Stabilization fund of the Russian Federation

Objectives

The Stabilization fund of the Russian Federation ("the Fund") was established on January 1, 2004 as a part of the federal budget to balance the federal budget at the time of when oil price falls below a cut-off price, currently set up at $27 per barrel.[1]

Furthermore the Fund is to serve as an important tool for absorbing excessive liquidity, reducing inflationary pressure and insulating the economy from volatility of raw material export earnings.

Accumulation and expenditure

The Fund accumulates revenues from the export duty for oil and the tax on the oil mining operations when the price for Urals oil exceeds the set cut-off price.[2]

The capital of the Fund may be used to cover the federal budget deficit and for other purposes, if its balance exceeds 500 billion rubles. Spending amounts are subject to the federal budget law for the corresponding fiscal year.[3]

As the capital of the Fund had exceeded the level of 500 billion rubles in 2005, part of its surplus was used for early foreign debt repayments as well as to cover Russian Pension Fund's deficit. The details of these transactions in 2005 are as follows:

- 93.5 billion rubles ($3.33 bill. eq.) was used for early debt repayment to the International Monetary Fund (IMF);
- 430.1 billion rubles ($15 bill. eq.) was used for the first debt repayment installment to the countries-members of the Paris Club;
- 123.8 billion rubles ($4.3 bill. eq.) was paid to Vnesheconombank (VEB) for loans provided to the Ministry of Finance in 1998-1999 for servicing the state foreign debt of Russian Federation;
- 30.0 billion rubles ($1.04 bill. eq.) was transferred to the Russian Pension Fund.

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[1] Budget code of the Russian Federation, Chapter 13.1, Article 96.1, 96.2
[2] Budget code of the Russian Federation, Chapter 13.1, Article 96.2
[3] Budget code of the Russian Federation, Chapter 13.1, Article 96.3

Investment Policy

Governance Structure

The Fund is managed by the Ministry of Finance of the Russian Federation ("the Ministry of Finance") pursuant to procedure defined by the Government of the Russian Federation ("the Government"). Some functions of asset management may be delegated to the Central Bank of the Russian Federation ("the Bank of Russia") in accordance with its agreement with the Government.[4]

In accordance with the Fund's objectives its capital is to be invested in foreign sovereign debt securities. Securities' eligibility criteria are subject to the Government's approval.[5]

The Ministry of Finance is empowered by the Government to establish the Fund's currency composition and its strategic asset allocation in line with the investment policy for the Fund's management.[6]

The Ministry of Finance may use one or both of the following schemes defined by the Government to invest the Fund's capital:[7]

- investment in eligible foreign fixed income securities directly;

- allocation to the Federal Treasury's accounts with the Bank of Russia in foreign currency with the total return of these accounts based on indices composed of eligible foreign debt securities and defined by the Ministry of Finance.

The Fund assets are currently invested solely under second scheme (allocation to the Federal Treasury's accounts with the Bank of Russia).

Investment Guidelines

The Government determined that eligible debt securities for the Fund investment are to correspond to the following requirements:

- Fixed income securities of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, the

[4] Budget code of the Russian Federation, Chapter 13.1, Article 96.4
[5] Ibid
[6] Regulation of the Government of the Russian Federation No. 229 of April 21, 2006 "On the Procedure for Management of the Assets of the Stabilization Fund of the Russian Federation"
[7] Ibid

United Kingdom, and the USA, denominated in US dollars, euro, GB pounds (sovereign debt securities);

- Issuer shall have a long-term credit rating at AAA/Aaa level (highest investment grade) from at least two of the following three rating agencies: Moody's Investors Service, Standard and Poor's, Fitch Ratings;
- Minimum amount outstanding of a candidate security: 1 billion US dollars, 1 billion euro, 500 million GB pound respectively;
- Securities shall be bullet;
- Securities shall have no call or put options;
- Fixed coupon type if a coupon bond;
- Not for private placement.

Debt securities on the date of purchase will have a minimum remaining maturity of 0,25 years and not to exceed 3 years.

The Fund assets are currently invested in the following currency composition:

US dollars	-	45 %;
Euro	-	45 %;
GB pounds	-	10 %.

Currency composition and the maturity restrictions are applicable to all Fund's assets and are subject to revisions by the Ministry of Finance.

Reporting

The Ministry of Finance will publish a monthly report in mass media on the Fund's accumulation, spending and balance.[8]

The Ministry of Finance will report quarterly and annually to the Government on accumulation, investment and spending of the capital of the Fund.[9]

The Government will report quarterly and annually on Fund's accumulation, spending and investment of the capital of the Fund to the both chambers of the Russian Parliament (State Duma and Council of Federation).[10]

[8] Budget code of the Russian Federation, Chapter 13.1, Article 96.5

[9] Regulation of the Government of the Russian Federation No. 229 of April 21, 2006 "On the Procedure for Management of the Assets of the Stabilization Fund of the Russian Federation"

[10] Budget code of the Russian Federation, Chapter 13.1, Article 96.5