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The Role of the Sovereign Wealth Funds in the Economic Security of the State
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Key words: SWF, economic security, Russia.

Annotation: *till now SWFs were considered as large institutional investors but their role as an important instrument of the economic security of the state was not taken into consideration. This article focuses on the second function of SWFs as an economic security instrument.*

Economic security is an important question for any state. Collocation "economic security" came into use during the Great depression. In 1934, by order of the U.S. President F.D. Roosevelt was created the Federal Committee on economic security and Advisory Council. Although the created Committee focused its activity on the economic security of individuals (individuals), its main task was concentrated on the fight against unemployment, it did not mean the emergence of the concept of the economic security. In practice, the "economic" dimension of national security most closely connected with foreign trade: import dependence on goods or raw materials can be perceived as a sign of the country's external vulnerability. First of all it concerns the vital goods: food, energy, strategic raw materials, secondly, the high-tech products, and thirdly, weapons.

Major threats of the economic security in Russia

The main strategic threat factors of economic security of Russia for the next ten - fifteen years are: commodity dependence of the economy and structural imbalance of the production; losses due to globalization; control of the national resources; uneven economic development of the regions of Russia; labor shortages and illegal labor migration; weak protection of national financial system from the global financial conditions; increasing corruption. Let's consider these factors in details.

1. Commodity dependence of the economy and structural imbalances of the production. This factor limits the investment in industries oriented to the domestic market, which seems to be very unstable. Many reasons for the continuing low investment attractiveness of the Russian economy for business are associated with the structural imbalance of production: hypertrophied high proportion of material-and energy-intensive industries, military-industrial complex and uncompetitive manufacturing sectors. In recent years, the proportion of the extractive industries in total industrial production continued to increase with a corresponding reducing of the share of other sectors of the economy. Such processes put the country into dependence from the world market demand for energy resources and raw materials, on the one hand, and on the situation offers of the imported consumer and investment goods, on the other hand.

2. Loss of the control over national resources due to globalization. In the process of globalization occurs the massive penetration of the foreign, mainly multinational companies

in the economy and infrastructure of other states. And already formed group of powerful multinationals which have huge capital, can influence the development of the social and economic life of many countries, including Russia. As a result, the country is forced out of the global economic processes increasingly becoming a raw materials exporter and a sales market of the imported products (services).

3. Uneven economic development of Russian regions due to important factors such as: the presence of depressive, crisis and backward territories (in socio-economic sense) and at the same time the existence of the structural changes in industrial production, accompanied by a sharp decrease in the share of the manufacturing production; violation of industrial and technological relations between enterprises of individual regions of Russia; widening of the gap in the level of national income per capita population between the regions and subjects of the Russian Federation.

4. Increasing corruption. According to the British company Maplecroft, dealing with the global assessment of the investment risks, in 2010 Russia first hit the top ten countries with an extremely risky business environment.

5. Weak protection of the national financial system of the world from the financial conditions. External threats of Russia's economic security are: the dependence of the rate of the rouble on the world currency, changes in the world prices and foreign trade, the excess of the capital outflows over its inflow (foreign investment), excessive import dependence, low share in export of final consumption products. Substantial and potentially danger for Russia could be the entrance in the World Trade Organization (WTO): underestimation of the potential negative consequences of WTO membership can create serious external threats to Russia's security.

Sovereign wealth funds

New challenges of the XXI century necessitated the development of the new institutions in order to ensure the financial and economic security of the state. This is important first of all for the countries having weakly structured economy, extremely limited economic potential or without products with large surplus value in the economy.

Since the economic stability of countries with prevalence of the raw material industries depends on the fluctuations in world prices, these countries are forced to create sovereign wealth funds. According to the Sovereign Wealth Fund Institute, a sovereign wealth fund (SWF) can be defined as a state-owned investment fund or entity that is commonly established from balance of payments surpluses, official foreign currency operations, the proceeds of privatizations, governmental transfer payments, fiscal surpluses and/or receipts resulting from resource exports.

In Russia there are Reserve Fund and National Welfare Fund (NWF), formed after the separation of the Stabilization Fund, which happened 1February 2008. The Ministry of finance of the Russian Federation gives the following definition of these funds. The Reserve Fund is a part of the federal budget assets. The Reserve Fund is dedicated to ensure financing of the federal budget expenses and maintaining federal budget balance in case oil and gas budget revenues decline. The Reserve Fund contributes to stability of the Russian Federation economic development by means of reducing inflationary pressure and insulating national economy from volatility of earnings generated by export of non-renewable natural resources. Management of the assets of the sovereign wealth funds of Russia is executed by the

Ministry of Finance of the Russian Federation in accordance with procedure and terms established by Government of the Russian Federation. Bank of Russia may act as operational manager. The National Wealth Fund (NWF) is a part of federal budget assets. NWF is dedicated to support pension system of the Russian Federation to guarantee long-term sound functioning of the system. Fund's primer assignments are to co-finance voluntary pension savings of Russian citizens and to balance budget of Pension Fund of the Russian Federation.

The existing procedure for the formation of the reserve funds in Russia faces a number of legislative problems. Thus, the volume of the income and assets in funds and their outflows as well, are not based on the logical economic calculations. Therefore, money can be withdrawn from the funds only by the authorities. Legislation in many other countries, such as the law on Pension Fund of Norway, does not allow the application of such methods. Oil and gas revenues of the federal budget are formed by: the tax on mining - of hydrocarbons (oil, gas, fuel, natural, gas condensate); customs duties on: crude oil; natural gas; products produced from oil.

A certain part of the oil income in the form of gas transfer is separated annually to in order to finance the expenditures of the federal budget. The quantity of oil and gas transfer is approved by the federal law on the federal budget for the next financial year and planning period in absolute terms, calculated as 3.7% of the gross domestic product projected for the relevant year.

After the formation of the gas transfer in full, oil and gas revenues go to the Reserve Fund. The standard value of the Reserve Fund is approved by the federal law on the federal budget for the next financial year and planning period in absolute amount determined on the basis of 10% of the projected amount of the gross domestic product for the relevant year. After filling the reserve fund with oil and gas revenues, the rest of money are delivered to the National Welfare Fund. At the same time, from the 1st of January 2010 until the 1st of January 2014 the standard value of the Reserve Fund is not determined, oil and gas revenues of the federal budget are not used for the financial provision of the gas transfer to the Reserve Fund and National Welfare Fund, and are sent to the financial provision of the federal budget. Another source of the financial resources of the National Welfare Fund are revenues from the management. Oil and gas revenues of the federal budget, the Reserve Fund and National Welfare Fund are recorded on the separate accounts of the federal budget, the Federal Open Treasury with the Central Bank of the Russian Federation, the calculations are carried out and the transfer of funds are executed by the Ministry of Finance of the Russian Federation in the manner prescribed by the Government of the Russian Federation.

At the same time, from January 1, 2010 until February 1, 2014 revenues from the management of the National Welfare Fund shall not be credited to the Fund, and will be directed to the financial support of the federal budget.

During the same period, separate accounting for oil and gas revenues of the federal budget will not be carried out, and the order of the payments and transfers of the funds in connection with the formation and use of the Federal oil and gas revenues of the budget, gas transfer, Reserve Fund and National Welfare Fund (NWF) will be suspended. Sovereign Wealth Fund is part of the federal budget. The purpose of the Fund is the of the providing co-financing of the voluntary pension funds, the balance of the budget of the Pension Fund of the Russian Federation. NWF should be a part of a sustainable mechanism for pensions of

Russians for the long term. The resources of the National Welfare Fund allocated for these purposes are determined by the federal law on the federal budget for the next year and the planning period. The order of the co-voluntary pension savings of the citizens of the country is defined in the Federal Law of 30 April 2008 No 56 –FZ "On additional insurance contributions to the funded part of the retirement pension and state support pension savings". The reserve fund is also a part of the federal budget. Its goal is to enforce the State's spending obligations in the case of the declining revenues and gas revenues to the federal budget. Reserve Fund promotes sustainable economic development of the country reducing the inflationary pressures and the dependence of the national economy from price fluctuations of the world commodity markets.

The reserve fund is actually replaced the Stabilization Fund of the Russian Federation. Unlike the Stabilization Fund, in addition to federal budget revenues from oil production and exports, the source of the formation of the Reserve Fund are also federal income budget from oil and gas exports. Reserve Fund can be used for the financing of the gas transfer and early repayment of the state external debt. The use of the Reserve Fund for the formation of the oil and gas transfer is carried out without changes in the federal law concerning the federal budget for the next financial year and planning period in case of the losses of gas revenues of the federal budget received for the relevant financial year. Limiting the scope of use of the Reserve Fund for financial support of oil and gas transfer is approved by the federal law on the federal budget for the next financial year and planning period. The use of the proceeds of the Reserve Fund for the financing of the gas transfer in the periods of the unfavorable conditions in world energy prices allows to pursue a balanced budget policy to ensure the stable socio-economic development of the country. As shows the international experience, the income from financial investments in securities are one of the the main sources of stabilization funds . In Norway, the share of such revenues to the State Pension Fund of the country is about 30-40% of the fund revenues.

The same potential have the Russian funds, but the conservative approach to the domestic sovereign funds led to their lower yield and rentability compared to the other similar structures. If the investment strategy of the Russian funds will not change, their yield will remain low. The Norwegian scheme of the investments - investments in highly liquid foreign stocks (40%) and bonds (60%) could be efficiently used for Russian sovereign wealth funds . The above analysis is the result of complex economic and legal research of these problems. In order to conclude, the existing system of the organization of the important for Russia 's strategic direction has significant disadvantages, including the scope of legal regulation of the functioning of the Reserve Fund and the national welfare; it needs a perfect mechanism of legal regulation that can provide control of the state and society the efficient use of resources of the Reserve Fund and National Welfare Fund.

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