Evaluation of the Effectiveness of Placement of Sovereign Wealth Funds of the Russian Federation

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Abstract. This article presents a comparative assessment of the various states approaches on the use of funds from their sovereign welfare, an analysis of the sources of the National Welfare Fund allocation in Russian Federation. The article provides an approach to assessing the economic efficiency of using the National Welfare Fund of the Russian Federation which is based on a comparative assessment of the rate of returns dynamics with the effective profitability level of foreign sovereign welfare funds. In unstable conditions sharp decline in world oil prices which are associated with a demand contraction of its consumption, mainly due to COVID-19, studies on the formation, distribution and assessment of the effectiveness of the use of states sovereign national welfare funds are timely and relevant.

1. Introduction
The oil and gas yield management involving the use of different budgetary rules is one of a key element of macroeconomic policy in Russia. They are mainly aimed at saving part of the income in sovereign welfare funds, their transparency of replenishment, increase and use.

On account of exchange rate support performance and the need to change the direction of the created in 2004 Stabilization Fund of the Russian Federation, it was divided into the Reserve Fund and the National Welfare Fund in 2008.

Since the exhaustion of the Reserve Fund on January 1, 2018, these funds have been merged into one in order to improve management efficiency. Currently, the funds of the National Welfare Fund are spent on financing the running expenditures of the federal budget, the Pension Fund of the Russian Federation.
2. Research methodology

The problem of effective management of sovereign welfare funds has been investigated by a number of Russian and foreign scientists: Vasin V.A., Duplinskaya E.B., Rumyantsev I.M., Sukharev A.N., Shmigol N.S., Allen M., Caruana J., - their articles consider the point of view of effective management of sovereign funds compatible with the strategic investment policy of the state to ensure sustainable development [2,3,11,12,13,14,15,17,18].

The research results of reserve capital and the national welfare fund of Russia in the international system of sovereign funds are presented in the works of Navoi A.V., Reizov E.R., Sukharev A.N., Shalunova L.I. [6,9,10,16].

Vasin V. A. identified three rules for managing raw material revenues, which are the rules for the formation of contributions to sovereign funds and the fund spending to cover the budget deficit: the rule of complete savings; the rule of constant consumption; average price rule [2]. The priorities of the fund disposition are investigated in the works of Kurochkina A.S., Kleister D.U., Morgunov E.V., Panova G.S., Nazarov V. [5,7,8,9].

The following research methods were used in the study: general scientific methods (method of analysis and synthesis); specific research methods (problem-chronological method); theoretical methods followed by analysis and generalization of results (statistical, control and comparative).

3. Results and discussion

In order to assess the economic efficiency of fund investments from sovereign welfare funds, including the National State Fund of the Russian Federation, we primarily conduct a comparative assessment of the different states approaches on the use of funds from their sovereign funds in 2019 (Table 1).

Table 1. Comparative assessment of different states approaches on the use of their sovereign welfare funds in 2019 (US million dollars).

| Approach form | Amount of the fund | Investment fund amounts income |
|---------------|--------------------|---------------------------------|
|               | Share of funds by direction of placement, % | Total income | Share of funds by areas of use, % |
|               | Saving | Investing | Co-financing of pension savings | Divide payment | Budget deficit financing | Administrative expenses for the operation of the Fund |
| Norwegian     | 293700 | 815980 | 192719 | 92149 | 0 | 0 | 0 | 570 |
|               | 26% | 74% | 100 | 0% | 97% | 0% | 0% | 0% | 0,3 |
| Alaska        | 8101 | 61949 | 10800 | 0 | 5446 | 0 | 2700 | 2160 | 494 |
|               | 12% | 88% | 100% | 0% | 50% | 0% | 25% | 20% | 5% |
| Russian       | 64490 | 61100 | 1360 | 0 | 68 | 0 | 1292 | 0 |
|               | 51% | 49% | 100% | 0% | 5% | 0% | 95% | 0% |
Analysis of the formation and funds use of the sovereign wealth fund in CBRF foreign currency accounts intended for saving funds and ensuring their high liquidity (the ability to instantly transform into cash) is shown in Table 2.

**Table 2.** Analysis of the formation and use NWF funds of the Russian Federation in the currency accounts of the CBRF in 2019.

| Source of income and use direction of the fund | Credit in funds, billion rubles | Debit, billion rubles | Credit in funds, billion dollars, US | Debit, billion dollars, US | Credit in funds, billion pounds | Debit, billion pounds | Credit in funds, billion euro | Debit, billion euro |
|-----------------------------------------------|--------------------------------|----------------------|-------------------------------------|---------------------------|--------------------------------|----------------------|--------------------------|-------------------|
| Beginning account balance                     | 0,00                           | 15,26                | 2,60                                | 13,41                     |
| Refund of SWF funds placed on deposits with VEB.RF | 50,36                         |                      |                                     |                           |
| Acquisition of the currency of the Russian Federation for the purpose of placing NWF funds on deposit with VEB.RF | 11,90                         | 0,08                 | 0,01                                | 0,07                      |
| Placing NWF funds on deposit at VEB.RF        |                                |                      |                                     |                           |
| Acquisition of the RF currency in order to purchase bonds of the AHRF | 22,60                         | 0,16                 | 0,03                                | 0,14                      |
| Purchase of the AHRF bonds                    |                                |                      |                                     |                           |
| Acquisition of the RF currency for the purpose of co-financing voluntary pension savings of RF citizens | 4,74                          | 0,03                 | 0,01                                | 0,03                      |
| Co-financing of voluntary pension savings of RF citizens | 4,74                          |                      |                                     |                           |
| Acquisition of foreign currency in order to purchase preferred shares of Russian Railways; Acquisition of preferred shares of | 19,30                         | 0,14                 | 0,02                                | 0,12                      |

3
Russian Railways

Crediting foreign currency purchased from the federal budget within the volume of additional oil and gas revenues of the federal budget for 2018

| Acquisition of foreign currency in order to manage NWF funds | 45,11 | 0,31 | 0,06 | 0,27 |
|------------------------------------------------------------|------|-----|-----|-----|
| Total, billings                                            | 108,9| 30,52| 0,41| 5,12| 0,07| 26,02| 0,37|
| Closing balance                                            | 0    | 45,37| 7,6 | 39,06|

Thus, the main means generating the NWFR funds is foreign currency purchased from the federal budget within the volume of additional oil and gas revenues.

Table 3. Assessment of the yields from the placement of SWF funds in the Russian Federation, (billion rubles).

| Profitability indicators of funds level | 2015 | 2016 | 2017 | 2018 | 2019 | ALL |
|----------------------------------------|------|------|------|------|------|-----|
| Estimated amount of income from placement on accounts with the Bank of Russia at the end of the period | 12,99| 4,37 | -1,48| 3,43 | 2,53| 74,22|
| Income from placement, enrolled in the federal budget | 133,74| 87,87| 51,49| 70,52| 95,18| 501,49|
| Profitability of using funds, actually transferred to the budget, % | 1,5 | 1,7 | 1,4 | 1,8 | 1,2 | x |

In sovereign welfare funds, the average rate of return from the placement of their funds is at least 4%; below this indicator, investing in any financial instruments (stocks, bonds, real estate, as well as buying foreign currency) of sovereign funds is considered unprofitable.

4. Conclusions

Based on the analysis of the formation and use of NWF funds to achieve long-term stability of the country's budget system, it is necessary to have a sufficient level of permanent financial savings (“financial cushion of the state”) by creating state financial reserve funds such as the National Welfare Fund of the Russian Federation.

As a result of analyzing the dynamics of the profitability level of Russian sovereign welfare funds over the past five years, it can be seen that this indicator is below the level of profitability of placement of foreign SWF funds. First of all, this comes from the conservative policy pursued by the state of the Russian Federation on the use of the funds of RF sovereign reserve funds with the aim of
maintaining the "financial cushion" in the current unstable conditions of the country’s economic performance and world energy markets.

In order to avoid "economic overheating", was enacted a regulation for a certain level of financing from the RF National Welfare Fund to investment infrastructure national projects of the socio-economic development of the state.

To analyze cost-effectiveness of managing the funds of the RF National Welfare Fund we propose an approach based on a comparative assessment of the dynamics of placing funds profitability levels of the RF SWF with the average level of return on the placement of funds of the foreign sovereign welfare funds and analyzing the dynamics of changes in the level of the fund's resources as a result placing funds in various instruments and spending it in accordance with the intended strategic goals.

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