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# A Note on the Growing International Reserves of Russia

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## ABSTRACT

The international reserves of Russia are growing rapidly. This research note is an attempt to consider the factors and reasons behind this increase. It concludes that the main factor of the increase in the international reserves of Russia since 2017 was the introduction of the new fiscal rule that enabled the increase in the Sovereign Wealth Fund and argues that the new rule was introduced to enhance economic security by making the public finances less sensitive to external developments.

## ARTICLE HISTORY

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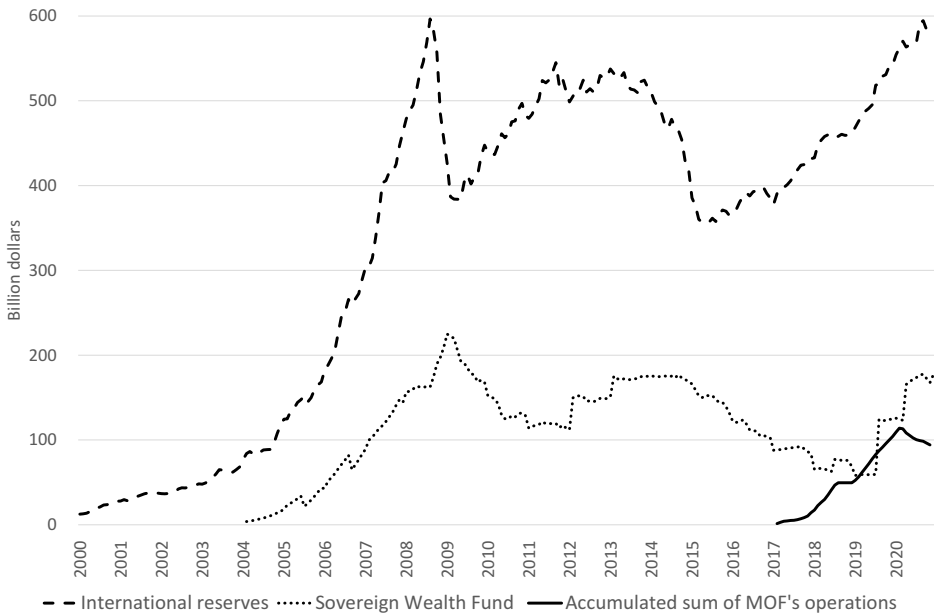
Russia; international reserves; sovereign wealth fund; state budget

## Introduction

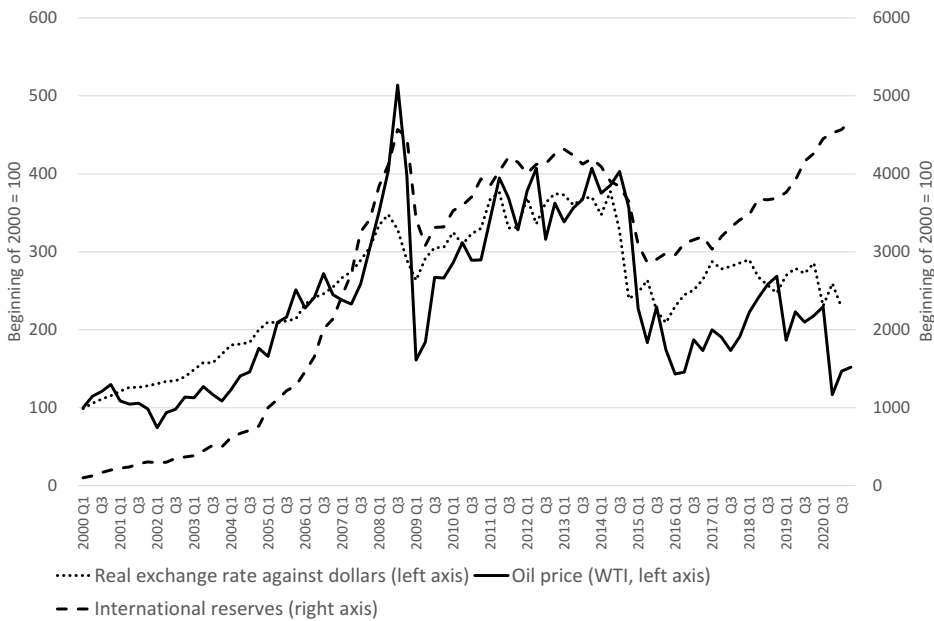
The international reserves of Russia are growing rapidly (figure 1). In September 2020, they almost reached their previous high of August 2008. As shown in figure 2, relationships between international reserves, oil prices, and exchange rates of the ruble had been quite logical until around 2014. The exchange rates of the ruble fluctuated according to oil price dynamics. The volumes of foreign reserves were largely determined by the purchase or sale of foreign currencies by the Central Bank of Russia (CBR) in the currency market, which tried to constrain rapid appreciation or depreciation of the ruble (Tabata 2011, 2015). Accordingly, there was observed synchronization of the above-mentioned three indexes. Since 2015, correlation between oil prices and ruble rates has weakened. Since 2017, international reserves have been increasing regardless of the changes in exchange rates and oil prices. This research note is an attempt to consider the reasons behind this new situation.

## Factors behind the increase in international reserves

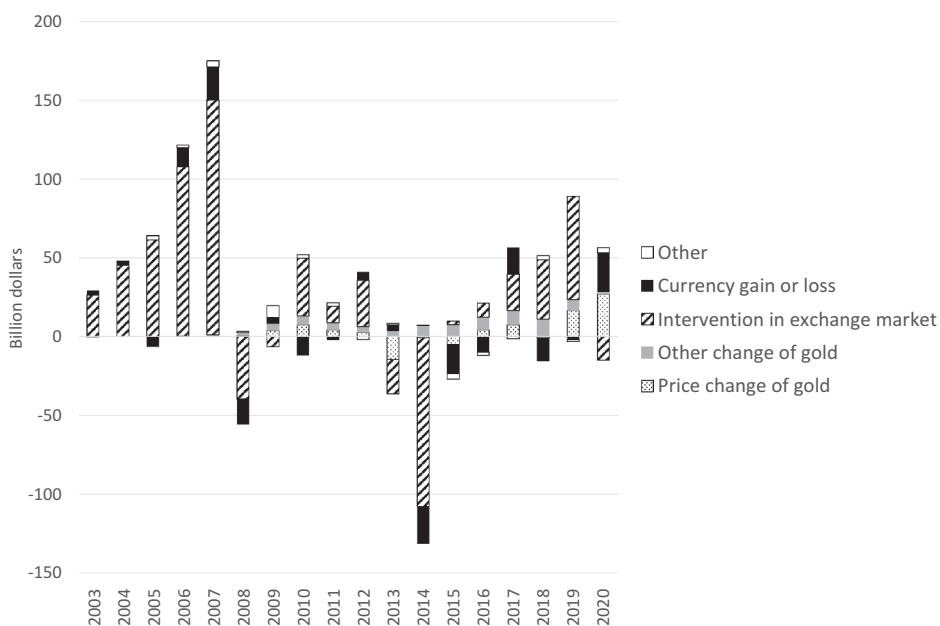
The CBR has released data on the composition of the changes in the international reserves of Russia (see Appendix). Figure 3, compiled from these data, shows which factors explain the increase in foreign reserves. Four factors are important, including intervention in the exchange market, currency gain or loss,



**Figure 1.** International reserves and the Sovereign Wealth Fund of Russia, 2000–2020 (at the beginning of the month). Sources: Compiled by the author from the websites of the CBR and MOF.



**Figure 2.** Crude oil prices, ruble exchange rates, and international reserves of Russia, 2000–2020. Notes: Ruble’s real exchange rates were calculated by the author taking account of the Consumer Price Index (CPI) of Russia. Sources: Compiled by the author from the websites of the U.S. Energy Information Administration, CBR, and Rosstat.



**Figure 3.** Decomposition of the increase in the international reserves of Russia, 2003–2020. Sources: Compiled by the author from the CBR’s website.

and the price and other change of gold.<sup>1</sup> It is evident from this figure that intervention in the exchange market is the most critical factor that determined the dynamics of foreign reserves. It should be noted as well that the influence of the price and other change of gold has been significant in recent years.

Let us first consider the intervention in the exchange market. The CBR has not intervened in the exchange market since August 2015 (see Appendix). The IMF changed its classification of Russia’s exchange rate arrangement from “Other managed arrangement” to “Floating” on 10 November 2014 and to “Free floating” on 29 July 2015 (IMF 2015, 10; 2016, 9). This is reflected in the small volumes of intervention in 2015 and 2016 in figure 3. Since 2017, however, the volumes of intervention have increased again. This was brought about by the introduction of the scheme of purchase and sale of foreign currencies by the Ministry of Finance (MOF) in February 2017 using additional oil and gas revenues.<sup>2</sup> This practice was regarded as a part of the new fiscal rule formerly introduced from 2018. According to this practice, the volume of operation (purchase or sale of foreign currencies) was defined as the difference between estimated oil and gas revenues in the current month and those estimates based on the assumptions of the federal budget for the corresponding year. Obtained foreign currencies were to be transferred to the Sovereign Wealth Fund (SWF) in the next year.<sup>3</sup> In this scheme, the higher (or the lower) the oil price compared to the assumed

one in the federal budget, the larger the volume of purchase (or sale) of foreign currencies. Thus, this operation was expected to neutralize the influence of oil price fluctuation on the exchange market.

This operation was in fact performed by the CBR on behalf of the MOF. Its daily amount was announced beforehand by the MOF, but sometimes it was canceled or postponed, as was the case in the period from August 2018 to January 2019, taking into consideration a sharp depreciation of the ruble in August 2018. In this way, this scheme provided the CBR with alternative tools for intervention in the currency market. Interestingly, the IMF's classification of Russia's exchange rate arrangement has not changed and remains "Free floating" in 2019 (IMF 2019, 62).

As shown in [Figure 1](#), the accumulated sum of operation of the MOF corresponds to the increase in the SWF.<sup>4</sup> Since the SWF is part of the international reserves of Russia,<sup>5</sup> it is evident from this figure that the increase in the SWF or the operation of the MOF has been one of the main sources of the increase in foreign reserves of Russia since 2017. Note that foreign currencies purchased by the MOF were to be transferred to the SWF in the next year of operation.

### **Increase in the sovereign wealth fund (SWF)**

The increase in the SWF since 2017 was a result of the introduction of the new fiscal rule, according to which a significant amount of oil and gas revenues were transferred to the SWF.<sup>6</sup> According to the new rule, additional oil and gas revenues are defined as the difference between actual revenues and those calculated on the assumptions of the federal budget for the corresponding year. One of the critical assumptions of the federal budget is the basic price of crude oil. In the new rule, it was fixed at US\$40 per barrel with a 2% increase per year. Since actual crude oil prices were higher than the basic price in the years 2017–2019, the MOF was able to put aside a significant amount of oil and gas revenues in the SWF.

The introduction of the new fiscal rule was regarded as an attempt to increase the SWF, since it decreased substantially in 2015 and 2016 ([figure 1](#)). Deficits of the federal budget expanded in these two years, when expenditures remained large, while oil and gas revenues decreased considerably due to oil price decline from the second half of 2014 ([table 1](#)). In fact, in the years 2015–18, there was a large amount of expenditures from the SWF for financing deficits of the federal budget and the Pension Fund ([table 2](#)).<sup>7</sup> Thus, the introduction of the new fiscal rule implied a fundamental policy change from the expansion of state budget expenditures for crisis countermeasures by withdrawal from the SWF in 2015 and 2016 to a more conservative or

**Table 1.** Federal budget of Russia, in percent of GDP, 2000–2020.

	Revenues			Expenditures	Surplus
	Total	Non-oil and gas revenues	Oil and gas revenues		
2000	15.5	11.7	3.8	14.1	1.4
2001	17.8	13.1	4.7	14.8	3.0
2002	20.4	15.1	5.2	19.0	1.4
2003	19.6	14.1	5.4	17.9	1.7
2004	20.1	13.5	6.6	17.4	2.7
2005	23.7	13.7	10.0	16.3	7.5
2006	23.3	12.4	10.9	15.9	7.4
2007	23.4	14.7	8.7	18.0	5.4
2008	22.5	11.8	10.6	18.3	4.1
2009	18.9	11.2	7.7	24.9	−6.0
2010	17.9	9.7	8.3	21.8	−3.9
2011	18.9	9.5	9.4	18.2	0.7
2012	18.9	9.4	9.5	18.9	−0.1
2013	17.8	8.9	9.0	18.3	−0.4
2014	18.3	8.9	9.4	18.8	−0.4
2015	16.4	9.4	7.1	18.8	−2.4
2016	15.7	10.1	5.7	19.2	−3.5
2017	16.4	9.9	6.5	17.9	−1.4
2018	18.7	10.0	8.7	16.1	2.6
2019	18.5	11.2	7.3	16.7	1.8
2020 1–9	17.3	12.2	5.0	19.4	−2.2

Sources: Compiled by the author from the websites of the Rosstat and Federal Treasury and MOF (2007, 6).

prudent policy to increase the SWF for the future. As a result of this policy change, there was recorded a significant amount of oil and gas revenues in the SWF in the years 2018–20, although oil prices were not high in this period as in the period until 2008 (table 2). Note again that oil and gas revenues have been transferred to the SWF in the next year of receipts of these revenues by the federal budget.

### Influence of gold and currency revaluation

The price and other change of gold owned by the CBR had a certain influence on the fluctuation of the international reserves of Russia (figure 3). Figure 4 shows the quantity change of gold holdings of Russia, which reveals that “other change of gold” reported in figure 3 is almost the same as quantity change of gold. This figure demonstrates considerable increases in the purchase of gold in the years 2014–19. Together with the increase in gold prices, the share of gold in the foreign reserves of Russia increased from 7.8% on 1 January 2014 to 24.4% on 1 August 2020.<sup>8</sup> The CBR declared the suspension of purchase of gold from 1 April 2020.<sup>9</sup> This was reflected in small increases in gold holdings in 2020 (figure 4).

**Table 2.** Revenues and expenditures of the Sovereign Wealth Fund of Russia in billion rubles, 2004–2020.

	Volume at beginning of year	Revenues		Expenditures		Currency gain and loss	Volume at beginning of year in billion dollars
		Addition from oil and gas revenues	Other	Financing of federal budget deficits	Other		
2004	0.0	416.3	106.0				0.0
2005	522.3	1,170.7	217.1	0.1	673.1		18.8
2006	1,237.0	1,637.9	70.7		604.7	6.0	43.0
2007	2,346.9	1,587.4	308.6		333.7	–60.0	89.1
2008 <sup>1)</sup>	3,849.1	2,039.5				720.9	156.8
2009	6,612.1	488.5	297.6	3,144.3		345.6	225.1
2010	4,599.5	150.0		1,144.0	2.5	–132.3	152.1
2011	3,470.7				3.4	138.6	113.9
2012	3,606.0	1,090.4			3.9	–116.2	112.0
2013	4,576.3	713.5			5.9	476.5	150.7
2014	5,760.4	217.1			12.4	3,368.6	176.0
2015	9,333.6	402.2		2,622.9	9.4	1,764.3	165.9
2016	8,867.8			2,136.9	6.8	–1,392.8	121.7
2017	5,331.3			1,000.4	622.2	44.3	87.9
2018	3,752.9	906.7			1,113.3	489.7	65.2
2019	4,036.1	4,122.2			4.7	–380.4	58.1
2020 <sup>2)</sup>	7,773.1	3,349.9	682.8	237.5	3.7	1,892.5	125.6
2021 <sup>3)</sup>	13,457.0						177.4
Total		18,292.2	1,682.8	10,286.0	3,399.8	7,165.2	

Notes:

(1) Due to the transformation of the Sovereign Wealth Funds at the beginning of 2008, there are some discrepancies (2.7 billion rubles).

(1) Other revenues are recorded as a result of the increase in market prices of shares of Sberbank and Aeroflot owned by the National Wealth Fund.

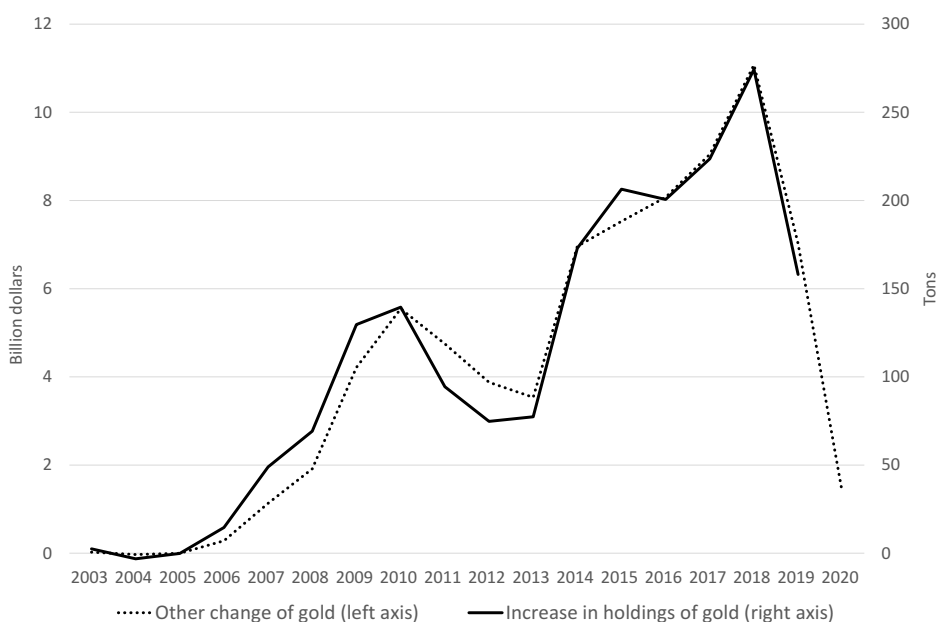
(1) Data as of 1 December 2020.

Sources: Compiled by the author from the websites of the MOF and Federal Treasury.

The influence of currency gain was also large in 2017 and 2020 (figure 3). This seems to be due to the depreciation of the dollar against the euro and other major currencies in these two years.

## Conclusion

It is clear from the argument in this research note that the main factor in the increase in the international reserves of Russia since 2017 was the introduction of the new fiscal rule that enabled the increase in the SWF. Why, then, was this new rule introduced in 2017? We can point out the growing non-transparency and sense of isolation from the international community caused by economic sanctions after 2014. As indicated above, ruble exchange rates have fluctuated rather independently from oil prices since 2015 (figure 2). One of the reasons for this dissociation seemed to be uncertainties intensified by the economic sanctions imposed by the USA and EU. For example, in 2018, the ruble rate



**Figure 4.** Changes in gold holdings by the CBR, 2003–2020. Notes: “Other change of gold” is obtained from Figure 3. As for “Increase in holdings of gold” in 2003–2009, data obtained from the International Financial Statistics in troy ounces are converted to tons (1 ounces = 31.1 tons); in the years after 2010 – from the CBR’s website. Sources: Compiled by the author from the CBR’s website and the IMF’s International Financial Statistics.

depreciated abruptly in April and August after the announcement of new measures of sanction by the US administration despite increasing tendencies of oil prices.

Under the economic crisis after 2014 when oil prices decreased and economic sanctions were imposed, the Russian government increased state budget expenditures for economic recovery. As a result, one of the SWFs of Russia at that time, the Reserve Fund, was depleted at the end of 2017. Probably, the sharp decrease in the SWF made the government change the fiscal policy under the circumstance of isolation from the international community. Note that Russia has been uninvited from the G8 summit since June 2014. Hanson (2019, 5) argued that Russian economic policy has long been deeply concerned with economic security and this concern intensified from 2014.<sup>10</sup> Connolly, Hanson, and Bradshaw (2020; 2016, 524–25) point out the cautiousness or overmodesty of Russia’s policy constrained by economic security considerations even under COVID-19. Thus, we can conclude that the new fiscal rule was introduced to enhance economic security by making the public finances less sensitive to external developments. It may be true that certain amounts of international reserves and of the SWF are necessary for Russia to maintain economic and political independence in the present world. We can argue,



however, the possibility of efficient use of these financial resources for investments rather than keeping them aside in foreign currencies or gold.<sup>11</sup>

## Notes

1. In the released data cited above, the item “intervention in exchange market” is named “changes as a result of operations.” As shown in [Figure 4](#) below, “other change of gold” almost precisely corresponds to quantity change of gold.
2. See the “Information report” of the MOF on 25 January 2017 ([https://minfin.gov.ru/ru/press-center/?id\\_4=34609-informatsionnoe\\_soobshchenie](https://minfin.gov.ru/ru/press-center/?id_4=34609-informatsionnoe_soobshchenie)), accessed 1 January 2021.
3. Russia’s SWF includes the Stabilization Fund (2004–2008), Reserve Fund (2008–2017), and National Welfare Fund (2008–present).
4. Daily volumes of this operation in rubles are available from the CBR’s website (see the Appendix). I calculated the monthly sum of these volumes and converted them into dollars by the monthly average of the official exchange rate of the ruble.
5. This was specified first by Government Resolution No. 229 of 21 April 2006, concerning the Stabilization Fund (Tabata 2007, 704). At present, this is prescribed in Article 96.11 of the Budget Code.
6. This new rule was officially introduced by the amendments of the Budget Code adopted by Federal Law No. 262 on 29 July 2017 and put into operation from the beginning of 2018. In fact, it was introduced in early 2017 by the MOF’s announcement concerning the scheme of purchase and sale of foreign currencies, explained above.
7. Almost all the amount of other expenditures in 2017–2018 in Table 2 was the finance of deficits of the Pension Fund of Russia.
8. Calculated from data on the composition of the increase in international reserves (see the Appendix).
9. See the press release of the CBR on 30 March 2020 ([https://cbr.ru/press/pr/?file=30032020\\_180000if2020-03-30T17\\_43\\_49.htm](https://cbr.ru/press/pr/?file=30032020_180000if2020-03-30T17_43_49.htm)), accessed 29 December 2020.
10. Import substitution, one of the main economic strategies after 2014, should also be placed in the context of economic security (Connolly and Hanson 2016, 19).
11. For example, Kudrin and Sokolov (2017) criticized the new fiscal rule as excessively tight. See also Gurchich and Sokolov (2016) for a discussion of the introduction of the new fiscal rule.

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## Disclosure statement

No potential conflict of interest was reported by the author.

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## Appendix: Website information on data used in this paper (all accessed 28 January 2021)

### CBR

Composition of the increase in international reserves: [http://www.cbr.ru/statistics/macro\\_itm/svs/](http://www.cbr.ru/statistics/macro_itm/svs/)(International investment position of international reserves of the Russian Federation).

Exchange rate of the ruble: [http://www.cbr.ru/currency\\_base/dynamics/](http://www.cbr.ru/currency_base/dynamics/); [http://www.cbr.ru/statistics/macro\\_itm/svs/](http://www.cbr.ru/statistics/macro_itm/svs/)(monthly average).

Gold holdings in quantity: [http://www.cbr.ru/statistics/macro\\_itm/svs/](http://www.cbr.ru/statistics/macro_itm/svs/)(Structure of international reserves by country).

International reserves: [http://www.cbr.ru/hd\\_base/mrff/](http://www.cbr.ru/hd_base/mrff/).

Intervention in the exchange market: <http://www.cbr.ru/archive/db/valint/>.

MOF's operation of foreign currencies: <http://www.cbr.ru/statistics/flikvid/>(Factor of liquidity formation of the banking sector).

Federal Treasury

Federal budget: <https://roskazna.gov.ru/ispolnenie-byudzhetrov/konsolidirovannyj-byudzhets/>.

Stabilization Fund: <https://roskazna.gov.ru/finansovye-operacii/svedeniya-o-dvizhenii-sredstv-po-schetam/stabilizatsionnyy-fond/svedeniya-o-dvizhenii-sredstv-stabilizatsionnogo-fonda-rf-2004-2007/>.

MOF

National Welfare Fund: <https://minfin.gov.ru/ru/performance/nationalwealthfund/statistics/>.

Reserve Fund: <https://minfin.gov.ru/ru/performance/reservefund/statistics/volume/>.

Rosstat

Consumer Price Index (CPI): <https://rosstat.gov.ru/price> (Quarterly CPI); <https://rosstat.gov.ru/compendium/document/50,802> (Short-term Economic indicators).

GDP: <https://rosstat.gov.ru/storage/mediabank/watkADPB/Table 1.htm>.

U.S. Energy Information Administration

Oil prices (WTI): <https://www.eia.gov/dnav/pet/hist/rclc1M.htm>.