016 to 12.2% in 2017, while expenses on national defense to GDP, expenses on national economy to GDP, expenses on education to GDP are planned to decrease from 7.2%, 4.5% and 3.7% in 2016 to 4.9%, 3.9% and 3.5% in 2019 respectively.

In 2017 and 2018, the Finance Ministry planned to cover the budget deficits mainly through the transfers from the Reserve Fund of Russian and the National Welfare Fund (\$32.1 billion and \$20.5 billion respectively). Whereas in 2019 the Finance Ministry expects to allocate only \$2.5 billion from these two funds. During these three years time, other parts of the deficits will mostly be covered by internal public debt, while the Government plans to decrease the level of external public debt from 3.7% of GDP in 2016 to 3.6% of GDP 2019. Thus, the Russian Government, in 2017-2019, plans to cover its budget deficit through internal public debt in the amount of \$16.4 billion, \$14.9 billion and \$ 17.6 billion respectively.

In conclusion, if the negative external macroeconomic and geopolitical factors do not change, the public debt of Russia will continue to grow. Here, it is important to note that high public debt levels always carry a risk for governments to deteriorate public finance balance and have a negative effect on real economy. This is also a risk for the Russian economy. In this sense, in order to reduce the disruptive effects of high public debt on the economy, by implementing robust public debt policies and keeping public debt levels at acceptable levels as well as by using public debt revenues in implementing efficient public works, the Russian Government can carry out an effective public debt policy.

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## Politics, Foreign Affairs and Security

- During his official visit to Astana, the President of Turkmenistan, Gurbanguly Berdimuhamedov, and the President of Kazakhstan, Nursultan Nazarbayev, discussed the issues of regional and international cooperation, as well as collaboration in energy, transit and transport spheres. As a result of the visit, the parties signed documents including a Joint statement of the two presidents, a treaty on strategic partnership between Kazakhstan and Turkmenistan, an agreement on demarcation of the Kazakhstan-Turkmen state border, an agreement between the two governments on the Kazakhstan-Turkmen Intergovernmental Commission and agreements on mutual protection of confidential information. The sides also signed the program of cooperation between the two countries' Foreign Ministries for 2017-2018 and an agreement on establishing the twin towns relations between Astana and Ashgabat.
- During his official visit to Ashgabat, the Minister of Foreign Affairs of Iran, Mohammad Javad Zarif, and his Turkmen counterpart, Rashid Meredov, discussed the issues of further development of cooperation in the field of power industry, oil and gas and transportation. In addition, the parties paid attention to the Caspian issues and discussed the issues of rendering assistance to Afghanistan.
- During the Council of Foreign Ministers of the Shanghai Cooperation Organization Member States (SCO) held in Astana and chaired by the Minister of Foreign Affairs of Kazakhstan, Kairat Abdrakhmanov, the ministers discussed the completion of the accession process of India and Pakistan as the full-fledged SCO members. The participants also discussed measures on strengthening regional security, fighting terrorism and extremism within the expected enlargement of the SCO. Furthermore, the Heads of Foreign Ministries agreed on draft agenda and draft list of documents to be submitted for signing on the upcoming SCO Summit in Astana.
- During his official visit to Astana, the Vice Premier of China, Zhang Gaoli, and the President of Kazakhstan, Nursultan Nazarbayev, and the Prime Minister of Kazakhstan, Bakytzhan Sagintayev, discussed the issues of interaction of the two countries in trade-economic, scientific-technical, financial, energy, cultural-humanitarian sectors, transit-transport and infrastructure interaction including planning of large joint projects and development of long-term programs.
- During their official visit to Tashkent, the Senior Adviser to the President on Infrastructure, Human Resources and Technology of Afghanistan, Humayun Qayumi, and the President's Special Representative for Development of Cooperation with CIS countries, Mohammad Shakir Kargar, met the Minister of Foreign Affairs of Uzbekistan, Abdulaziz Kamilov. During the meeting, the parties discussed in detail the im-

plementation of the recently reached agreements and exchanged views on practices about the implementation of the Plan on the further development of full-scale cooperation between the two countries in 2017.

- During his official visit to Ashgabat, the Vice President of the European Parliament, Ryszard Czarnecki, and the Minister of Foreign Affairs of Turkmenistan, Rashid Meredov, discussed possibilities of deepening economic cooperation focusing on energy partnership and the possibility of gas supply from Turkmenistan to Europe.

## Economy, Finance and Energy

- According to the Energy Ministry of Kazakhstan, in the first quarter of 2017 the country exported 17.1 million tons of oil, which is 2.2% increase compared to the same period of 2016. It was also noted that in the first quarter of 2017, oil and gas condensate production increased by 5.2% year-on-year and reached 21.1 million tons, while the volume of refined oil amounted to 3.6 million tons, which is 2.2% increase compared to the same period of 2016.
- According to the state oil company of Azerbaijan, SOCAR, the company is building a new fixed platform #10 at the Western Absheron offshore field. The platform is designed for drilling 10 production wells and will be installed on nine bearing units at a depth of 13.5 meters. It was noted that it is planned to produce 1,200-1,500 tons of oil per day from the offshore platform, the total area of which will be 3,480 square meters.
- According to the latest World Economic Outlook report of the International Monetary Fund, in 2017 the average price of crude oil will amount to \$55.23 per barrel, while in 2018 it may go slightly down to \$55.06 per barrel. It was also noted that the average price of crude oil amounted to \$42.84 per barrel in 2016.
- The Atomic Energy Organization of Iran announced that the first commercial contract to redesign the Arak heavy water nuclear reactor was signed in Vienna between Iran and China. Under the deal, China will oversee the projects prepared by Iranian experts on modernizing the nuclear reactor. The 40-megawatt Arak reactor is intended to produce isotopes for cancer and other medical treatments. Iran is redesigning the planned research reactor to sharply cut its potential output of plutonium.
- The Infrastructure Minister of Ukraine, Volodymyr Omelyan, reported that the country and Iran agreed to launch a test train for transportation of agricultural products. The test train may be launched in summer and will run through Georgia and Azerbaijan. It was also noted that the country is considering the possibility of transporting Iranian oil to Ukraine, as well as the prospects of building an oil refinery in the country.
- As a result of the Uzbekistan-Tajikistan Business Forum held in Dushanbe, the Uzbek and Tajik enterprises signed 20 contracts for more than \$35 million. For instance, the Uzbek state-owned chemical

company Uzkimyosanoat signed 5 contracts worth \$28.4 million on delivery of goods to Tajikistan, including mineral fertilizers, while the Uzbek automobile company Uzavtosanoat signed the contracts on supply of automobile products to Tajik companies Lesinvest and Taj Motors for \$1.8 million. Moreover, the Uzbek companies Kvarts and Bestmetalconstruction signed 4 contracts worth \$500,000 with Tajik companies Fayzi Khurshed, Peshsaf-1, Tj-Mol and Zamon Trade on delivery of construction materials to Tajikistan.

- The Deputy Minister of Agriculture of Kazakhstan, Kairat Aituganov, announced about the country's plans to manufacture 43% of required agricultural machinery by 2021. It was noted that in order to increase the number of available machines for agricultural producers it is planned to raise the level of renovation of machines and tractors stock by 2.9% by 2021.
- The Minister of Finance of Kyrgyzstan, Adylbek Kasymaliev, reported about launching negotiations with Russia on writing off \$240 million of Kyrgyzstan's foreign public debt. It was also noted that as of February 2017 the foreign public debt of the country reached \$3.78 billion, which is 53% of GDP.
- The Minister of National Economy of Kazakhstan, Timur Suleimenov, reported that in January-March 2017 the deposits in terms of national currency increased by 1.5 times and reached 8.3 trillion tenge (\$26.6 billion). It was also noted that total deposits increased by 5.3% and reached 17 trillion tenge (\$54.5 billion).

## Society and Culture

- The President of Uzbekistan, Shavkat Mirziyoyev, signed a decree, according to which the State Committee on Protection of Nature was reorganized to the State Committee on Ecology and Protection of Environment. The Committee, with the aim of ensuring favorable environmental conditions and improving the ecological situation in the country, will be accountable to the Cabinet of Ministers.
- The President of Russia, Vladimir Putin, signed a decree on the country's environmental safety strategy until 2025. It was noted that the Government has to approve a plan of measures to implement the strategy within three months.
- China launched its first cargo spacecraft Tianzhou-1 (Heavenly Vessel-1) from the Wenchang spaceport in the southern Hainan province by a Chang Zheng-7 (Long-March-7) carrier rocket. The cargo ship is intended to dock with the Tiangong-2 orbital space station and conduct the station's on-orbit refueling.
- The Foreign Ministry of Uzbekistan reported that the Ambassador Extraordinary and Plenipotentiary of Uzbekistan to the United States, Bakhtiyor Guliyamov, signed the Paris Agreement. The original signed agreement was handed over to the UN Depository of Treaties.