

SPECIAL BUDGETARY FUNDS – THE PRACTICE OF ESTABLISHMENT, FUNCTIONING AND REFORMING

Legislations of various countries all over the world provide possibilities of establishing of special budgetary funds. The main purpose of such establishment is more efficient usage of budgetary funds as such. The experience of some countries that specialize in raw material export shows that the state governments, which are influenced by international economic situation, have the opportunity to take advantage of the periods of high prices for raw material in order to save temporary surplus profit to establish special funds such as a stabilization fund and a future generations fund. Means of such funds can be used at some unfavourable periods to support a real expense level of state budget and discharge of external debt. By the end of the 1990s of the 20th century stabilization funds and their analogues functioned at least in 15 countries or separate regions of states. State funds of financial resources existing in different countries (that are formed at the expense of additional budget revenues and intakes from natural resources export) can be divided into three types:

- Stabilization funds (Alaska, Venezuela, Colombia, Kuwait, Nigeria, Norway, Chile);
- Future generations funds (Alberta, Alaska, Kiribati, Kuwait, Oman, Papua New Guinea);
- Budgetary reserve funds (Hong Kong, Singapore, Estonia and Republic of South Africa).

The last type of funds is connected with accumulation of profits in the years of state budget surplus. The purpose of establishment of these funds is stabilization of state expenses either in the period of decrease and economic recession, or unfavorable economic situation on the world raw materials markets (in this case – high prices of raw materials). The first two types of funds are connected with accumulation of one or the other part of profits from natural resources export or some other nonrenewable resources. The main difference between the above-mentioned funds is in purposes of their establishment: stabilization funds are established in order to smooth down

fluctuations in profits and expenses of state budget, to give additional financing to state expenses on the territories where natural resources output is carried out. Future generations funds are intended for their use either after the time when the deposits of natural resources are exhausted or for paying-out of additional (quasi-rental) payments to population of territories where natural resources output is carried out. In some cases these funds can fulfill mixed roles (as for instance in Alaska, Kuwait and Norway)¹.

In the Russian Federation Legislation, in 2004-2007 Chapter 13.1 of Budgetary Code of the RF was in force, which defined the mechanism of establishment and use of the means of Stabilization Fund of the Russian Federation². General precondition for Stabilization Fund establishment was high dependence of economy and financial system of Russia on export prices of fuel-energy resources.

Stabilization fund of the Russian Federation represented a part of means of federal budget, which appeared because of oil overprice in comparison to reference oil price that was subject to separate accounting, management and use in order to provide equilibration of federal budget in case of oil price reduction in comparison to reference oil price. Oil price was the price of crude oil blend Urals, determined according to the order stipulated to define a rate of export customs duty for crude oil. Reference oil price was the price of crude oil blend Urals, equivalent to USD 197,1 per ton (USD 27 per barrel).

The sources of Stabilization Fund were as follow:

- additional profits of federal budget, formed by a calculation of the expense of oil overprice in comparison to reference oil price;
- remains of federal budget at the beginning of the corresponding financial year including profits gained from Stabilization Fund means allocation³.

It was determined that the means of Stabilization Fund could be used in order to finance deficit of federal budget in case of oil price reduction in comparison to reference oil price, and also these means could be used for some other purposes in case a saved amount of Stabilization Fund means exceeded the sum of 500 billion Roubles. The volume of Stabilization Fund means to be used was defined according to the federal law concerning federal budget for the corresponding financial year.

1 А. Золотарева, С. Дробышевский, С. Синельников, П. Кадочников Перспективы создания Стабилизационного фонда в РФ. - М.: Institute of Economics at Transition Period, 2001. - P. 7.

2 Was introduced by Federal Law # 184-ФЗ of 23rd December 2003, passed according to budget message of President of the RF to Federal Assembly of the Russian Federation of 30th May 2003 "About Budget Policy in 2004".

3 Постановление Правительства РФ от 23 января 2004 г. № 31 «Об утверждении Правил перечисления в Стабилизационный фонд РФ дополнительных доходов федерального бюджета, остатков средств федерального бюджета на начало финансового года и доходов от размещения средств Стабилизационного фонда РФ // Code of Laws of the RF. - 2004. - № 5. - Article 370.

For example, in the federal law “On Federal Budget for 2005” it was determined that the Government of the RF in 2005 had the right to intend the means of Stabilization Fund of the Russian Federation for fulfilling payments that could reduce debt instruments of the Russian Federation⁴. Moreover, it was also agreed that the means of Stabilization Fund of the RF beyond the saved sum of 500,0 billion Roubles could be used in order to cover budget deficit of Pension Fund of the Russian Federation in the course of its implementation⁵.

Management of Stabilization Fund was fulfilled by Ministry of Finance of the RF according to the procedure determined by the Government of the Russian Federation. Moreover, some separate authorities in Stabilization Fund means management could be executed by Central Bank of the Russian Federation on the basis of the agreement with the Government of the Russian Federation.

Management of RF Stabilization Fund was performed:

- by purchasing foreign currency in US dollars, Euros and GB pounds at the expense of Stabilization Fund means; and allocation of the above-mentioned currency at bank accounts (in lawful foreign currency) opened in Central Bank of the Russian Federation;
- by purchasing debt instruments of other foreign states at the expense of Stabilization Fund means; and then the Stabilization Fund means could be allocated into above mentioned debt instruments.

According to Resolution #229⁶ of the Government of the Russian Federation, the list of requirements referring to debt instruments (into which Stabilization Fund means could be allocated) was defined. Debt instruments of foreign states included debt instruments in the form of securities and stock of the governments of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxemburg, the Netherlands, Portugal, Spain, the UK and the USA; those instruments had to correspond to a series of demands, for instance, an issuer of debt instruments had to have the rating of long-term credit worth not lower than the level “AAA” according to the classification of rating agencies “Fitch-Ratings” or “Standard & Poor’s”; or not lower than the level

4 Распоряжение Правительства РФ от 29 января 2005 г. № 102-р «О досрочном погашении задолженности Российской Федерации перед Международным валютным фондом» // Code of Laws of the RF. - 2005. - № 6. Приказ Министерства финансов РФ от 30 июня 2005 г. № 160 «Об осуществлении платежей по досрочному погашению части внешнего долга РФ перед странами-членами Парижского клуба» // URL: http://www1.minfin.ru/stabfond_rus/stabfond_rus.htm Распоряжение Правительства РФ от 30 декабря 2005 г. № 2333-р «О досрочном погашении остатка задолженности по кредитам Внешэкономбанка» // Code of Laws of the RF. – 2006. - № 4. – Article 452.

5 Приказ Министерства финансов РФ от 22 декабря 2005 г. № 345 «О направлении средств Пенсионному фонду РФ» // URL: http://www1.minfin.ru/stabfond_rus/stabfond_rus.htm

6 Постановление Правительства РФ от 21 апреля 2006 г. № 229 «О порядке управления средствами Стабилизационного фонда Российской Федерации» // Code of Laws of the RF. - 2006. - № 18. - Article 1998.

“Aaa” according to the classification of the rating agency “Moody’s Investors Service”. The corresponding rating must be given by two mentioned agencies as minimum.

In order to execute Resolution #229 of 21st April 2006 made by the Government of the Russian Federation “On Procedures of Means Management of Stabilization Fund of the Russian Federation” of 11th July, 2006 Federal Board of Treasury entered into contract with Bank of Russia concerning the bank account in record-keeping of Stabilization Fund means in foreign currency.

Central Bank of the RF at the expense of Stabilization Fund purchased and allocated foreign currency at the accounts of Federal Board of Treasury at the bank of Russia. Standard currency structure of the means of Stabilization Fund of the Russian Federation was determined in the following composition: 45 % of Stabilization Fund means in foreign currency was allocated in US dollars, 45 % - in Euros, 10 % - in GB pounds⁷.

The reform of the budget process continued in Russia in 2007. In annual Budget Message of President of the RF⁸ it was mentioned that budget strategy for medium-term prospect must be focused on assistance to social and economic development of the Russian Federation taking into consideration the criteria of efficiency and effectiveness of budget expenses. President of the RF pointed out that the Government of the RF should concentrate on providing long-term budget balance.

The state highlighted the issue of providing stability of budget expenses regardless of raw material price. In effect it was decided to transform Stabilization Fund of the Russian Federation into Reserve Fund and Future Generations Fund. Reserve Fund must provide budget expenses in case there is a considerable reduction in oil prices in medium-term prospect. The volume of Reserve Fund and also the volume of profits gained from oil and gas used for financing federal budget expenses must be legislatively fixed in percentage ratio to gross domestic product, taking into consideration the period of 3 years for the adoption of new principles of oil and gas profits management.

Future Generations Fund must accumulate oil and gas profits which arise as a result of profits excess of oil and gas sector over contribution to Reserve Fund and means that are used for financing federal budget expenses.

Within implementation of Budget Message of President of the RF for 2007, Federal Law # 63-Ф3 of 26th April 2007 was passed and it was called “On Alteration

7 Приказ Министерства финансов РФ от 22 мая 2006 г. № 157 «Об утверждении нормативной валютной структуры средств Стабилизационного фонда РФ и порядка приведения фактической валютной структуры средств Стабилизационного фонда РФ в соответствие с нормативной валютной структурой» // URL: http://www1.minfin.ru/stabfond_rus/stabfond_rus.htm

8 Бюджетное послание Федеральному Собранию Российской Федерации о бюджетной политике в 2008 – 2010 годах от 9 марта 2007 г. // The text of this message was not officially published.

of Budgetary Code of the Russian Federation in the Part of Budget Process Regulation and Adjustment of some Legislative Acts of the Russian Federation in accordance with Legislation of the Russian Federation”⁹. The present law suggests correcting of some functions and structure of Stabilization Fund of the RF, it also states a new procedure of the use of financial resources gained from oil and gas profits. All oil and gas profits were divided into three categories:

1. Reserve Fund for minimization of economic risks in Russia in case of a great drop in prices for energy resources at world markets as well as for support of macroeconomic stability and counter inflation;
2. Federal budget profit for implementation of uppermost scale social programmes;
3. Future Generations Fund into which all the rest oil and gas profits should be directed.

Subsequently concerning Future Generations Fund President of the RF suggested using the means of this fund in order to improve quality of people’s life and economy development, and to improve welfare both of future and present generations. Accordingly, President of the RF noted that it would be more correct to call this fund more exactly as National Welfare Fund¹⁰.

For the purpose of implementation of Message by Federal Law # 247-ФЗ of 2nd November 2007¹¹, Budgetary Code of the RF and Law # 63-ФЗ (in the part of the Code standards of this law which were not in force) were subjected to a number of systematic corrections that provide for replacement of the term “Future Generations Fund” by the term “National Welfare Fund», the latter also specifies the directions of the use of this fund.

Thus within changes introduced into Budgetary Code of the RF by Law 2007 # 63-ФЗ Chapter 13.1 of RF, Budgetary Code (“Stabilization Fund of the RF”) was excluded and there was introduced Chapter 13.2 of RF Budgetary Code (“Use of Oil and Gas Profits of Federal Budget”), providing for application of “oil and gas balance” methodology in budget planning. The present methodology is used in order to reduce risks of default on budgetary obligations in case of deterioration of external

9 Федеральный закон от 26 апреля 2007 г. № 63-ФЗ «О внесении изменений в Бюджетный кодекс Российской Федерации в части регулирования бюджетного процесса и приведении в соответствие с бюджетным законодательством Российской Федерации отдельных законодательных актов Российской Федерации» // Code of Laws of the RF. – 2007. – № 18. - Article 2117.

10 Послание Президента РФ Федеральному Собранию РФ от 26 апреля 2007 г. // Newspaper Rossiiskaya Gazeta. - 2007. - 27th April.

11 Федеральный закон от 2 ноября 2007 г. № 247-ФЗ «О внесении изменений в Бюджетный кодекс Российской Федерации и Федеральный закон «О внесении изменений в Бюджетный кодекс Российской Федерации в части регулирования бюджетного процесса и приведении в соответствие с бюджетным законодательством Российской Федерации отдельных законодательных актов Российской Федерации» // Code of Laws of the RF. – 2007. – № 45. - Article 5424.

economic situation and in order to preserve profits of non-renewable resources for future generations; it also provides for separate record keeping of oil and gas (raw) and non-oil and gas profits of federal budget; it defines the procedure of formation and maintenance of both Reserve Fund and National Welfare Fund as well.

Law # 63-ФЗ 2007 stated that the means of Stabilization Fund of the RF as of 1st January 2008 enter correspondingly Reserve Fund and National Welfare Fund by 1st February 2008. The volume of means entry of Stabilization Fund of the RF into Reserve Fund estimated 10% of gross domestic product volume predicted for 2007, mentioned in the forecast for social and economic development of the Russian Federation for the period 2008-2010, submitted in the pack of documents and materials to the Russian State Duma along with the project of Federal Law "On Federal Budget for 2008 and for the Period till 2010". The remaining means of Stabilization Fund of the RF were entered into National Welfare Fund.

Article 96.9 of RF Budgetary Code states that Reserve Fund represents a part of federal budget means that are subject to separate accounting and management in order to implement oil and gas transfer in case of shortage of oil and gas profits for financial provision of the above-mentioned transfer. Budgetary Code of the RF (Article 96.8) introduced the notion of oil and gas transfer which represents the part of federal budget means used for financing oil and gas deficit of federal budget at the expense of oil and gas federal budget profits and Reserve Fund means.

Federal Law on federal budget for the next financial year and planning period¹² determines regulatory value of Reserve Fund in absolute volume based on 10 % of gross domestic product volume predicted for the corresponding financial year; the rate of gross domestic product volume is stated in federal law about federal budget for the next financial year and planning period.

Subject to this rate in Law on federal budget for the period 2008-2010 regulatory value of Reserve Fund is approved for 2008 in the sum of 3 500,0 billion Roubles, for 2009 and 2010 - 3 969,0 billion Roubles and 4 480,0 billion Roubles correspondingly.

As it was mentioned in the explanatory note to indices of the project of Federal Budget Law for the period 2008-2010, Reserve Fund serves compensation of omitted profits of federal budget within 3 years at a decrease of world prices for energy resources. The compensation period is defined by a three-year-long period of budget planning and it is also defined by time period necessary for adaptation of budget policy to changing external economic conditions.

Reserve Fund is formed with the help of:

12 Федеральный закон от 24 июля 2007 г. № 198-ФЗ «О федеральном бюджете на 2008 год и на плановый период 2009 и 2010 годов» // Code of Laws of the RF. - 2007. - № 31. - Article 3995.

– oil and gas profits of federal budget in the volume that is higher than the approved for the corresponding financial year rate of oil and gas transfer providing that saved amount of Reserve Fund is no more than its regulatory value; if the saved amount of Reserve Fund means reaches (exceeds) its regulatory value, then oil and gas profits of federal budget in the volume exceeding oil and gas transfer are directed to National Welfare Fund according to item 3 Article 96.10 of Budgetary Code of the RF.

– profits gained from means management of Reserve Fund.

Reserve Fund means are used in case of shortage of oil and gas profits in order to generate oil and gas transfer. Meanwhile Federal Law on federal budget for the next financial year and planning period must approve of the usage limiting volume of Reserve Fund means in order to provide oil and gas transfer.

Besides, it is assumed to use Reserve Fund means for the purpose of advanced discharge of state external debt of the Russian Federation. The usage of Reserve Fund means for the mentioned purposes is stipulated by Federal Law on federal budget for the next financial year and planning period. In this connection it should be noted that in item 1 part 2 Article 21 of Federal Budget Law for the period 2008-2010 it is provided that the Government of the RF in 2008 is entitled to make decisions concerning direction of Reserve Fund means for advanced discharge of state external debt of the Russian Federation.

National Welfare Fund represents a part of federal budget means that are subject to separate accounting and management in order to provide co-financing of voluntary pension savings of the RF citizens as well as to provide balance (deficiency payment) of Pension Fund budget of the Russian Federation.

Federal Law on federal budget for the next financial year and planning period determines the volume of federal budget means that are directed to co-financing of voluntary pension savings and deficiency payment Pension Fund budget of the Russian Federation.

Considering this standard, Federal Law № 269-ФЗ of 23rd November 2007¹³ introduced the amendment to Federal Budget Law for the period 2008-2010; according to this amendment the Government of the RF in 2008 directs additional profits gained from the process of federal budget implementation in the volume of 138,0 billion Roubles in order to provide balance (deficiency payment) of Pension Fund budget of the RF related to growth of base section of work pension; in case of

13 Федеральный закон от 23 ноября 2007 г. № 269-ФЗ «О внесении изменений в Федеральный закон «О федеральном бюджете на 2008 год и на плановый период 2009 и 2010 годов» // Code of Laws of the RF. - 2007. - № 48 (Part II). - Article 5813.

their lack the Government is entitled to use National Welfare Fund means for these purposes in the volume not exceeding the above-mentioned sum of money.

Accordingly, the use of National Welfare Fund means as the source of deficiency payment of pension system is planned as far as replenishment of this fund takes place.

National Welfare Fund is formed with the help of:

- oil and gas profits of federal budget in the volume exceeding the approved for the next financial year volume of oil and gas transfer in case the saved amount of Reserve Fund means reaches (exceeds) its regulatory value;
- profits gained from management of National Welfare Fund means.

Management of Reserve Fund and National Welfare Fund respectively is executed by Ministry of Finance of the Russian Federation. Some separate authorities in management of Reserve Fund can be fulfilled by Central Bank of Russia; some authorities in management National Welfare Fund means can be fulfilled by Central Bank of the Russian Federation and some special-purpose institutions in accordance with agreements made with Ministry of Finance of the Russian Federation. The purposes of management of Reserve Fund and National Welfare Fund are provision of means preservation of the above-mentioned funds and provision of stable level of profits gained from their allocation in the long-term perspective.

The means of Reserve Fund and National Welfare Fund can be allocated into foreign currency, debt instruments of foreign states, central banks and debt instruments of international finance organizations along with a number of other financial assets.

In order to consolidate the transparency (exposure) principle stated in Article 36 of Budgetary Code of the RF Ministry of Finance is in charge of monthly publishing of data concerning the receipt and usage of oil and gas funds of federal budget every accounting month; as well as the volume of assets of Reserve Fund and National Welfare Fund at the beginning of every accounting month, the receipt of means into the above-mentioned funds, their allocation and usage within the accounting month.

As it was mentioned, the practice of establishment of stabilization funds and future generations funds is known in a lot of states all over the world. A good example of the country where stabilization fund functions successfully and stably is Norway.

Norwegian State Petroleum Fund was established in 1990 in order to smooth a short-term fluctuation of currency intakes gained from oil and gas export, in order to finance growing expenses for paying-out old-age pensions and disability pensions

along with health care costs. Establishment of this fund makes Norwegian economy more stable and increases the possibility to manoeuvre in the sphere of social policy. Therefore the Fund is the savings and stabilization one at the same time; it must provide stability of the budget sphere in the long-term period¹⁴.

State Petroleum Fund is a component part of state finances in Norway. Fund assets are replenished at the expense of two sources: funds gained from oil export and profits from fund capital investment. The condition of means receipt in the Fund is attainment of the state budget surplus. For achieving this one has to define the level of export prices for oil and possible dimension of budget deficit excluding profits gained in petroleum sector. Along with that in Norway there is no formula according to which the size of contribution for the Fund can be calculated, and the sum of every annual contribution is approved separately within general budget process.

The procedure of Fund means usage is similar to the mechanism of means accruing. According to legislation the Government is entitled to request permission from the Parliament to use the means both for short-term needs (compensation of budget profits decrease) and for long-term levelling of the amount of budget profits as far as the volume of oil output decreases and social costs increase. The Government (Ministry of Finance) defines the main directions of Fund means investment, as well as they define the constitution of basic portfolio concerning its profitability – the assessment of efficiency of Fund means usage takes place. Current management of Fund assets is executed by Central Bank. At present Fund assets consist of foreign financial assets (state stock and securities of companies which have no relation to oil sector), which aims to slowdown the increase of current national rate of exchange.

The experience of ten-year-old Fund's function has appeared to be successful. Fund allowed keeping balance of budget, smooth fluctuation of aggregate internal demand, reducing inflation pressure and restraining rise in prices for national currency¹⁵.

Therefore we hope that the implementation of the mechanism of Reserve Fund and National Welfare Fund in the Russian Federation in fact indicates transition from short-term smoothening of fluctuation effects of external economic situation to long-term stabilization of conditions for Russian economy development. The condition of such stability will be a successive conversion of some part of natural assets to financial form, which serves as a guarantee of their further usage in order to substitute failing (omitted) oil and gas profits.

14 The government Petroleum fund and its influence on the Norwegian Economy. Jarle Berge.2003, www.norges-bank.no.

15 The Norwegian Government Petroleum Fund. A National Strategy for Investing Resource wealth. Norges Bank Investment Management Knut N. Kjaer, <http://www.bsi.ch/gammaf/conference/kjaer.pdf>.

Streszczenie

W opracowaniu autorka koncentruje się na procesach tworzenia, funkcjonowania i reformy budżetowych funduszy specjalnych ustanowionych w ustawodawstwie Rosji i Norwegii. Główny wniosek wynikający z publikacji jest taki, że rządy centralne tych państw, na których działalność wpływa międzynarodowa sytuacja gospodarcza, generują znaczne nadwyżki finansowe w okresach wysokich cen surowców. Środki te służą do tworzenia funduszy stabilizacyjnych lub funduszy pokoleniowych, których celem jest stabilizacja wydatków państwowych w okresach spowolnienia i recesji gospodarczej.