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## **ОСОБЕННОСТИ СУВЕРЕННЫХ ФОНДОВ В РОССИИ**

*Аннотация.* В статье рассматриваются причины возникновения и особенности функционирования суверенных фондов как крупных институциональных инвесторов. Мы проанализировали динамику суверенных фондов, определили основные источники доходов суверенных фондов в условиях мирового финансового кризиса.

*Ключевые слова:* суверенный фонд, нефтегазовые доходы, инвестиции, финансовые активы, государственный бюджет.

## **PECULIARITIES OF SOVEREIGN WEALTH FUNDS IN RUSSIA**

*Abstract:* The article considers the reasons for the emergence and peculiarities of the functioning of sovereign wealth funds as large institutional investors. We analyzed the dynamics of the sovereign wealth fund, identified the main sources of income of sovereign wealth funds in the global financial crisis.

*Key words:* sovereign wealth fund, oil and gas revenues, investments, financial assets, government budget.

On the global financial market, a new class of participants has emerged: state (sovereign) investment funds. They are usually created by segregating a portion of a state's currency reserves, including those held by central banks. High rates of

economic development in emerging economies, particularly Russia, were aided by favourable commodity pricing conditions and a recovery of business activity. This resulted in a quick increase in national savings and the creation of substantial reserves.

A significant proportion of foreign assets in the investment portfolio, long-term investment and tolerance for short-term revenue swings, a prohibition on speculative operations, and no use of borrowed funds for operations are all characteristics of sovereign wealth funds.

When oil prices fell below the expected level, the Russian Federation established a Stabilization Fund in 2004 to balance the government budget. It was split into two funds in 2008: the Reserve Fund and the Sovereign Welfare Fund.

Revenues are first credited to accounts formed in Federal Treasury bodies, with a portion of the cash being transferred to the federal budget (% of GDP), and then the Reserve Fund, whose maximum value is limited to 10% of GDP, is filled. The remaining money will be transferred to the Sovereign Welfare Fund if this amount is attained.

The Reserve Fund's assets were designed to cover the federal budget deficit in the event that world oil prices fell below predetermined levels, as well as to settle the Russian Federation's external debt.

The Sovereign Welfare Fund was created as a result of an excess of income from the oil and gas sector beyond Reserve Fund allocations and monies to finance government budget expenditures.

The Reserve Fund and the Sovereign Welfare Fund were merged in 2018; the Reserve Fund had 997 billion rubles in assets at the time.

According to Article 96 of the Budget Code of the Russian Federation, the Sovereign Wealth Fund (SWF) is a part of the federal budget funds subject to separate accounting and management in order to ensure co-financing of voluntary pension savings of Russian citizens as well as balance of the federal budget and the Pension Fund of the Russian Federation budget.

The amount of the SWF is set annually by the federal law on the federal budget for the next fiscal year and planning period.

Figure 1 shows what the Sovereign Wealth Fund is formed of.

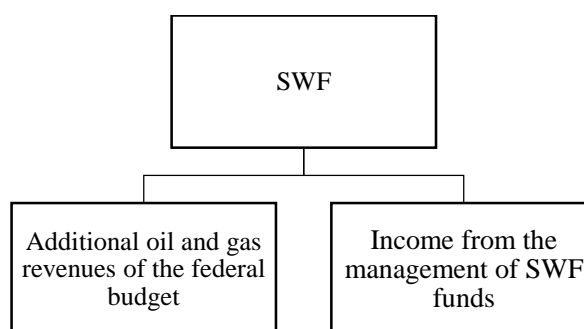


Figure 1: Formation of the FNB of the Russian Federation

Source: compiled by the author on the basis of [1]

The Ministry of Finance of the Russian Federation manages NWF funds in accordance with the procedure established by the Government of the Russian Federation. However, the Central Bank of the Russian Federation has the right to exercise certain powers to manage the NWF funds. This is confirmed by the fact that Elvira Nabiullina has ordered the Bank of Russia to transfer money to the Government of the Russian Federation from the SWF funds under the condition of frozen reserves (issuance of currency) [3].

Effective management of the SWF in Russia is necessary to ensure the safety and stable level of income from the placement of funds of the SWF in the long term. At the same time it is possible to receive negative results in the short term.

Types of financial assets, in which SWF assets can be placed:

- debt obligations;
- government securities of the Russian Federation;
- deposits and balances in bank accounts;
- units of investment funds.

Due to the fact that the projected oil prices are higher than the base prices during the forecast period, there will be additional oil and gas revenues to be credited to the SWF (their volume in 2022 will make 3,4 trillion rubles, in 2023 – 2,7 trillion

rubles, in 2024 – 2,1 trillion rubles). It is not planned to use the resources of the NWF to finance the federal budget deficit over the entire forecast horizon (Table 1).

A return to the accumulation of additional oil and gas revenues will make it possible to invest part of the SWF to finance self-sustaining infrastructure projects. A limit of up to 2,5 trillion rubles will be provided for such investments. Setting a limit will minimize the risks of implementation (reduction of funding) of selected projects and in general will reduce budget risks while maintaining the stabilization effectiveness of budgetary rules.

At the same time, given the long-term risks of a structurally unfavorable pricing environment (due to a probable reduction in oil demand as part of global efforts to reduce emissions), the minimum level of liquid reserve assets is proposed to be raised to 10% of GDP. This will help ensure long-term fiscal and macroeconomic stability.

Table 1. National Welfare Fund in 2019 – 2024, billion rubles

Indicator	2019	2020	2021 <*>	2022	2023	2024
Volume of SWF at the end of the year	7 773,1	13 545,7	13 888,9	16 477,9	20 102,8	23 267,4
% GDP	7,1	12,7	11,2	12,4	14,2	15,4
Reserve assets	6 137,8	8 657,9	8 361,6	10 964,1	14 603,8	17 782,9 (15 282,9) <***>
(account with the Central Bank) <***>	5,6	8,1	6,7	8,2	10,3	11,7 (10,1) <***>

% GDP	1 635,3	4 887,8	5 527,2	5 513,8	5 499,0	5 484,4 (7 984,4) <***>
Other financial assets	1,5	4,6	4,4	4,1	3,9	3,6 (5,3) <***>

Source: Main directions of budget, tax and customs-tariff policy for 2022 and for the planning period of 2023 and 2024» (approved by the Ministry of Finance of Russia)

where <\*> Evaluation

<\*> Including the reserve to finance new self-supporting infrastructure projects of up to 2,5 trillion rubles

<\*\*\*> Taking into account the financing of new self-sustaining infrastructure projects in the amount of 2,5 trillion rubles.

Table 1 shows that from 2019-2021, NWF assets have increased annually, this dynamic should continue in 2022 and the planning period of 2023 and 2024. The situation with Reserve assets is similar. However, the situation with other financial assets will have the opposite character, it will decrease.

As of April 1, 2022, it is known that the resources of the SWF on deposits at VEB.RF were placed as follows: Rb 30bn till December 31, 2027 at 6.25% p.a. for crediting small and medium-sized enterprises, Rb 40bn till June 1, 2048 at 6.25% p.a. for crediting JSC DOM.RF, Rb 138.83bn till September 26, 2034 for providing sufficient own funds (capital) to VEB.RF. The amount until September 26, 2034 at annual LIBOR + 2.75 p.a. and the amount until September 26, 2034 at annual LIBOR + 3.00 p.a. for VEB.RF projects being implemented by organizations in the real economy sector - totaling 19.62 bln. RUB 19.62 bln until December 30, 2030 at

6.00% p.a., RUB 4.91 bln until December 20, 2028 at 6.00% p.a., RUB 32.84 bln until December 30, 2035 at Inflation + 1, but not less than 1% p.a.

Figure 2 shows how the volume of the sovereign wealth fund varied month by month.

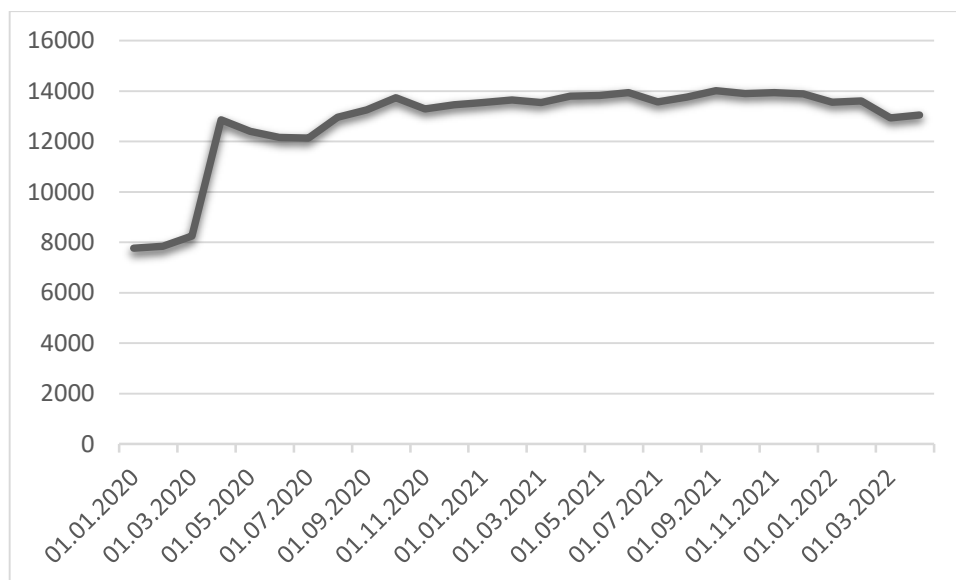


Figure 2: Volume of the Sovereign Wealth Fund

Source: compiled by the author on the basis of [7]

Figure 2 shows that the sharp jump occurred in April 2020, the volume of the national wealth fund at that time was 12,855,75 billion rubles (12% to GDP). The largest volume of the national wealth fund was on June 1, 2021 (13938,08 billion rubles, 10,60% to GDP).

It is important to note that since 2014, the NWF funds were placed in preferred shares of Russian credit institutions. As of April 1, 2022 the following picture emerged: 214 billion rubles were allocated to VTB Bank, which amounted to 32,88% of the authorized capital; 25 billion rubles were allocated to JSC «Russian Agricultural Bank», which amounted to 4,95% of the authorized capital; almost 40 billion rubles were allocated to Bank GPB, which amounted to 20,30% of the authorized capital.

The currency structure of the funds in the accounts with the Bank of Russia changed significantly over the period from 2008 to 2022. In 2008, there were 10,42 billion rubles in US dollars, 12,73 billion rubles in euros, and 1,39 billion rubles in pounds sterling. In 2020, U.S. dollars were 45,37 billion rubles, euros 39,06 billion rubles, pounds sterling 7,65 billion rubles, and an additional national currency of 0,10 billion rubles was added. In 2022 the situation changed greatly: the US dollars disappeared and new currencies appeared - Japanese yen and Chinese yuan, so the euro – 38,56 billion rubles, pounds – 4,18 billion rubles, Japanese yen – 600,30 billion rubles, Chinese yuan – 226,71 billion rubles, gold in impersonal form – 405,71 billion rubles, rubles – 0,27 billion rubles.

Effective means for implementing the Russian Federal Reserve Fund's priority plan of growing money are proposed:

1. To grow the Fund's resources by attracting legal entity capital (loan funds):

- Attraction of money on the terms of co-financing investment projects, public-private partnerships, and asset division following investment project implementation;

- Attraction of funds through the issue and placement of government bonds with a specific yield.

2. To grow the Fund's resources by drawing funds from legal organisations (additional revenues)

To generate more money by establishing investment allowances in tariffs and prices of major, lucrative commodities producers;

3. To grow the Fund's resources by soliciting individual capital (borrowed funds)

To collect more financial resources in order to boost NWF's income by issuing bonds and selling shares in the organisation.

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