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Editorial Board: *S. Sinelnikov-Mourylev (editor-in-chief),
A. Radygin,
L. Freinkman,
N. Glavatskaya*

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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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Analysis of the main tax receipts to the budgetary system of the Russian Federation

In 2013, tax revenue decreased by 1.1 p.p. of GDP, or by 1.8% in real terms compared with 2012 (see *Table 7*), which evidences the deterioration in replenishment of the revenue part of the Russian fiscal system.

Table 7

Main tax receipts to the budget of the enlarged government of the Russian Federation in 2008-2013, % of GDP

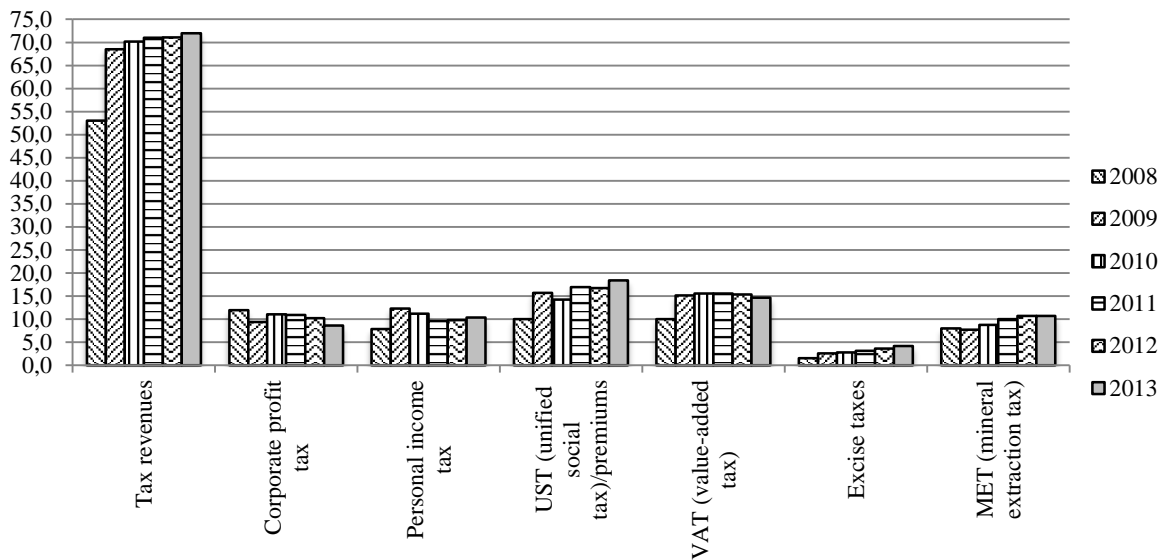
	2008	2009	2010	2011	2012	2013	Change in 2013 relative to 2012	
							as p.p. of GDP	real increase, %
Tax burden	35.7	30.8	31.1	34.9	34.6	33.5	-1.1	-1.8
Corporate profit tax	6.1	3.3	3.8	4.1	3.8	3.1	-0.7	-17.4
Personal income tax	4.0	4.3	3.9	3.6	3.6	3.7	0.1	3.8
UST (unified social tax)/insurance premiums*	5.1	5.5	4.9	6.3	6.3	6.7	0.4	7.7
VAT (value-added tax)	5.1	5.3	5.4	5.8	5.7	5.3	-0.4	-6.3
Excise taxes	0.8	0.9	1.0	1.2	1.4	1.5	0.1	14.0
MET (mineral extraction tax)	4.1	2.7	3.0	3.7	4.0	3.9	-0.1	-2.5
Customs duties and fees	8.6	6.8	6.8	8.3	8.0	7.5	-0.5	-5.2

* Since 2010 UST has been transformed into insurance premiums paid directly into non-budgetary funds.

Source: Ministry of Finance of the Russian Federation, Rosstat, calculations by IEP.

As seen from the data provided in *Table 7*, revenues in terms of GDP have decreased for many types of taxes. So, corporate profit tax collections were below even the crisis level of 2009, VAT collections decreased by 0.4 p.p. and MET collections decreased by 0.1 p.p. The exceptions were receipts from insurance premiums (6.7% of GDP in 2013 against 6.4% of GDP in 2012), from personal income tax (3.7% versus 3.6%) and from excise taxes (1.5% versus 1.4%). The growth in the volumes of insurance premiums was partially due to indexation raising the base, taxable at a rate of 30%, from Rb 512,000 to Rb 568,000¹. Receipts from insurance premiums and personal income tax were affected by increases in the salaries of employees in the public sector. The increase in excise tax collections was, also due to the indexation of rates. However, of particular concern is the fact that, under the conditions of a slowdown of economic activities, not only have the revenues from one of the most volatile taxes – corporate profit tax – decreased, but VAT receipts, which (together with personal income tax) had been quite stable in terms of GDP during the crisis period of 2009, are also decreasing.

¹ A 10% rate applies above this value and the relevant payments are received only into the Russian Pension Fund.

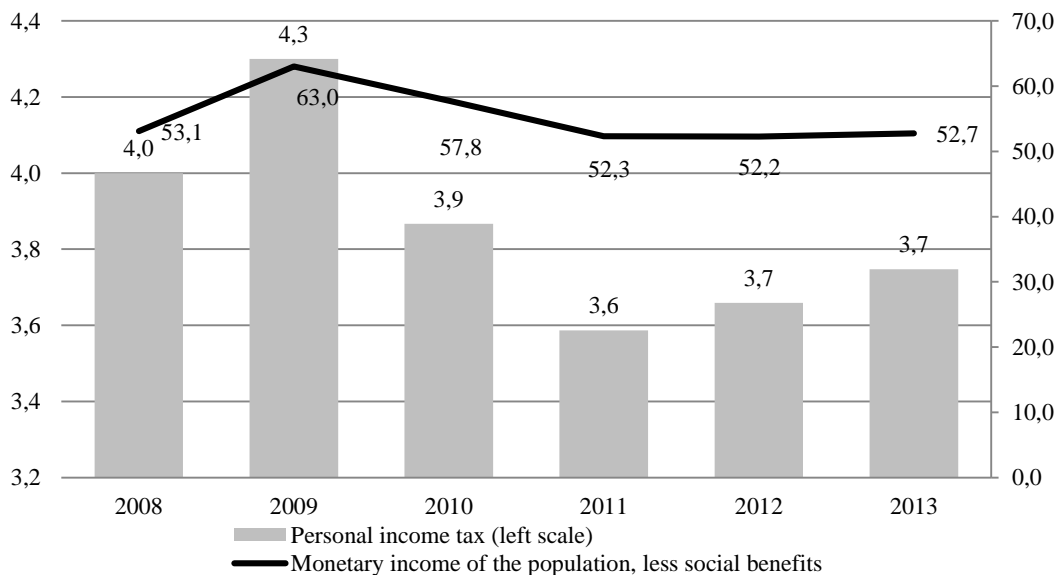


Source: Federal Tax Service of the Russian Federation.

Fig. 14. Share of tax receipts in the total revenue of the budget of the enlarged government in 2008-2013, %

As seen from Fig. 14, in 2013, the proportions of personal income tax, insurance premiums and excise taxes increased, whilst the proportions of VAT, and especially of corporate profit tax, decreased, compared with 2012. The share of MET remained almost unchanged.

Considering personal income tax receipts, it should be noted that, in 2013, there was a slight growth of monetary income less social payments for the population (see Fig. 15). Thus, the increased tax base drove a slight increase in receipts from personal income tax.



Source: Federal Tax Service of the Russian Federation, Rosstat.

Fig. 15. Comparison of the dynamics of personal income tax receipts with the dynamics of the monetary income of the population excluding social payments in 2008-2013, % of GDP

In terms of GDP, the oil and gas revenues of the federal budget decreased, compared with 2012 (see *Table 8*). The first component, the MET on hydrocarbons, decreased by 0.06 p.p. of GDP. The slight decrease in oil prices affected MET collections, despite a slight increase in oil production (523.5m tons, including gas condensate, in 2013 versus 516.8m tons in 2012) and a slight weakening of the ruble¹.

Table 8

Oil and gas revenues and MET in 2008-2013

	2008	2009	2010	2011	2012	2013
Oil and gas revenues, % of GDP	10.6	7.7	8.3	10.3	10.5	10.0
MET, % of GDP	4.1	2.7	3.0	3.6	3.83	3.77
Oil production, including gas condensate, m tons	488	494	507.2	509.4	516.8	523.5
Average annual level of prices for Urals oil, \$/barrel	94.0	60.7	78.1	109.6	110.7	108.4
Average annual ² official USD to RUB exchange rate of the Bank of Russia, Rb/\$	24.78	31.90	30.37	29.31	31.05	31.20

Source: Rosstat; Bank of Russia; Federal Tax Service of the Russian Federation; calculations by IEP.

The dynamics of the second component, the export duties on energy resources (at about 6% of GDP in 2013 versus 6.5% in 2012), became the decisive factor for the decrease in oil and gas revenues in terms of GDP. At the same time, revenues, mainly from the export of crude oil, decreased (*Table 9*). This was for two reasons. Firstly, in the first half of 2013 oil export duty rates were reduced. Secondly, according to the Ministry of Energy, crude oil exports declined by 5.44m tons, or by 2.3%, in 2013, compared with 2012. Thirdly, there was an increase in the proportion of oil coming from new deposits, which operate on preferential (lower) rates.

Table 9

Receipts of customs duties in 2008-2013, % of GDP

	2008	2009	2010	2011	2012	2013
Export duties:						
- on crude oil	4.3	3.1	3.6	4.2	4.0	3.5
- on natural gas	1.2	1.1	0.4	0.7	0.7	0.7
- oil products	1.3	1.0	1.3	1.7	1.8	1.8
Customs duties and fees, total	8.6	6.8	7.0	8.3	7.9	7.5

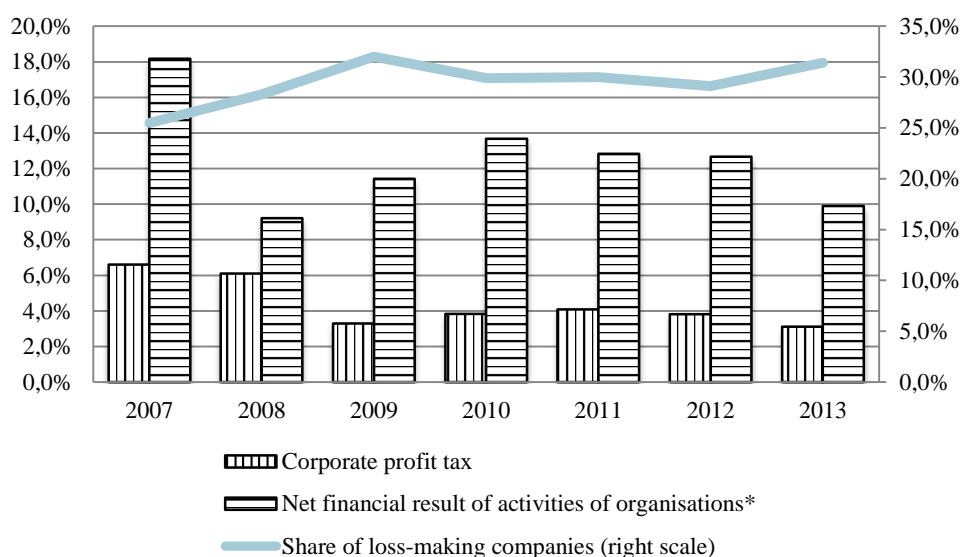
Source: Rosstat; data of Federal Treasury of Russia; calculations by IEP.

As noted above, in 2013, the revenues from corporate profit tax, in terms of GDP, were lower than even the 2009 receipts (see *Fig. 16*). The proportion of loss-making organisations in the Russian economy increased to 31.4% while the net financial result of the activities of companies and enterprises (excluding small businesses) reached its lowest level for the period 2009-2013, at 3.1% of GDP.

The decrease in VAT receipts resulted from the reduction in duties on both imported goods and those manufactured and sold in Russia (see *Table 10*). Taking into account, that in 2013, no significant changes in VAT taxation occurred and imports, according to Rosstat, grew by 3% in real terms, conclusions can be drawn regarding the deteriorating situation for VAT collection.

¹ MET rate for oil includes a coefficient characterising the dynamics of world oil prices (Kc) linked with the average USD to Rb exchange rate for the tax period.

² Calculated as a yearly average on the basis of the monthly data of the Bank of Russia.



* According to preliminary estimates of Rosstat.

Source: Federal Tax Service of the Russian Federation; Rosstat.

Fig. 16. Dynamics of corporate profit tax receipts to the budgetary system of the Russian Federation, the net financial result of the activities of companies and enterprises and the share of loss-making organisations in 2007-2013, as % of GDP

Table 10

Dynamics of end consumption, import and VAT receipts to the budgetary system of the Russian Federation in 2008-2013, % of GDP

	2008	2009	2010	2011	2012	2013
VAT revenues (without receipts from YUKOS)	5.2	5.3	5.4	5.8	5.7	5.3
VAT on goods manufactured and sold in the territory of the Russian Federation	2.4	3.0	2.9	3.1	3.0	2.8
VAT on goods imported into Russia	2.8	2.3	2.5	2.7	2.7	2.5
Effective VAT rate ¹ , %	8.4	7.6	8.2	9.3	8.3	7.4
Imports*	22.1	20.5	21.1	21.9	22.4	22.6

* The share of imports in GDP was determined as the ratio of import values to GDP, according to Rosstat.

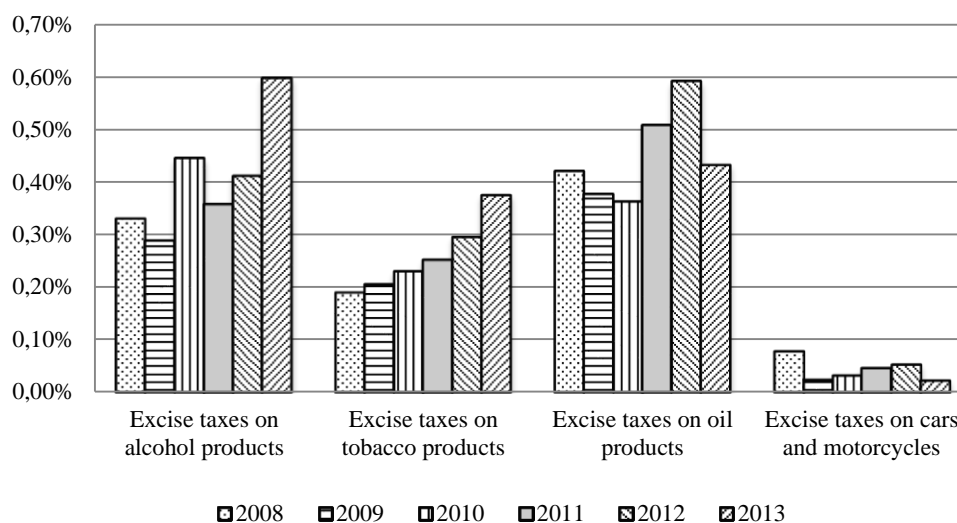
Source: Rosstat; Ministry of Finance of Russia; calculations by IEP.

In terms of GDP, excise taxes showed a growth in receipts in 2013. As seen from Fig. 17, this growth was driven by the excise taxes on alcohol and tobacco products (from 0.4 and 0.3%, in 2012, to 0.6 and 0.4% of GDP in 2013, respectively), taking the first place in the overall structure of excise taxes, outstripping those on oil products.

The growth in revenues from excise taxes on alcohol and tobacco products resulted from indexation of rates above the level of inflation while there was a relatively low elasticity of demand, by price, on these goods subject to excise tax. At the same time, according to Rosstat, the consumption of all types of alcoholic products, especially vodka, liqueurs and beer, decreased. According to data from the Tabakprom Association, consumption of cigarettes and

¹ Ratio of Vat receipts to end consumption.

filter-cigarettes decreased by 3.8% (see *Table 11*). Thus, the increase in rates fully offset the possible losses from the reduction in the tax base.



Source: Federal Tax Service of the Russian Federation.

Fig. 17. Excise tax receipts for 2008-2013 grouped by types of goods subject to excise tax, as % of GDP

Table 11

Volume of consumption of alcohol and tobacco products in the Russian Federation in 2008-2013

Type of product	2008	2009	2010	2011	2012	2013
Vodka and liqueurs, m dL	177.2	166.1	157.8	159.0	159.8	140.9
Grape and fruit wines, m dL	102.9	102.5	103.4	103.0	95.6	91.2
Cognacs, m dL	10.8	10.6	11.1	12.0	12.5	12.4
Champagne and sparkling wine, m dL	26.0	25.5	27.3	29.8	30.1	28.8
Beer, m dL	1,138.2	1,024.7	1,004.0	1,077.5	1,055.7	1,005.6
Cigarettes and filter-cigarettes, bn pieces	393.6	394.3	370.6	366.1	366.8	353.0*

* Recalculation according to preliminary data from Tabakprom for January-September 2014

Source: Rosstat.

The decrease in excise taxes on oil products was due to a decrease in receipts from “internal” excise¹ taxes. Firstly, receipts of excise taxes on diesel fuel produced in Russia decreased considerably (Rb 48.5bn in 2013 versus Rb 97.2bn in 2012). Secondly, receipts of excise taxes on petrol produced in Russia decreased slightly (Rb 161.7bn in 2013 versus Rb 169.4bn in 2012). Thirdly, excise tax collections for straight-run gasoline produced in Russia also decreased (Rb 6.9bn in 2013 versus Rb 8.9bn in 2012). By contrast, the receipts of excise taxes on oil products imported into Russia increased slightly in nominal terms.

The reduction in collections of excise taxes on transportation vehicles was partially related to the introduction of ‘utilisation duty’ on imported cars. As a result, while “internal” excise

¹ “Internal” excise taxes mean excise taxes imposed on goods manufactured in Russia and “external” excises mean excise taxes imposed on goods imported into Russia.

taxes, in general, grew from Rb 12.7bn in 2012 to Rb 15.3bn in 2013, “external” excise taxes fell from Rb 20.3bn to Rb 18.0bn.

Considering the dynamics of indebtedness on taxes and duties, it should be noted that in 2013 this grew more slowly than the inflation (*Table 12*).

Table 12

Indebtedness on tax and duties in 2008-2013

	2008	2009	2010	2011	2012	2013
Total indebtedness, as % of GDP	1.35	1.80	1.52	1.21	1.17	1.15
Total indebtedness, Rb bn	559.1	699.0	704.5	675.3	728.2	770.0
<i>Corporate profit tax</i>	107.6	144.8	176.7	160.8	175.0	165.6
<i>VAT</i>	242.9	327.1	313.2	305.0	319.7	333.5
Total indebtedness, real increase, %	85.83	114.91	92.64	90.34	101.15	99.30
<i>In corporate profit tax</i>	92.60	123.75	112.13	85.79	102.07	88.86
<i>In VAT</i>	85.87	123.80	88.01	91.77	98.33	97.96

Source: Federal Tax Service of the Russian Federation; Rosstat; calculations by the Gaidar Institute.

It is also worth mentioning that for such taxes as corporate profit tax and VAT (receipts of which decreased in 2013, both in terms of GDP and in real terms), the volumes of indebtedness also decreased in real terms. Thus, the reduction in relevant receipts to the budgetary system was not related to the growth in tax debt.