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The review provides a detailed analysis of main trends in Russia's economy in 2013. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; social sphere; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Russia's Inter-budgetary Relations and Sub-national Finances in 2013

Analysis of the main features of the consolidated budgets of constituent entities of the Russian Federation

The main trends in the relations between different levels of government are reflected in the structure of revenue and expenditure in the consolidated budget of the Russian Federation. *Table 19* presents data reflecting the shares of tax revenues and expenditure of the constituent entities of the RF in the relevant indicators of Russia's consolidated budget.

Table 19

Proportions of some indicators in the sub-national budgets within Russia's consolidated budget in 1997-2013, %

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Tax revenues	53.1	56.6	49.2	43.5	37.4	35.1	39.6	36.1	30.9	31.8	33.9	33.2	36.6	37.2	33.2	33.0	33.1
Tax revenues excluding resource payments and customs duty	59.5	59.9	55.0	49.0	42.6	40.1	41.9	47.5	49.1	52.0	50.5	53.7	54.8	57.1	56.9	56.5	56.7
Expenditure	48.1	54.1	51.9	54.4	51.2	49.3	50.0	50.8	49.5	50.0	48.4	49.2	43.4	43.2	45.3	42.6	42.8

Source: Federal Treasury, calculations of the E.T. Gaidar IEP.

The data presented here show that the share of tax revenues of the sub-national budgets in Russia's consolidated budget had grown from 33.2% in 2008 to 36-37% in 2009-2010, but then, in 2011-2013, this indicator returned to its pre-crisis level of 33%. At the same time, the share of tax revenues of the consolidated regional budgets, excluding resource payments and customs duties, having increased from 53.7% to 55-57% in 2009-2010, stabilised in 2011-2013 at a level considerably higher than the pre-crisis one – 56.5-56.9%. The substantial change in this ratio precisely since 2010, compared with the pre-crisis level, was mainly due to the following factors. From 2009 the corporate profit tax rate was reduced from 24 to 20% for the account of federal account component, while 0.5% of the federal rate was transferred to the regions. As a result, in 2009, under the conditions of reduced profits of Russian enterprises, this redistribution of tax income did not have a particularly noticeable effect, however, in 2010 when the Russian economy was gradually recovering, the share of regional tax revenue, excluding resource payments and customs duties, increased considerably. Meanwhile, the share of sub-national budget expenditure in the expenditure of the Russian consolidated budget, having decreased in 2009-2010 due to the accumulation of “anti-crisis” federal budget expenditure, then increased in 2011 (along with the curtailing of anti-recession programmes), stabilising in 2012-2013 at a level of 42.6-42.8%, which is noticeably lower than the pre-crisis level of 49.2%. However, one

should bear in mind that the reduction of the gap between the share of income and the share of expenditure of the sub-national budgets in 2012-2013 was largely due to increasing federal budget expenditure and its convergence with the deficit despite the relatively high global oil prices (while in the pre-crisis period a part of the revenues of the federal budget had accumulated in sovereign wealth funds).

Let us consider the revenue part of the sub-national budgets in more detail. The dynamics of the main components of revenues of the consolidated budgets of the constituent entities of the Russian Federation are presented in *Table 20*.

Table 20

**Revenues of the consolidated budgets of the constituent entities
of the Russian Federation in 2008-2013 (in Rb bn)**

	Revenue volume (in nominal terms), Rb bn						Real growth*, %					
	2008	2009	2010	2011	2012	2013	2009/ 2008	2010/ 2009	2011/ 2010	2012/ 2011	2013/ 2012	2013/ 2008
Revenues, total	6,196	5,924	6,537	7,644	8,064	8,165	-12.1	1.4	10.2	-1.0	-4.9	-7.6
Tax and non-tax revenues	4,912	4,243	4,980	5,827	6,385	6,588	-20.6	7.9	10.3	2.8	-3.1	-5.9
including tax revenues	4,384	3,792	4,520	5,273	5,800	5,967	-20.5	9.6	10.0	3.2	-3.4	-4.5
corporate profit tax	1,752	1,069	1,520	1,928	1,980	1,720	-43.9	30.6	19.6	-3.7	-18.4	-31.2
personal income tax	1,666	1,665	1,790	1,996	2,261	2,499	-8.1	-1.2	5.1	6.3	3.8	5.2
tax on aggregate income	161	152	179	215	272	293	-13.6	8.5	13.4	18.4	1.2	27.4
property tax	493	570	628	678	785	901	6.1	1.4	1.7	8.7	7.7	28.0
excise tax	189	246	327	372	442	491	19.2	22.5	7.1	11.4	4.4	81.9
Transfers	1,131	1,486	1,398	1,644	1,624	1,515	20.7	-13.5	10.8	-7.3	-12.4	-6.1
Other revenues	153	195	159	173	56	62	17.4	-25.1	2.5	-69.7	3.9	-71.7

*Taking into account CPI.

Source: Federal Treasury, calculations of the authors.

As shown in *Table 20*, in 2013 the overall revenues of the consolidated budgets of the constituent entities of the Russian Federation decreased by 4.9% in real terms, compared with the 2012 level (in nominal terms there was a growth of 1.2%). The real term reduction in the total level of revenues in 2013 was due to two main factors. Firstly, a slowdown in the growth of the economy¹ and a reduction in the income of Russian companies, which resulted in a reduction of corporate profit tax revenues (-18.4% in real terms compared with the 2012 level). This led to a decrease of tax and non-tax revenues by 3.1%. Secondly, the volume of transfers decreased from Rb 1,624bn in 2012 to Rb 1,515bn in 2013 (a decrease of 12.4% in real terms). This considerable reduction was due to the cessation, in 2013, of the 2011-2012 allocation of transfers from the Federal Compulsory Medical Insurance Fund to the programmes and activities for modernisation of the health care system. Moreover, transfers from the federal budget decreased in real terms (for more information see the following section).

It should be noted that the dynamics of the two main taxes – corporate profit tax and personal income tax (which account for over 70% of the tax revenues of the consolidated regional budgets) – differed considerably. While the growth of revenues from personal income tax in the period in question was 10.5% in nominal terms (3.8% in real terms), corporate profit tax revenues decreased substantially, both in nominal and in real terms (-13.1 and -18.4%, respectively). As a result, the structure of the tax revenues of sub-national budgets also changed noticeably. Whilst in 2012, personal income tax and corporate profit tax accounted for 39.0%

¹ According to preliminary estimates by Rosstat (Federal State Statistics Service) GDP in 2013 increased only by 1.3%, whilst in 2012 it had grown by 3.4%.

and 34.1% of tax revenues, respectively, in 2013 these indicators stood at 41.9% and 28.8%. Corporate profit tax is one of the most volatile taxes, and in periods of worsening macroeconomic situation revenues from it are some of the first to respond the changing economy.

Having considered the dynamics of tax and non-tax revenues in general at sub-national level we shall now consider, in greater detail, the situation with the tax revenues of the constituent entities of the Russian Federation (see *Table 21*).

Table 21

Grouping of regions on the basis of changes in the main types of tax and non-tax revenues of the consolidated budgets of the constituent entities of the Russian Federation

	Number of constituent entities of the RF showing changes in their main types of tax and non-tax revenues in the consolidated budget of the Russian Federation					
	increase by more than 25%	increase by 10 to 25%	increase by less than 10%	decrease by less than 10%	decrease by 10 to 25%	decrease by more than 25%
in nominal terms						
Tax and non-tax revenues, total	0	16	52	12	1	1
Corporate profit tax	3	3	10	16	31	19
Personal income tax	1	54	26	0	0	1
in real terms						
Tax and non-tax revenues, total	0	3	28	44	5	2
Corporate profit tax	1	2	7	13	36	23
Personal income tax	0	5	69	7	0	1

Note: Arkhangelsk region and Nenets Autonomous District are presented in calculations as a single constituent entity.

Source: Federal Treasury, calculations by the authors.

As the above data show, in the majority of the Russian regions the situation with regard to the tax revenues of the sub-national budgets was quite unfavourable. In 51 constituent entities of the Russian Federation, based on the results for 2013, a reduction of income in real terms was recorded, although in 44 of these the reduction did not exceed 10%. Corporate profit tax revenues, in real terms, decreased by more than 25% in 23 regions. Those with the greatest reductions in this tax were: the Chukotka Autonomous District (–60.4%), the Kamchatka region (–41.4%), the Tyumen region (–41.5%), the Republic of Ingushetia (–51.5%), the Vologda region (–48.8%) and the Republic of Karelia (–61.0%). Personal income tax revenues increased in almost all regions. The exception to this was the Republic of Kalmykia (–56.3%). This can be explained by the fact that, in 2012, one major taxpayer contributed a relatively high tax amount to the budget of Kalmykia, which caused significant fluctuations in the personal income tax revenues of the region in 2011-2013

Overall, personal income tax currently ensures relative stability of tax revenues in almost all the Russian regions. In contrast, the dynamics of corporate profit tax revenues remain a destabilising factor. Of greatest concern are the regions which are drivers of the Russian economy – those with a high level of fiscal capacity where corporate profit tax accounts for a significant proportion of the total tax revenues.

Let us now consider the changes which have occurred in the expenditure component of the consolidated budget of the constituent entities of the Russian Federation in 2013 (*Table 22*). In 2013, total expenditure decreased compared with the previous year, both in real terms (–0.9%) and in shares of GDP (by 0.29 p.p. from 13.50% to 13.21%).

In analysing the changes in regional budgetary expenditure in particular areas the following should be noted. The biggest reduction of expenditure in 2013, compared with the previous year, was observed in the field of “Healthcare” (–7.9% in nominal and –13.5% in real terms). As a result, the proportion of total expenditure on healthcare for the year decreased from 16.3% to 14.2%. However, this reduction was mainly associated with a redistribution of costs between the budgets of the constituent entities and territorial CMI (Compulsory Medical Insurance) Funds, due to the transfer of emergency medical assistance to the CMI system. The reduction of expenditure on housing and public utilities (by 3.9%) and on social policy (by 3.2%) in real terms also should be noted.

Table 22

Expenditures of the consolidated budgets of the constituent entities of the Russian Federation in 2012-2013

	% of the total		% of GDP		Increase, %	
	2012	2013	2012	2013	in nominal terms	in real terms
General national issues	6.1	6.2	0.83	0.82	7.0	0.5
National security and law enforcement activities	1.1	1.2	0.15	0.16	12.7	5.8
National economy, including:	19.2	19.6	2.60	2.59	7.8	1.2
agriculture and fishing	2.9	3.4	0.39	0.45	23.5	16.0
transportation	3.5	3.4	0.48	0.45	0.8	-5.4
public road system (road funds)	7.7	8.3	1.05	1.10	13.1	6.2
other aspects of the national economy	2.9	2.5	0.39	0.32	-11.4	-16.8
housing and public utility sector	10.6	10.2	1.43	1.35	2.3	-3.9
environmental protection	0.3	0.3	0.04	0.04	13.6	6.7
Education, including:	24.5	26.5	3.31	3.50	14.0	7.0
pre-school education	5.6	6.7	0.75	0.89	27.6	19.8
primary and secondary education	14.1	15.0	1.90	1.98	12.2	5.3
vocational education	1.5	1.6	0.20	0.21	11.6	4.8
other aspects of education	1.7	1.6	0.22	0.22	4.5	-1.9
culture, cinematography	3.1	3.3	0.42	0.43	12.1	5.3
healthcare	16.3	14.2	2.20	1.88	-7.9	-13.5
social policy	15.3	14.9	2.06	1.97	3.0	-3.2
physical culture and sports	1.9	1.9	0.25	0.26	9.3	2.6
the media	0.5	0.5	0.06	0.06	5.8	-0.6
servicing of state and municipal debt	0.9	1.0	0.12	0.14	22.2	14.7
Expenditure, total	100.0	100.0	13.50	13.21	5.6	-0.9

Source: Federal Treasury, calculations by the authors.

At the same time, again based on the 2013 results, certain sections of expenditure within the consolidated budgets of constituent entities of the RF showed increases. Expenditure on the large “Education” component increased considerable (by 14% in nominal and 7.0% in real terms). The expenditure on education increased in all key areas: “Pre-school education” (27.6% in nominal and 19.8% in real terms), “Primary and secondary education” (12.2% in nominal and 5.3% in real terms) and “Vocational education” (11.6% in nominal and 4.8% in real terms). This growth was primarily caused by federal requirements, as early as in 2012-2013, to increase the salaries of employees in the educational field to the average of the region’s economy¹. Given the necessity to increase salary-related expenditure, the regions had to decrease investment expenditure (in fixed assets and shares in capital) in the face of shrinking revenues. Whilst in 2011 investment expenditure increased by 19% in real terms during the post-crisis recovery of

¹ Decree of the President of the Russian Federation dated 7 May 2012 No.597 on Measures to Implement State Social Policy.

the economy and the improvement of the situation for regional finances, during 2012 they decreased by 5.6% and in 2013 by 8.7% in real terms compared with the previous year.

In 2013 expenditure on national economy increased by 1.2% in real terms. As a result, the share of this section in total expenditure increased by 0.4 p.p. to 19.6%. The growth in expenditure aimed at developing the national economy was the result of increases in expenditure in areas such as: “Agriculture and fishing” (increase by 16.0% in real terms compared with 2012) and the “Public road system (road funds)” (by 6.2%). A considerable growth in real expenditure was also observed in “National security and law enforcement activities” (by 5.8%) and “Culture and cinematography” (5.3%).

The growth of expenditure on servicing state and municipal debt should also be noted. Over the year, expenditure on debt servicing increased by 14.7% in real terms (from 0.12% of GDP to 0.14% of GDP)¹. In general, however, despite their growth, the expenditure volumes are still far from critical levels.

It is also important to consider the shares in GDP of the consolidated budgets of the constituent entities of the Russian Federation and the principal features of their dynamics (see *Table 23*).

Table 23

Revenue and expenditure of the consolidated budgets of constituent entities of the Russian Federation in 2007-2013, % of GDP

	2007	2008	2009	2010	2011	2012	2013
Revenues	14.56	15.02	15.27	14.12	13.74	13.05	12.24
including:							
Corporate profit tax	4.60	4.24	2.76	3.28	3.46	3.20	2.58
Personal income tax	3.81	4.04	4.29	3.87	3.59	3.66	3.75
Transfers from the Federal Budget	1.88	2.65	3.81	2.98	2.60	2.33	2.23
Expenditure	14.45	15.15	16.12	14.33	13.80	13.50	13.21
Deficit (+)/Surplus(-)	0.12	-0.13	-0.85	-0.22	-0.06	-0.45	-0.96
For reference only: GDP, Rb bn	33,248	41,277	38,807	46,309	55,644	61,811	66,689

Source: Federal Treasury, calculations by the authors.

The above data show that, since 2009, the revenues of the sub-national budgets of the constituent entities of the Russian Federation have been tending to decline in relation to GDP. Whilst, in 2009, the revenues of the sub-national budgets were at a level of 15.27% of GDP, in 2013 they had fallen to 12.24% of GDP. There are several reasons for this trend.

Firstly, the structure of the revenues is changing. Before 2009 corporate profit tax revenues had been the main source of income (2007: 4.6% of GDP, 2008: 4.24% of GDP), and this was higher than personal income tax revenues by 0.79 p.p. and 0.20 p.p., respectively. Then, in 2009, the situation changed. Personal income tax, being more stable, has become the main source of tax income for the sub-national budgets. This tax has been increasing in the last three years — from 3.59% of GDP in 2011 to 3.75% of GDP in 2013, particularly as a result of the growth of salaries in the public sector. By contrast, corporate profit tax revenues in this period have been decreasing, from 3.46% of GDP to 2.58% of GDP, which is a negative signal for the Russian economy that seems to have exhausted all the possibilities of the former growth model. Secondly, in the period in question there was a decrease in the volume of inter-budget transfers allocated from the federal budget. Whilst, in 2009, the constituent entities of the Russian Federation received transfers amounting to 3.81% of GDP, in 2013 the transfers were by 1.58 p.p. less, at 2.23% of GDP. It is important to note that, in 2010-2011, federal aid declined as

¹ For more information on the situation with debt see section 2.3.3 of this overview.

own revenues of the constituent entities of the Russian Federation recovered, thereby reducing their budget deficits, however, in 2012-2013 the continuing trend towards reduction in the transfers drove an increase in the deficit of the consolidated regional budgets.

Next, we shall consider the situation regarding the performance of the consolidated budgets of the constituent entities of the Russian Federation (*Table 24*). In general, based on the results of 2013, the consolidated budget of the constituent entities of the Russian Federation was reduced, so that there was a deficit of Rb 642bn (0.96% of GDP), which is considerably greater than the 2012 indicator (0.44% of GDP).

Table 24

**Performance (deficit/surplus) of the consolidated budgets
of the constituent entities of the Russian Federation in 2008-2013**

Year	Numbers of constituent entities of the Russian Federation performed their budgets in:	
	deficit	surplus
2008	45	39
2009	62	21
2010	63	20
2011	57	26
2012	67	16
2013	77	6

Source: Federal Treasury.

The above data show that the performance of the consolidated budgets of the constituent entities of the Russian Federation turned out to be worse than in 2012. Whilst in 2012 only 67 regions performed their budgets with a deficit, in 2013 there were 77 such regions. In 2013 twelve constituent entities of the Russian Federation which had had a surplus in 2012 converged their budgets with a deficit. In 11 out of those 12 regions the observed growth in expenditure exceeded the average Russian level (5.6% in nominal terms), which casts some doubt on the effectiveness of the budgetary policy conducted in these regions. However, not all constituent entities of the Russian Federation showed an increase in expenditure when compared with 2012. By contrast, in 9 regions the expenditure decreased even in nominal terms compared with the level of the previous year level: Moscow (−0.4%), Krasnodar krai (−3.1%), Volgograd region (0.6%), Chechen Republic (−15.3%), Republic of Mordovia (−7.0%), Republic of Tatarstan (−2.2%), Tyumen region (−12.7%), Yamal-Nenets Autonomous District (−4.8%), Kemerovo region (−0.3%). The constituent entities of the Russian Federation that have reduced their expenditure can be divided in two groups of regions. The first group includes regions with a sufficiently high fiscal capacity (above or close to 1), for which corporate profit tax is one of the key revenue sources (Moscow, Krasnodar krai, Republic of Tatarstan, Tyumen region, Yamal-Nenets Autonomous District and Kemerovo region). The second group includes those constituent entities of the Russian Federation where their structure is characterised by a considerable proportion of transfers from the federal budget and significantly high level of state (municipal) debt (Chechen Republic, Republic of Mordovia). This grouping does not include the Volgograd region, characterised by low fiscal capacity but a relatively small proportion of transfers in its revenues.

In general, when summing up the results of the analysis of the key features of the sub-national budgets in 2013, the following should be noted. The situation in the field of regional and municipal finances has become even more tense, compared with 2012. The number of regions with budget deficits and the volume of borrowings have increased while own revenues have been reduced with no additional financial assistance from the federal budget. Special

concern is aroused by there being a reduction in investment activities on the part of the sub-national governments, where the expenditure in their budgets is under pressure due to the necessity to increase salaries in the public sector.

Financial assistance from the federal budget

In 2013 the total amount of funds transferred from the federal budget to sub-national budgets decreased in real terms by 3%, compared with the level in 2012 (*Table 25*).

Table 25

Transfers to Russian regions from the federal budget in 2008-2009 and 2012-2013

	2008		2009		2012		2013		Increase in 2013 on the 2012 level, %	
	Rb bn	% of the total	Rb bn	% of the total	Rb bn	% of the total	Rb bn	% of the total	nominal	real
Transfers to regions, total	1,094.7	100.0	1,480.3	100.0	1,440.2	100.0	1,487.9	100.0	3.3	-3.0
Non-targeted subsidies	390.4	35.7	578.3	39.1	524.0	36.4	609.1	40.9	16.3	9.2
Including:										
non-targeted subsidies to align fiscal capacity	328.6	30.0	374.0	25.3	397.0	27.6	418.8	28.1	5.5	-0.9
non-targeted subsidies to support measures to ensure balanced budgets	46.0	4.2	191.9	13.0	117.2	8.1	177.8	12.0	51.7	42.5
Targeted subsidies	435.9	39.8	530.0	35.8	570.9	39.6	515.6	34.7	-9.7	-15.2
Including:										
targeted subsidies for development of the national economy	181.2	16.5	214.3	14.5	276.2	19.2	268.3	18.0	-2.8	-8.8
Subventions	153.2	14.0	284.4	19.2	284.2	19.7	273.7	18.4	-3.7	-9.6
Other inter-budget transfers	115.2	10.5	87.6	5.9	61.1	4.2	89.5	6.0	46.5	37.6

Source: Federal Treasury, calculations of the E.T. Gaidar IEP.

However, for certain types of transfers oppositely directed dynamics could be observed, leading to a restructuring of financial aid. For example, there were increases in 2013, compared with 2012, for transfers such as non-targeted subsidies (increased by 9.2%) and other inter-budget transfers (37.6%). At the same time, the volumes of targeted subsidies and subventions decreased by 9.7% and 3.7%, respectively. It is important to note that non-targeted subsidies grew mainly due to their use to support measures to balance the budgets (increased by 42.5%). The increase in this type of transfer was mainly associated with the necessity for constituent entities to implement the Decrees of the President of the Russian Federation dated 7 May 2012. Meanwhile, the volume of non-targeted subsidies used to align fiscal capacities decreased in real terms by 0.9%.

As a result, by the end of 2013 the structure of transfers has changed. The share of non-targeted subsidies in the total volume of transfers had increased, reaching 40.9% (in 2012 it was 36.4%) and the share of other inter-budget transfers was 6% (in 2012 it was 4.2%). By contrast, the share of targeted subsidies decreased from 39.6% in 2012 to 34.7% in 2013 and the share of subventions decreased from 19.7% to 18.4%.

In general, the tendency to increase the share of non-targeted transfers is envisaged by all key documents in the field of fiscal policy, including the adopted law on federal budget for

2014-2016¹. For example, in 2016 the share of targeted subsidies is expected to decrease to 18.5% of the total volume of transfers with the proportion of non-targeted subsidies rising to 50.8%. However, it should be noted that the share of non-targeted transfers is currently increasing, mainly due to the use of non-targeted subsidies to balance budgets and this instrument is one of the least transparent mechanisms in the system of inter-budget relations in Russia. It should also be borne in mind that the share of non-targeted subsidies allocated to implement the Presidential Decrees of May (2012) in reality does not constitute non-targeted subsidies but actually represents targeted subsidies. As a result, such changes in the structure of federal financial aid only distort the inter-budget relations and make them less transparent.

When analysing the process of the allocation of federal government transfers to the regions it is important to consider how federal aid affects income inequalities of constituent entities, i.e. to evaluate the levelling properties of financial assistance provided from the federal budget (*Table 26*).

Table 26

**Coefficient of variation of the revenues of consolidated regional budgets
(per capita, taking into account BEI*) in 2008-2013, %**

Year	Tax revenues	Tax revenues and non-targeted subsidies to align fiscal capacity	Tax revenues, non-targeted subsidies and targeted subsidies
2008	90.6	80.4	71.5
2009	78.3	66.5	54.5
2010	74.2	63.9	57.8
2011	77.8	68.4	61.6
2012	66.1	57.8	51.9
2013	63.7	55.3	48.1

*BEI – budgetary expenditure index calculated using the method of distribution of non-targeted subsidies to align fiscal capacity.

Source: Federal Treasury, calculations of the E.T. Gaidar IEP.

As can be seen from the data provided in *Table 26* the allocation of non-targeted subsidies to align fiscal capacity in 2013 continued influencing the reduction of income inequalities in the sub-national budgets. However, it should be noted that the extent of this influence has been gradually decreasing since 2010. This has mainly been due to the declining proportion of non-targeted subsidies used to align fiscal capacity in the total amount of transfers allocated from the federal budget. Whilst, in 2008, the share of these non-targeted subsidies had been 30.1%, in 2011-2013 it was already 27-28%. We can also note a considerable decrease in the share of non-targeted subsidies to align fiscal capacity in shares of GDP from 0.86% in 2010 to 0.63% in 2013 (in 2008 it was 0.80%). The volume of tax revenues of the consolidated budgets of the constituent entities in terms of GDP also decreased in the period in question but at a lower rate: from 9.8 to 8.9% of GDP (in 2008 it had been 10.6%). As a result, in 2013, the coefficient of variation of regional revenues after the allocation of non-targeted subsidies to align fiscal capacity decreased only by 8.4 p.p., although in 2008-2010 this indicator was consistently greater than 10 p.p. Thus, one can conclude that it is necessary to increase the volume of non-targeted subsidies in order to align the fiscal capacity of the constituent entities of the Russian Federation. The total of the non-targeted subsidies (including non-targeted subsidies used to align fiscal capacity) and of targeted subsidies ultimately reduced the differentiation of regional

¹ Federal Law dated 2 December 2013 No.349-FZ ‘On the Federal Budget for 2014 and the Planning Period until 2015 and 2016’.

revenues by 15.6 p.p., which is better than in 2012 (14.1 p.p.) but much lower than that of the pre-crisis level of 2008 (19.1 p.p.).

It should be noted that in 2013 there was a decrease in the uniformity of provision of transfers to sub-federal budgets. For example, for the first 9 months of 2013 the approved annual plan was performed only by 71.6%, which is 3.6 p.p. lower than the performance of the cash plan in the corresponding period of 2012 (75.2%) (Table 27).

Table 27

**Transfers to regions from the federal budget
for the first 9 months of 2012 and 2013**

	For 9 months of 2012		For 9 months of 2013		Plan, Rb bn		Changes compared with the plan, %
	Performed, Rb bn	% of performance	Performed, Rb bn	% of performance	2012	2013	2013
Transfers, total	1,023	75.2	1,036	71.6	1,360	1,446	2.8
Non-targeted subsidies	377	75.0	441	73.8	502	597	2.0
Targeted subsidies	360	70.2	319	63.1	513	506	1.9
Subventions	246	83.3	226	80.4	295	281	-2.7
Other inter-budget transfers	40	81.4	50	80.6	49	62	30.7

Source: Federal Treasury, E.T. Gaidar IEP.

In general, the slowdown in the provision of financial assistance was observed for all types of transfers. Targeted subsidies were characterised by the greatest lack of uniformity. Whilst 70.2% of all targeted subsidies were provided in the first 9 months of 2012, in the corresponding 9 months of 2013 the figure was only 63.1%. Moreover, 23% of the targeted subsidies were allocated in December 2013, which rendered impossible their full utilisation by the regions. As a result, in January 2014 Rb 176.9bn of remaining targeted transfers were returned to the federal budget, which accounted for about 12% of the total volume of the transfers provided to regions in 2013. Thus, on average, the provision of transfers in 2013 became much less uniform than in 2012, with subventions and other inter-budget transfers being the most uniformly distributed during the financial year, just as in the year before.

The experience of 2013 once again showed that the actual volumes of transfers from the federal budget could differ considerably from the initial plan. So, by the end of 2013 total transfers had increased by 2.8% compared with the plan, with the allocation of targeted subsidies being 1.9% greater than initially planned, non-targeted subsidies 2.0% greater, other inter-budget transfers 30.7% greater. By contrast, the volume of subventions decreased by 2.7% compared with the plan.

Note that, in 2013, additional funding (not envisaged by the plan) was provided to 23 regions in the form of non-targeted subsidies¹. However, the total amount of this funding was relatively small, only Rb 13bn, out of which:

- Rb 529.9m aimed at partial compensation of the reduction in the volume of non-targeted subsidies, to align the fiscal capacities of the constituent entities of the Russian Federation, where there will be a greater than 20% reduction in the volumes of specified non-targeted subsidies in 2014 compared with 2013 and the share of non-targeted subsidies in the forecast

¹ <http://government.ru/announcements/8892> — Official website of the Government of the Russian Federation.

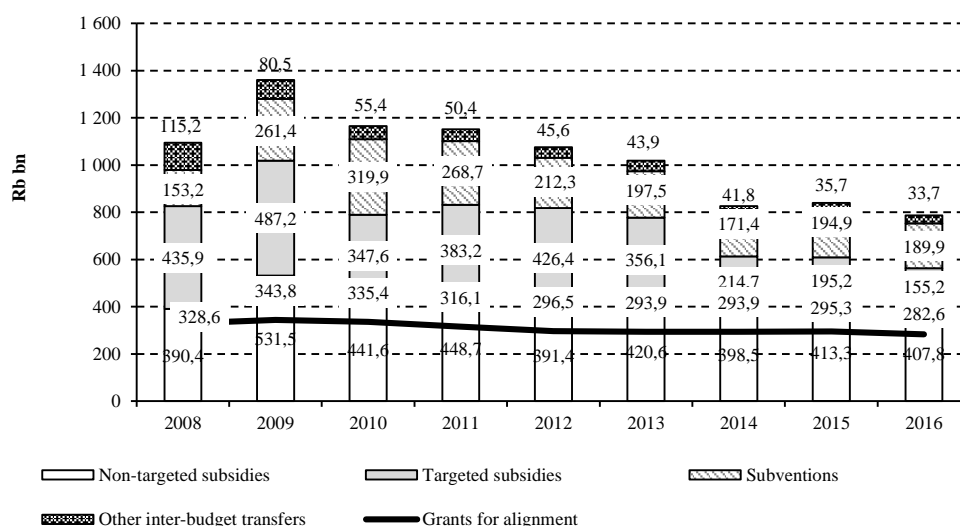
volume of tax and non-tax revenues of the consolidated budgets of the constituent entities of the Russian Federation in 2013 exceeded 10% (Stavropol krai, Amur region);

- 6 Rb bn aimed at partial compensation for the reduction in corporate profit tax revenues to the budgets of the constituent entities of the Russian Federation, where such a reduction in tax revenues for the first 10 months of 2013 exceeded 10%, with negative dynamics of both tax and non-tax revenues (Republic of Karelia, Republic of Komi, Republic of Khakassia, Krasnoyarsk krai, Arkhangelsk region, Belgorod region, Bryansk region, Vologda region, Irkutsk region, Kemerovo region, Novgorod region, Orenburg region, Saratov region and the Chukotka Autonomous District);
- 6 Rb bn aimed at partial compensation for the reduction in corporate profit tax revenues to the budgets of the constituent entities of the Russian Federation (due to the creation of consolidated groups of taxpayers) where this reduction exceeded 1% of the tax and non-tax revenues (Republic of Karelia, Krasnoyarsk krai, Perm krai, Belgorod region, Bryansk region, Volgograd, Nizhny Novgorod region, Samara region, Tambov region and the Tomsk region);
- Rb 400m aimed at providing a non-targeted subsidy to the Vladimir region in relation to a reduction in its tax revenues.

The remaining constituent entities of the Russian Federation were not included as recipients of the non-targeted subsidies, because, according to federal government estimates, they had lower risks of unbalanced regional budgets based on the results for the year.

It is important to note that since 2010 a gradual reduction in the volume of federal transfers allocated to sub-national budgets has been observed (*Fig. 20*).

As shown in *Fig. 20*, in real terms, the total volumes of transfers are tending to decrease. Whereas, in 2008 Rb 1,094.1bn was allocated, in 2013 the figure was Rb 1,018.1bn, and by 2016 it is expected to be only Rb 786.5bn for transfers from the federal budget (at 2008 prices). The targeted subsidies will be reduced the most. It should be noted that the reduction in the number (consolidation) and the decrease in the share of targeted subsidies in the total volume of federal financial aid is, in principle, a reasonable goal, aimed at improving the structure of inter-budget transfers and the efficiency of the process of allocation of financial aid. However, the reduction of targeted subsidies makes sense only if there is a corresponding increase in non-targeted financial assistance, mainly, in the form of non-targeted subsidies to align fiscal capacity. The reduction in the total volume of transfers in real terms, where there is a reduction in own revenues, in fact discredits the process of reforming targeted subsidies, as perceived by regional governments: consolidation becomes a synonym for the reduction of financial support from federal government.



Source: Federal Treasury, Federal Law dated 2 December 2013 No.349-FZ ‘On the Federal Budget for 2014 and the Planning Period until 2015 and 2016’, calculations of the authors.

Fig. 20. Transfers to regions from the federal budget for 2008-2016 (at 2008 prices)

Therefore note that, in 2013, taking into account the non-uniformity of provision of financial assistance during the financial year, the increase in the volume and share of non-targeted subsidies to align fiscal capacity, meant a decrease in the efficiency of the mechanism of provision of transfers to regions from the federal budget. Questions are also raised regarding the further planned decrease in the volumes of financial assistance where there is increasing tension over the performance of the consolidated budgets of the constituent entities of the Russian Federation.

Analysis of state and municipal debt

Data on the dynamics of the volumes of state debt of the constituent entities of the Russian Federation and of municipal debt from 2010 to 1 January 2014 are laid out in Table 28.

Table 28

State and municipal debt of the sub-national budgets in 2010-2014

	as of 1 January 2011	as of 1 January 2012		as of 1 January 2013		as of 1 January 2014	
	volume, Rb bn	volume, Rb bn	increase (%)	volume, Rb bn	increase (%)	volume, Rb bn	increase (%)
Total for regional budgets	1,096.0	1,171.8	6.9	1,355.0	15.6	1,737.5	28.2
Total for regional budgets (excluding Moscow and the Moscow region)	649.9	831.6	28.0	1,068.7	28.5	1,474.1	37.9
Total for municipal budgets	169.8	215.5	26.9	245.3	13.8	288.9	17.8
Volume of regional debt as % of GDP	1.64	1.76	7.3	2.03	15.3	2.61	28.6

Source: Ministry of Finance of Russia, calculations by the authors.

As can be seen from Table 28, the situation with the volume of debt of regional and municipal budgets in 2013 has changed substantially, showing a considerable increase in the amount of debt. The increase in the level of state debt of the constituent entities of the Russian

Federation was 28.2%, whilst, excluding Moscow and the Moscow region, it was 37.9%. However, in general, the total volume of debt is not yet large, being about 2.6% of GDP. At the same time, as in the previous year, a considerable volume of borrowing occurred in December. So, in just that one month the volume of state debt increased by 16.5% in nominal terms (by Rb 245.9bn, from Rb 1,491.5bn to Rb 1,737.5bn) and municipal debt increased by 15.8% (by Rb 39.4bn, from Rb 249.4.2bn to Rb 288.9bn). In December 2012 state debt increased by 16.4% (by Rb 190.7bn, from Rb 1,164.2bn to Rb 1,355.0bn) and municipal debt by 14.8% (by Rb 31.7bn, from Rb 213.2bn to Rb 245.3bn).

It should be noted that whereas the major part of regional debt had previously been accounted for by only 2 constituent entities of the Russian Federation – Moscow and the Moscow region (with 40.7% of the total volume of regional debt, as of 1 January 2011), on 1 January 2014 they accounted for only 15.1% of the total debt. In 2013 data on the constituent entities of the Russian Federation showed a decrease in the level of state debt by 8% (principally by the of Moscow region).

At the moment, the main borrowers (by volume of accumulated debt) are Moscow (Rb 179bn), Krasnodar krai (Rb 119bn), the Republic of Tatarstan (Rb 85bn) and the Moscow region (Rb 84bn). It should be noted that Krasnodar krai has become the first constituent entity of the Russian Federation after Moscow, whose debt obligations have increased above Rb 100bn. In 2013 this region increased its debt obligations by 61.3%, compared with its debts at the beginning of the year.

In general, the increase in debt burden in many constituent entities of the Russian Federation is evidenced by the regional data (*Table 29*).

Table 29

Dynamics of changes in state debt of the budgets of constituent entities of the Russian Federation in 2008-2013

	Numbers of constituent entities of the Russian Federation with respect to the dynamics of state debt (in nominal terms) in the corresponding periods of different years					
	increase by more than 50%	increase by 15 to 50%	increase by less than 15%	decrease by less than 15%	decrease by 15 to 50%	decrease by more than 50%
2008	21	20	10	6	12	9
2009	37	18	11	6	4	2
2010	29	24	8	11	7	0
2011	21	27	13	14	6	0
2012	18	29	14	8	10	1
2013	31	36	8	6	1	0

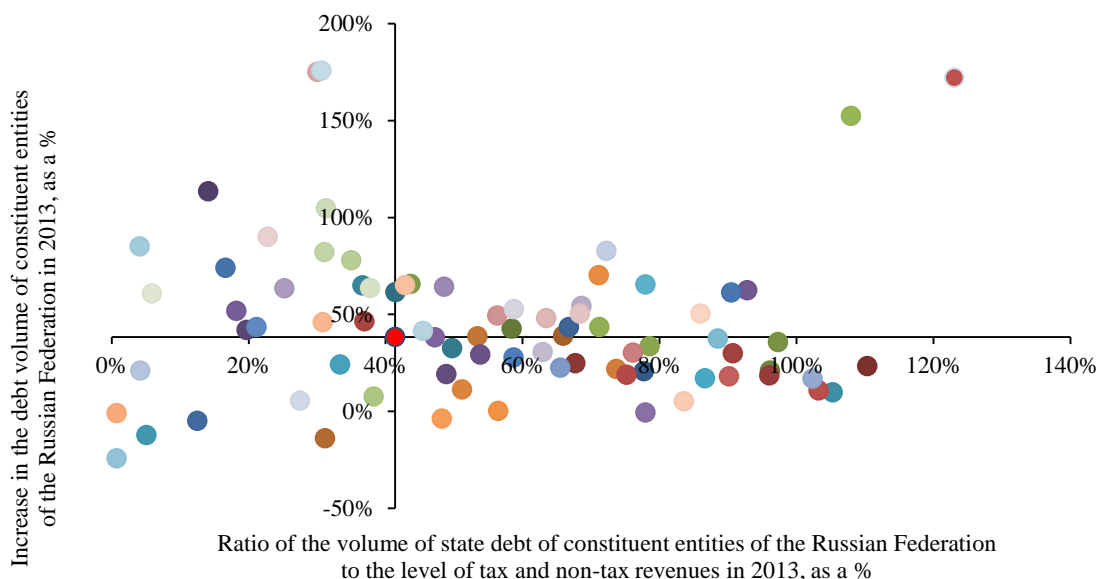
Source: Ministry of Finance of Russia, calculations by the authors.

In 2013, the volume of state debt increased in 75 out of 82 constituent entities of the Russian Federation, with a considerable increase in the volumes of debt (by more than 15%) being observed in 67 regions. In 31 constituent entities of the Russian Federation the debts increased by more than 50%. A considerable increase was observed in the Vladimir region (114%), Republic of Ingushetia (152%), Khanty-Mansi Autonomous District (431%), Yamal-Nenets Autonomous District (175%), Novosibirsk region (105%), Primorsky krai (1867%), Khabarovsk krai (176 %) and Chukotka Autonomous District (172%).

Of particular concern are those constituent entities of the Russian Federation which, in 2013, not only considerably increased debt volumes but also substantially raised their debt burden (the ratio of the volume of state debt to the level of tax and non-tax revenues of the constituent

entity of the Russian Federation¹) (Fig. 21). In 2013 the average debt burden for the Russian regions was 41.4% (excluding Moscow and the Moscow region), whilst in 2012 it was 30.4%.

Fig. 21 shows that 23 out of 82 constituent entities of the Russian Federation are in the “troubled sector”: here the growth of state debt and debt burden are higher than the Russian average. It should be noted that in 7 constituent entities of the Russian Federation the level of the debt burden exceeds the amount of their tax and non-tax revenues: Republic of Mordovia (172.1%), Chukotka Autonomous District (123%), Belgorod region (110.3%), Republic of Ingushetia (108%), Vologda region (105.3%), Republic of North Ossetia-Alania (103.2%) and Saratov region (102.3%). A few other constituent entities (Kostroma region, Ryazan region, Smolensk region, Republic of Karelia, Pskov region, Krasnodar krai and Republic of Mari El) are close to the critical level (with debt levels over 90% of their own revenues). Among the above constituent entities particularly alarming situations exist in the Chukotka Autonomous District (the debt burden as of the end of 2013 was 123%, an increase during 2013 of 172%), Republic of Ingushetia (108% and 152%), Pskov region (93% and 62%) and Krasnodar krai (90% and 61%).



Note: 1) The axes intersect at the point where the debt burden and the increase in the debt volume of the constituent entities of the Russian Federation in 2013 are equal to the average Russian values (excluding Moscow and the Moscow region) (41.4% and 38.4%, respectively).

2) The diagram does not include: Khanty-Mansi Autonomous District (9.6%, 430.7%), Primorsky krai (16.7%, 186.7%) or Republic of Mordovia (172.1%, 10.1%).

Source: Federal Treasury, Ministry of Finance of Russia, calculations by the authors.

¹ Before 1 January 2017 the maximum volume of state debt of a constituent entity of the Russian Federation (municipal debt) can exceed the limitations set forth in clauses 2 and 3 of Article 107 of the Budgetary Code of the Russian Federation (100% of budgetary revenues excluding non-repayable transfers) within the limit of the state debt volume of the constituent entity of the Russian Federation (municipal debt) in the form of budgetary loans (Federal Law dated 9 April 2009 No.58-FZ (as revised on 30 November 2011)), the provision of which is determined at federal government level.

Fig. 21. Debt burden and changes in state debt of the constituent entities of the Russian Federation in 2013 (%)

In general, one can say that the situation with regional and municipal debt is continuing to worsen. However, in most regions which are actively accumulating borrowing the debt burden has remained at a relatively safe level.

Conclusions with regard to the allocation of inter-budget transfers to other levels of the budgetary system provided by the Federal Law dated 2 December 2013, No.349-FZ ‘On the Federal Budget for 2014 and the Planning Period until 2015 and 2016’

The total volume and dynamics of inter-budget transfers from the federal budget to the budgets of constituent entities of the Russian Federation in accordance with Federal Law dated 2 December 2013 No.349-FZ ‘On the Federal Budget for 2014 and the Planning Period until 2015 and 2016’ are laid out in *Table 30*.

In parallel with the total volume of inter-budget transfers, it seems reasonable to include the indicator of the total volume of inter-budget transfers excluding subventions in the analysis, because it reflects the financial performance by the relevant authorities of their own powers.

Table 30

Inter-budget transfers in 2013-2016

Indicator	2013	2014		2015		2016		
	Rb bn	Rb bn	as % of the previous year	Rb bn	as % of the previous year	Rb bn	as % of the previous year	as % of 2013
Inter-budget transfers	1,488	1,233	82.9	1,308	106.1	1,281	98.0	86.1
Non-targeted subsidies	609	594	97.5	644	108.4	664	103.1	109.0
<i>including non-targeted subsidies to align fiscal capacity</i>	419	440	105.0	462	105.0	462	100.0	110.3
<i>non-targeted subsidies to support measures to balance budgets</i>	178	141	79.2	170	120.5	190	111.8	106.7
Targeted subsidies	516	320	62.0	304	95.0	253	83.1	49.0
Subventions	274	256	93.4	304	118.9	309	101.8	112.8
Other inter-budget transfers	89	62	69.7	56	89.2	55	98.6	61.8
Inter-budget transfers excluding subventions	1,214	977	80.5	1,004	102.8	972	96.8	80.1
<i>For reference: Inter-budget transfers as % of GDP</i>	2.23	1.68		1.64		1.48		66.4

Source: Federal Treasury, Federal Law dated 2 December 2013 No.349-FZ ‘On the Federal Budget for 2014 and the Planning Period until 2015 and 2016’, calculations by the authors.

With the exception of slight growth in 2015, the total volume of inter-budget transfers has a generally downward trend for 2014-2016: over the 3 years the volume decreases to 80.1% of the 2013 volume excluding subventions. This overall decrease can be seen in the targeted subsidies (from 2014-2016 the annual decreases will be 38%, 5% and 16.9%, respectively), the increase in subventions (–6.6%, 18.9% and 1.8%), the non-targeted subsidies and support measures to balance the budgets of constituent entities of the Russian Federation (–20.8%,

20.5% and 11.8%) and in the non-targeted subsidies to align the fiscal capacities of the constituent entities of the Russian Federation (5.0%, 5.0% and 0%).

The decrease in the total volume of inter-budget transfers is not offset by the transfer of additional sources of income at regional or local level or by the transfer of expenditure obligations from regional or local levels to the federal level.

As shown in *Table 31*, the decrease in the nominal volume of financial assistance to the lower level budgets is not the result of the forecast of negative GDP growth rates nor the general decrease of revenues and/or expenditure in the federal budget. Indeed, the ratio of the total volume of inter-budget transfers (both including and excluding subventions) to GDP and to the total volume of expenditure of the federal budget monotonously decreases over the period in question. The same conclusion is true for main inter-budget transfers unrelated to the transfer of particular powers of the Russian Federation to the regions: the non-targeted subsidies to align the fiscal capacities of the constituent entities of the Russian Federation, and the targeted subsidies.

It is unlikely that the decrease in the volume of inter-budget transfers to the constituent entities of the Russian Federation will be offset by a faster growth of tax and non-tax revenues for their budgets (*Table 32*). Indeed, the increase in revenues of the consolidated budgets of the constituent entities of the Russian Federation in 2012-2013 did not exceed the corresponding indicators of the federal budget. In particular, in 2012 the increase in revenues of the federal budget exceeded the increase in revenues of the consolidated budget of the constituent entities of the Russian Federation by 7.6 p.p., and in 2013 the growth rates of the revenues of both were almost equal at 1.2-1.3%.

Table 31

Dynamics of inter-budget transfers in 2013-2016

Indicator	Measurement unit	2013	2014	2015	2016
GDP	Rb bn	66,689	73,315	79,660	86,837
Expenditure of the federal budget	Rb bn	13,343	13,960	15,362	16,392
Inter-budget transfers, total	Rb bn	1,488	1,233	1,308	1,281
Non-targeted subsidies	Rb bn	609	594	644	664
Non-targeted subsidies to align fiscal capacity	Rb bn	419	440	462	462
Non-targeted subsidies to balance budgets	Rb bn	178	141	170	190
Targeted subsidies	Rb bn	516	320	304	253
Subventions	Rb bn	274	256	304	309
Other inter-budget transfers	Rb bn	89	62	56	55
Inter-budget transfers excluding subventions	Rb bn	1,214	977	1,004	972
Inter-budget transfers, total	% of GDP	2.23	1.68	1.64	1.48
Non-targeted subsidies	% of GDP	0.91	0.81	0.81	0.76
Non-targeted subsidies to align fiscal capacity	% of GDP	0.63	0.60	0.58	0.53
Non-targeted subsidies to balance budgets	% of GDP	0.27	0.19	0.21	0.22
Targeted subsidies	% of GDP	0.77	0.44	0.38	0.29
Subventions	% of GDP	0.41	0.35	0.38	0.36
Other inter-budget transfers	% of GDP	0.13	0.09	0.07	0.06
Inter-budget transfers excluding subventions	% of GDP	1.82	1.33	1.26	1.12
Inter-budget transfers, total	% of expenditure	11.15	8.83	8.51	7.82
Non-targeted subsidies	% of expenditure	4.57	4.26	4.19	4.05
Non-targeted subsidies to align fiscal capacity	% of expenditure	3.14	3.15	3.01	2.82

Indicator	Measurement unit	2013	2014	2015	2016
Non-targeted subsidies to balance budgets	% of expenditure	1.33	1.01	1.11	1.16
Targeted subsidies	% of expenditure	3.86	2.29	1.98	1.54
Subventions	% of expenditure	2.05	1.83	1.98	1.89
Other inter-budget transfers	% of expenditure	0.67	0.45	0.36	0.33
Inter-budget transfers excluding subventions	% of expenditure	9.10	7.00	6.54	5.93

Source: Federal Treasury, Federal Law dated 2 December 2013 No.349-FZ 'On the Federal Budget for 2014 and the Planning Period until 2015 and 2016', calculations by the authors.

Table 32

Revenues of the federal and consolidated budgets of the constituent entities of the Russian Federation in 2011-2016

Indicators	Measurement unit	2011	2012	2013	2014	2015	2016
Federal budget	Rb bn	11,368	12,856	13,019	13,571	14,565	15,906
	As % of the previous year	-	113.1	101.3	105.2	107.3	109.2
Consolidated budgets of constituent entities of the Russian Federation							
Revenues, total	Rb bn	7,641	8,061	8,164	8,765	9,491	10,310
	As % of the previous year	-	105.5	101.2	108.3	107.6	108.5
Revenues excluding inter-budget transfers	Rb bn	5,874	6,382	6,649	7,532	8,183	9,029
	As % of the previous year	-	108.7	104.2	111.3	108.6	110.3

Source: Federal Treasury, Federal Law dated 2 December 2013 No.349-FZ 'On the Federal Budget for 2014 and the Planning Period until 2015 and 2016', calculations by the authors.

It should be noted that the reduction in the volume of targeted subsidies corresponds to the goals of the State Programme of the Russian Federation "The Creation of Conditions for Effective and Responsible Management of Regional and Municipal Finances and Increase of Stability of the Budgets of the Constituent Entities of the Russian Federation" approved by Decree of the Government of the Russian Federation dated 18 March 2013 No.376-r. As development priorities the Programme indicates a reduction in the share of targeted transfers and a transition to predominantly non-targeted financial support in the system of inter-budget relations. Therefore, one of the indicators of achievement of the goals set in the Programme is the proportion of non-targeted subsidies in inter-budget transfers. Table 33 demonstrates the simultaneous reduction of the share of targeted subsidies and the increase in the share of non-targeted subsidies, with the proportion of non-targeted subsidies actually being considerably higher than the one specified in the Programme (according to the Programme the share of non-targeted subsidies in 2014-2016 should be 38%, 39% and 40%, respectively).

Table 33

Structure of inter-budget transfers in 2013-2016, Rb bn

Indicator	2013	2014	2015	2016
Inter-budget transfers	1,487.9	1,233	1,308	1,281
including:				
Non-targeted subsidies, including:	41.6	48.2	49.3	51.8
<i>non-targeted subsidies to align fiscal capacity</i>	28.1	35.7	35.3	36.0
<i>non-targeted subsidies to balance budgets</i>	12.0	11.4	13.0	14.8
Targeted subsidies	34.7	26.0	23.3	19.7
Subventions	18.4	20.7	23.2	24.1
Other inter-budget transfers	6.0	5.1	4.2	4.3
Inter-budget transfers excluding subventions	1,214.2	977.0	1,004.0	971.7
including:				
Non-targeted subsidies, including (%):	50.2	60.8	64.2	68.4
<i>non-targeted subsidies to align fiscal capacity</i>	34.5	45.0	46.0	47.5
<i>non-targeted subsidies to balance budgets</i>	14.6	14.4	16.9	19.5
Targeted subsidies	42.5	32.8	30.3	26.0
Other inter-budget transfers	7.4	6.4	5.5	5.6

Source: Federal Treasury, Federal Law dated 2 December 2013 No.349-FZ ‘On the Federal Budget for 2014 and the Planning Period until 2015 and 2016’, calculations by the authors.

However, the non-targeted subsidies to balance the budgets are, essentially, almost indistinguishable from targeted subsidies, because they have a particular purpose and are provided on condition of co-financing. These can include the following (within the framework of a sub-programme “Sustaining the Performance of the Budgets of the Constituent Entities of the Russian Federation and Local Budgets” within the aforementioned State Programme):

- a non-targeted subsidy to balance the budget of the Omsk region;
- a non-targeted subsidy to balance the budget of the federal city of Saint-Petersburg;
- non-targeted subsidies as partial compensation for the additional expenditure arising from the increase in salaries of public sector employees.

Hence, referring to inter-budget transfers which have a particular purpose (in this case the ‘target’ does not relate to the destination of the transferred funds but to achieving targeted quality results) as non-targeted subsidies is very questionable and casts doubt on achieving the stated aims related to the proportion of non-targeted financial assistance provided to the budgets of constituent entities of the Russian Federation.

One of the indicators of the quality of the three-year budgetary planning is the extent of deviation from the newly approved budget parameters found in the next financial year and in the first year of the planning period when compared with the corresponding values approved for these same years in the previous budget Law. A comparison of the volumes of the inter-budget transfers (*Table 34*) shows that the volumes of all types of inter-budget transfers have been adjusted upwards: for non-targeted subsidies and targeted subsidies in 2014 the average adjustment is 3-6%, for 2015 it is 10-13%. The positive adjustment of the volumes of inter-budget transfers has helped to avoid further imbalance in the consolidated budgets of the constituent entities of the Russian Federation. At the same time, the considerable adjustment of the volumes of subventions and other inter-budget transfers shows that the parameters of the regional budgets for the planning period are highly dependent on newly made federal decisions, and this therefore does not eliminate the issue of the stability of regional finances.

Table 34

**Inter-budget transfers approved in the federal budget
for 2013-2015 and in the federal budget for 2014-2016, Rb bn**

Indicator	2014			2015		
	216-FZ	349-FZ	Increase, %	216-FZ	349-FZ	Increase, %
Inter-budget transfers	1,184	1,233	4.1	1,168	1,308	12.0
Non-targeted subsidies	592	594	0.3	582	644	10.6
<i>including non-targeted subsidies to align fiscal capacity</i>	419	440	5.0	419	462	10.2
<i>including non-targeted subsidies to balance budgets</i>	161	141	-12.5	151	170	12.6
Targeted subsidies	300	320	6.8	287	304	5.9
Subventions	244	256	4.7	254	304	19.4
Other inter-budget transfers	47	62	31.4	44	56	26.0

Source: Federal Law dated 2 December 2013 No.349-FZ ‘On the Federal Budget for 2014 and the Planning Period until 2015 and 2016’, Federal Law dated 3 December 2012 No.216-FZ ‘On the Federal Budget for 2013 and the Planning Period of 2014 and 2015’, calculations by the authors.

The major part of the volume of non-targeted subsidies to balance the budgets (Rb 120, 130 and 150bn for 2014-2016, respectively, which represent about 30% of the total volume of non-

targeted subsidies to align the fiscal capacities of the constituent entities of the Russian Federation) is related to the financial support for implementation of the Presidential Decrees of 7 May 2012. In this case, it constitutes additional financial support for the current expenditure obligations of a permanent nature. At the same time, financial support of the current expenditure obligations is being performed by the provision of non-targeted subsidies to align the fiscal capacities of the constituent entities of the Russian Federation. The difficulty in application of this mechanism under the current conditions is due to its failure to provide transfers to constituent entities of the Russian Federation, whose fiscal capacity level is in the interval from 1 to 2, and due to the fact that the method of distribution of non-targeted subsidies to align the fiscal capacities was not adjusted to take into account any need to increase salaries across a major part of the public-sector funded organisations to the average level for the economy of the respective constituent entity of the Russian Federation. However, it could be possible to provide relevant assistance to regions-donors in the form of targeted subsidies while the remaining regions receive non-targeted subsidies to align their fiscal capacities.

Among the priority goals for development within the system of inter-budget relations set in the State Programme of the Russian Federation “The Creation of Conditions for Effective and Responsible Management of Regional and Municipal Finances and Increase of Stability of the Budgets of Constituent Entities of the Russian Federation” are the reduction of the number of targeted subsidies that will take place through their consolidation within the framework of Russian Federation state programmes (the target values for 2014-2016 are 80, 70 and 60, respectively) and the increase in the share of targeted subsidies from the federal budget to the budgets of constituent entities of the Russian Federation, the distribution of which amongst these entities has been approved by annexes to the Law on Federal Budgets for the next financial year and the planning period (the target values for 2014-2016 are 25%, 30% and 35%, respectively). Based on the number of target items for which it is planned to provide targeted subsidies to the budgets of constituent entities, in accordance with the Law on Federal Budgets in 2014-2016 the number of targeted subsidies is 82 for 2014, 73 for 2015 and 62 for 2016. In turn, the estimated proportion of distributed targeted subsidies for 2014 is 20.7%. Thus, the decrease in the number of targeted subsidies to the budgets of constituent entities of the Russian Federation and the increase in the share of distributed targeted subsidies are a little behind the target values, so additional effort will be required in this direction.

In general, in respect of the provision of inter-budget transfers Federal Law dated 2 December 2013 No.349-FZ ‘On the Federal Budget for 2014 and the Planning Period of 2015 and 2016’ shows a general commitment of state budgetary policy to the set priorities. At the same time, there exist high risks that real financial support for the budgets of the constituent entities of the Russian Federation will decrease and that lack of achievement of the overly-optimistic estimates of revenue growth rates for the consolidated budgets of the constituent entities will have a particularly unfavourable effect on the total balance of budgets at the sub-federal level and will cast doubt on the possibility of implementing the Presidential Decrees of 7 May 2012. There are still some reservations over the opportunity to increase the efficiency of the structure of the inter-budget transfers and to improve the method of distribution of the non-targeted subsidies to align the fiscal capacities of the constituent entities of the Russian Federation. It also seems necessary to intensify work on the consolidation of inter-budget targeted subsidies and to increase the share of targeted subsidies, the distribution of which amongst the constituent entities of the Russian Federation has been approved by an annex to the Law on Federal Budgets for the next financial year and the planning period.

