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The review provides a detailed analysis of main trends in Russia's economy in 2015. 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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Intergovernmental fiscal relations and subnational finance in Russia in 2015¹

2.3.1. Analysis of principal parameters of consolidated budgets of subjects of the Russian Federation

The revenues and expenditure structure of consolidated budgets of the Russian Federation reflects main trends in relations between various levels of public administration. *Fig. 22* presents data reflecting the share of tax revenues and expenditure of subjects of the Russian Federation, that are expressed as corresponding indicators of Russia’s consolidated budget.

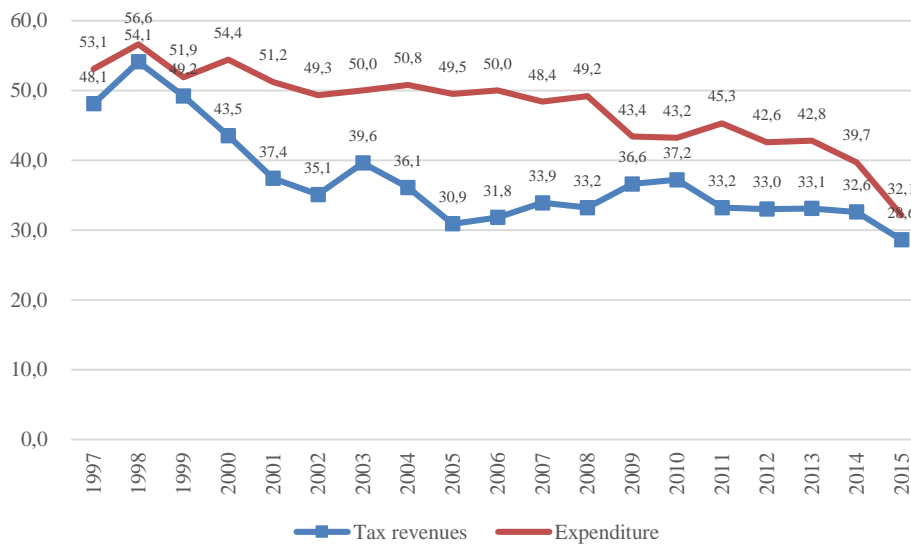


Fig. 22. Share of tax revenues and of subnational budget expenditure of Russia’s consolidated budget in 1997–2015

Note: No calculations were made for regions of the Crimean Federal Okrug.

Sources: Russia’s Federal Treasury, Gaidar Institute’s own calculations.

In 2015, the share of subnational budget expenditure of the Russian Federation consolidated budget dropped considerably from 39.7% in 2014 to 32.1% in 2015 (excluding expenditure for the Crimean Federal Okrug). The share of tax revenues shrank to a lesser extent, from 32.6% to 28.6%, during the same period. The decline in the share of subnational budget expenditure of the total volume of Russia’s consolidated budget expenditure is explained largely by faster-than-normal growth of the federal budget expenditure (by 5.6% in nominal terms). The federal budget expenditure increased first of all for ‘General National Issues’ (by 18.6%), ‘National Defense’ (by 28.3%), ‘Housing and Utilities’ (by 20.5%), ‘Social Policy’ (by 23.5%), ‘Municipal and Public Debt Servicing’ (by 24.8%). Subnational budget expenditure increased in the period under review by 1.4% (excluding expenditure for the Crimean Federal Okrug).

¹ Authors of this section: Authors of this section: Alaev A. – Gaidar Institute for Economic Policy, Mamedov A. – Gaidar Institute for Economic Policy, Fomina E. – Gaidar Institute for Economic Policy.

Let us analyze in detail the revenue side of subnational budgets. The dynamics of principal components of consolidated budget revenues of subjects of the Russian Federation are shown in *Table 18*.

Table 18

**Consolidated budget revenues of subjects of the Russian Federation
in 2008–2015**

	Volume of revenues (in nominal terms), rubles in billions								Growth in real terms, %			
	2008	2009	2010	2011	2012	2013	2014	2015	2009/ 2008	2015/ 2008	2014/ 2013	2015/ 2014
Revenues, total	6.196	5.924	6.537	7.644	8.064	8.165	8.743	9.191	-12.1	-17.2	-3.8	-8.6
Tax and nontax revenues	4.912	4.243	4.980	5.827	6.385	6.588	7.141	7.585	-20.6	-13.8	-2.7	-6.4
<i>Including tax revenues:</i>	4.384	3 792	4.520	5 273	5.800	5.967	6.461	6.890	-20.5	-12.3	-2.8	-6.0
profit tax	1.752	1.069	1.520	1.928	1.980	1.720	1.962	2.099	-43.9	-33.1	2.4	-5.2
personal income tax	1.666	1.665	1.790	1.996	2 261	2.499	2 679	2.788	-8.1	-6.6	-3.7	-7.9
Taxes on total income	161	152	179	215	272	293	314	346	-13.6	19.8	-3.8	-2.7
property taxes	493	570	628	678	785	901	955	1 067	6.1	20.7	-4.8	-1.3
excise duties	189	246	327	372	442	491	479	484	19.2	42.6	-12.4	-10.5
Transfers	1.131	1.486	1.398	1.644	1.624	1.515	1.545	1.538	20.7	-24.1	-8.4	-18.5
Other revenues	153	195	159	173	56	62	57	68	17.4	-75.1	-17.4	4.8

Note: No calculations were made for regions of the Crimean Federal Okrug.

Sources: Russia's Federal Treasury, Gaidar Institute's own calculations.

The data in *Table 18* show that in 2015 consolidated budget revenues of subjects of the Russian Federation dropped in real terms by 8.6% from the level seen in 2014. The 2015 decline in real terms in the total level of revenues was driven by a fall in retail trade turnover (a 10% decline below the level seen in 2014), in the volume of fixed investment (-8.4%), that is, an economic slowdown that was reflected in the 3.7% fall of GDP. Furthermore, inflation rate reached 12.9% in 2015, the highest since 2003, which affected inevitably the dynamics of fiscal indicators in real terms.

The above listed adverse factors dragged down in real terms all the principal sources of revenues of subnational budgets. The personal income tax fell the deepest among major types of taxes, driven by negative dynamics of revenues for two consecutive years (-3.8% in 2014, -7.9% in 2015). The structure of tax revenues was changed accordingly: the share of the personal income tax was down from 41.5% to 40.5%, whereas the share of profit tax – another source of budget revenues – increased slightly from 30.4% to 30.5%. Note that in 2015 profit tax revenues dropped by 5.2% in real terms, too. Revenues from aggregate income taxes and property taxes declined less, by 2.7% and 1.3% respectively. Subnational budget revenues from excise duties continued to fall at fast pace (a decline of 12.4% in 2014 and of 10.5% in 2015).

In 2015, nontax revenues dropped on an annualized basis (a decline in real terms of 9.5%). As a result, the share of this source of revenues of the total structure of consolidated budget revenues of subjects of the Russian Federation shrank inconsiderably from 7.8% to 7.6%. It is significant that intergovernmental fiscal transfers in 2015 decreased in real terms by 18.5%

amid falling tax and nontax revenues of consolidated budgets of subjects of the Russian Federation.¹

Let us analyze tax and nontax revenues at the regional level (see *Table 19*).

Table 19

Grouping Russia's regions according to changes in major types of tax and nontax revenues of consolidated budgets of subjects of the Russian Federation in 2015

	Change in major types of tax and nontax revenues of consolidated budgets of subjects of the Russian Federation					
	growth by more than 25%	growth by 10 to 25%	growth by less than 10%	decline by less than 10%	decline by 10 to 25%	decline by more than 25%
in nominal terms						
Tax and nontax revenues, total	2	16	49	15	1	0
Profit tax	15	16	15	12	15	10
Personal income tax	0	4	56	23	0	0
in real terms						
Tax and nontax revenues, total	2	0	9	48	24	0
Profit tax	9	6	10	19	21	18
Personal income tax	0	0	2	41	40	0

Notes: 1. Arkhangelsk Region and Nenets Autonomous Okrug are presented as a single subject of the Russian Federation. 2. No calculations were made for regions of the Crimean Federal Okrug.

Sources: Russia's Federal Treasury, Gaidar Institute's own calculations.

The presented data show that the situation with own-source revenues of subnational budgets remained as much challenging as it was in 2013–2014 in most Russia's regions.² In 2015, 72 regions (71 regions in 2014) saw their own-source revenues of subnational budgets decline in real terms, including 48 regions facing a decline of about 10%. Profit tax revenues dropped across the country, and 18 regions saw their profit tax revenues fall by more than 25% in real terms. The deepest fall in profit tax revenues was recorded in the Republic of Tyva (-50.6%), Chechen Republic (-56%), Republic of Mordovia (-76.1%). Overall, the profit tax dropped in real terms in 58 regions. The rest 25 regions saw their profit tax revenues grow in real terms, and in nine subjects of the Russian Federation this tax increased by more than 25%, namely Tambov Region (29.3%), Republic of Karelia (50.1%), Murmansk Region (34.8%), Kirov Region (32.2%), Chelyabinsk Region (27.2%), Republic of Buryatia (108.6%), Magadan Region (49.1%), Sakhalin Region (64.0%), Chukotka Autonomous Okrug (81.1%). Profit tax revenues in the Sakhalin Region increased considerably as a result of implementation of oil and gas projects Sakhalin-1 and Sakhalin-2 as part of production sharing agreements. Profit tax revenues in the Republic of Buryatia soared due to large export-oriented manufacturing facilities (first of all, the Ulan-Ude Aviation Plant). Accordingly, depreciation of the Russian ruble pushed up currency proceeds, and the profit tax charged to the regional budget was on the rise accordingly. Only two subjects of the Russian Federation saw their own-source revenues grow up by more than 25%: Sakhalin Region (31.4%) and Chukotka Autonomous Okrug (28.3%). Revenues from the personal income declined in almost all the regions (81). A minor growth in the personal income tax was recorded only in Belgorod Region (3.7%) and Republic of Mordovia (8.2%).

¹ Detailed analysis of the dynamics of federal budget transfers is made below.

² In 2014, 71 subjects of the Russian Federation saw own revenues fall in real terms (51 subjects in 2013). Profit tax revenues dropped in real terms by more than 25% in four regions in 2014 and in 23 regions in 2013.

Let us next analyze changes to the expenditure side of consolidated budgets of subjects of the Russian Federation in 2015 (see *Table 20*).

Overall, given a decline, in real terms, of both tax/nontax revenues and federal budget transfers, and with the debt accumulated by a few subjects of the Russian Federation, Russian sub-national authorities conducted a conservative fiscal policy: total volume of expenditure increased only by 1.4% in nominal terms, resulting in a decline of 10.2%, as adjusted for inflation.

Table 20

**Consolidated budget expenditure of subjects of the Russian Federation
in 2014–2015**

	As % of total		As % of GDP		Growth, %	
	2014	2015	2014	2015	in nominal terms	in real terms
General National Issues	6.2	6.4	0.74	0.75	4.5	-7.5
National Security and Law Enforcement	1.1	1.1	0.14	0.13	0.5	-11.0
National Economy	18.8	19.7	2.26	2.32	6.1	-6.0
Including:						
agriculture and fishery	3.0	3.3	0.35	0.39	13.1	0.1
Transport	4.1	4.2	0.49	0.50	4.2	-7.7
Public Road System (Road Funds)	7.6	7.8	0.91	0.92	4.3	-7.6
other issues related to the national economy	2.3	2.4	0.28	0.29	4.8	-7.1
Housing and Utilities	9.6	9.0	1.16	1.06	-5.1	-15.9
Environmental Protection	0.3	0.2	0.03	0.03	-12.7	-22.7
Education	26.2	26.1	3.15	3.07	0.8	-10.7
Including:						
pre-primary education	7.0	7.3	0.84	0.86	5.3	-6.7
general education	15.0	14.6	1.80	1.72	-0.9	-12.3
secondary vocational education	2.1	2.0	0.25	0.24	-2.1	-13.3
other issues related to education	1.4	1.3	0.17	0.15	-8.6	-19.0
Culture, Cinematography	3.4	3.3	0.41	0.39	-2.5	-13.7
Healthcare	13.9	14.3	1.66	1.69	4.6	-7.4
Social Policy	15.1	15.8	1.82	1.86	5.8	-6.3
Physical Culture and Sports	2.0	2.0	0.24	0.24	1.3	-10.3
Mass Media	0.5	0.5	0.05	0.05	2.9	-8.9
Municipal and public debt servicing	1.3	1.6	0.16	0.19	22.4	8.4
Expenditure, total	100.0	100.0	12.01	11.79	1.4	-10.2

Sources: Russia's Federal Treasury, Gaidar Institute's own calculations.

Analysis of changes in various line items of budget expenditure in regions reveals the following. In 2015, the annualized expenditure for 'Environmental Protection' (a decline of 12.7% in nominal and of 22.7% in real terms) declined the most. However, these expenditure left the total expenditure structure unchanged because the share of the former stood at 0.03%. The structure of expenditure was changed due to a decline in expenditure for 'Housing and Utilities' (down by 15.9% in real terms). Regions' policy aimed at cutting expenditure for 'Housing and Utilities' was a measure to counter fiscal disequilibrium, budget deficit and large debts. Note that the downtrend towards expenditure for the housing and utilities sector is likely to continue in the near term. For example, in 2016 federal budget allocations for the foregoing expenditure are planned to be cut by 47.2% from the value seen in 2015. Running short of their own-source revenues and facing cuts on federal co-financing, regions are unlikely to be able to spend more on 'Housing and Utilities'. Overall, the decline in expenditure in real terms can be seen for all the expenditure line items, except for 'Municipal and Public Debt Servicing'. These expenditure increased first of all because the volume of public and municipal debt rose by 11% and 9% respectively (see below for more details). However, the growth in expenditure for debt servicing slowed down inconsiderably as a result of replacement of a share of commercial debts with

budget loans at an extremely low interest rate¹ (the volume of budget loans increased by 24.9% as of 2015 year-end). The 2015 year-end expenditure for ‘Municipal and Public Debt Servicing’ of the total expenditure structure rose from 1.3% in 2014 to 1.6%, by 0.03 percentage points of GDP: from 0.16% to 0.19% of GDP.

Overall, expenditure increased in nominal terms for all the line items, except ‘Housing and Utilities’, ‘Environmental Protection’, ‘Culture and Cinematography’. Efforts were made to increase inconsiderably expenditure for ‘National Economy’ as a whole (6.1%) and the subitems related thereto. In particular, expenditure for ‘Transport’ and ‘Public Road System (Road Funds)’ increased by 4.3% and 4.8% respectively. ‘Agriculture and Fishery’ saw the biggest growth in expenditure not only in nominal terms (by 13.1%) but also in real terms (by 0.1%).

Let us next consider the dynamics of principal (not only expenditure) parameters of consolidated budgets of subjects of the Russian Federation, as a percentage of GDP (see *Table 21*).

Table 21

Dynamics of revenues and expenditure of consolidated budgets of subjects of the Russian Federation in 2008–2015, as % of GDP

	2008	2009	2010	2011	2012	2013	2014	2015
Revenues	15.02	15.27	14.12	12.80	12.05	11.49	12.30	12.93
Including:								
profit tax	4.24	2.76	3.28	3.23	2.96	2.42	2.76	2.95
personal income tax	4.04	4.29	3.87	3.34	3.38	3.52	3.77	3.92
Federal budget transfers	2.65	3.81	2.98	2.42	2.15	2.13	2.17	2.16
Expenditure	15.15	16.12	14.33	12.86	12.47	12.39	12.97	13.17
Deficit (-) / Surplus (+)	-0.13	-0.85	-0.22	-0.06	-0.42	-0.90	-0.67	-0.24
For reference: GDP, rubles in billions	41.277	38.807	46.309	59.698	66.927	71.055	77.893	80.413

Note: No calculations were made for regions of the Crimean Federal Okrug.

Sources: Russia’s Federal Treasury, Gaidar Institute’s own calculations.

2009 saw the biggest volume as a percentage of GDP of both revenues and subnational budget expenditure in the period of 2008–2015. Revenues rose in 2009 as a result of considerable growth (by 35.2%) of federal budget transfers, and expenditure increased due to the implementation of measures as part of an anti-crisis program (both at the federal level – using subsidies and subventions – and at the regional level). However, tax revenues in regions dropped in 2009 mostly as a result of declining profit tax revenues. It is therefore more appropriate to take the pre-crisis year of 2008 as the comparative base (recessionary trends in the fiscal sector were not visible until the last few months of 2008).

The data in *Table 21* show that in 2015 revenues from the personal income tax, profit tax, federal budget transfers did not reach levels recorded in 2008. Sources of revenues such as the profit tax and intergovernmental fiscal transfers were the farthest behind the 2008 levels. However, expenditure were much less in volume: 13.2% of GDP in 2015 against 15.2% of GDP in 2008.

In 2015, both revenues and expenditure increased as a percentage of GDP from 2014, by 0.63 and 0.2 percentage points respectively. The growth was observed for two consecutive years. Note that total expenditure and revenues increased in volume while they fell in real terms. The dynamics was observed amid slowing down GDP growth rates, with a 3.7% fall in 2015. The processes suggest that the economy is shrinking faster than changes in the principal parameters of subnational budgets of subjects of the Russian Federation. As a result, the deficit in 2015 was reduced in volume from 0.67% to 0.24% of GDP. Furthermore, in 2015, 36 regions

¹ 0.1% per annum.

reduced their expenditure even in nominal terms compared with the level recorded in 2014. Expenditure were reduced the most in the Amur Region (-13.8%), Yamalo-Nenets Autonomous Okrug (-13.2%) and Pskov Region (-10.6%).

Let us analyze in detail the situation with execution of consolidated budgets of subjects of the Russian Federation (deficit/surplus) in various regions (see *Table 22*).

Table 22

Execution of (deficit/surplus) consolidated budgets of subjects of the Russian Federation in 2008–2015

Year	Number of subjects of the Russian Federation that executed their budgets	
	with a deficit	with a surplus
2008	45	39
2009	62	21
2010	63	20
2011	57	26
2012	67	16
2013	77	6
2014 ¹	74	9
2015 ¹	75	8

¹ Excluding regions of the Crimean Federal Okrug.

Sources: Russia's Federal Treasury, Gaidar Institute's own calculations.

The data in *Table 22* show that in 2015 consolidated budgets of subjects of the Russian Federation remained nearly as balanced in terms of quantity of regions as they were in 2014. Seventy five subjects of the Russian Federation ran a budget deficit in 2015 (74 in 2014). At the same time, five subjects (Lipetsk Region, Kaliningrad Region, Republic of Ingushetia, Yamalo-Nenets Autonomous Okrug, Republic of Altai) ran a budget surplus in 2014 and a budget deficit in 2015.¹ Three of the five regions increased their expenditure above the Russia's average level (1.4% in nominal terms).

Overall, in 2015 the parameters of consolidated budgets of subjects of the Russian Federation continued to be affected by adverse macroeconomic factors. Cost optimization opportunities continued to be sought at the subnational level. As a result, in 2015 expenditure were maintained at the year-earlier level, with a minor increase for 'National Economy'. The situation with revenues is more complex, first of all, because of the prevailing downtrend towards personal income and revenues from the personal income tax. Profit tax revenues were kept at a steady level largely due to export-oriented industries. The financial standing of Russia's regions is mixed in general. For instance, subnational budget deficit in 2015 dropped by 2.5 times due to a surplus of Rb 144.3bn in Moscow (a deficit of Rb 54.3bn in 2014) rather than because of financial rehabilitation across the regions. The downtrend towards federal budget transfers had an adverse effect on the volume of revenues in regions, too (see below for details).

2.3.2. Financial support from the federal budget

In 2015, total volume of intergovernmental fiscal transfers to consolidated budgets of subjects of the Russian Federation (including the Crimean Federal Okrug) contracted both in nominal terms (-0.2%) and in real terms (-11.6%) from 2014 (see *Table 23*).

Overall, the volume of financial support shrank for almost all types of transfers, except 'Other intergovernmental fiscal transfers' (hereinafter – "other IBTs") that increased by 67.4%

¹ Excluding regions of the Crimean Federal Okrug.

in real terms at 2015 year-end as a result of greater support for the development of the public road system as part of the Transport System Development State Program. In 2015, Rb 83.4bn (Rb 3.7bn in 2014) were allocated for this purpose.

Table 23

Federal budget transfers to subjects of the Russian Federation in 2009–2015*

	2009		2013		2014		2015		Growth %, 2015 from 2014	
	rubles in bil-lions	as % of to-tal	rubles in bil-lions	as % of to-tal	rubles in bil-lions	as % of total	rubles in bil-lions	as % of to-tal	in nomi-nal terms	in real terms
Transfers to regions, total	1.480,3	100	1.487,9	100	1.607,0	100	1.603,6	100	-0.2	-11.6
Grants	578.3	39.1	609.1	40.9	774.7	48.2	650.9	40.6	-16.0	-25.6
Including:										
equalization transfers	374.0	25.3	418.8	28.1	439.8	27.4	487.7	30.4	10.9	-1.8
grants for measures to ensure budget balance	191.9	13.0	177.8	12.0	334.9	20.8	163.2	10.2	-51.3	-56.8
Subsidies	530.0	35.8	515.6	34.7	409.9	25.5	400.2	25.6	-2.4	-13.5
Including:										
subsidies to develop the national economy	214.3	14.5	268.3	18.0	241.9	15.1	258.2	16.1	6.7	-5.5
Subventions	284.4	19.2	273.7	18.4	308.2	19.2	336.6	21.0	9.2	-3.3
Other intergovernmental fiscal transfers	87.6	5.9	89.5	6.0	114.2	7.1	215.9	13.5	89.1	67.4

* Unlike the previous paragraph, here volumes of transfers include the Crimean Federal Okrug.

Sources: Russia's Federal Treasury, Gaidar Institute's own calculations.

The structure of transfers was changed drastically due to considerable growth of other IBTs and cuts on other types of transfers. For instance, the share of other IBTs increased from 7.1% to 13.5% while the share of subsidies and subventions rose from 25.5% to 25.6% and from 19.2% to 21.0% respectively. In real terms, the volume of subsidies dropped by 13.5% while subventions decreased in volume by 3.3%. Overall, the decline in the volume of subsidies (both in nominal and real terms) was offset by a sharp hike of other IBTs. The volume of subventions is largely determined by the size of indexation of social benefits, and its growth rate tends to slow down. In fact, subnational budgets have not become less reliant in terms of exercising delegated powers. Although transfers have been reduced in volume, there is still a great number of subsidies with overdetailed spending of budget funds, as well as with considerably wide scope of delegated powers. For instance, 86 subsidies were planned for 2015 (92 subsidies in 2014). However, the 2015 year-end subsidies increased in number to 96 under the amended federal budget law. The mechanism of subsidization is more efficient to ensure proper spending of budget funds than to reach the target, a great number of subsidies facilitates growth of administrative costs on monitoring the spending of subsidies. Under the state sub-program called "Enhancing the system of allocation and reallocation of financial resources between the levels of the budget system of the Russian Federation", federal budget subsidies to budgets of subjects of the Russian Federation are to be reduced in number on a step by step basis, with their number set to be optimized (consolidated) to 70 at Stage I (2013–2015) and to 42 at Stage II (2016–2020).

Note that total number of subventions increased from 18 in 2014 to 21 in 2015. The number of subventions increased on the back of consolidation of nine subventions into a single subvention. The number of subventions increased partly due to delegation of certain powers to budgets of the Republic of Crimea and of the federal city of Sevastopol.

Reducing the share of targeted financial support is a priority of the fiscal policy.¹ The share of grants was formally reduced from 48.2% to 40.6% in 2015, which, however, corresponds to the target value stipulated in the Guidelines of the Fiscal Policy for 2016–2018 (41.2% in 2015, 45.1% in 2016). In 2015, grants were reduced in volume because, first, financing under the state program called “Creation of conditions for efficient and prudent management of regional and municipal finance, enhancement of sustainability of budgets of subjects of the Russian Federation” was completed, whereby Rb 167bn were allocated in 2014 (excluding expenditure as partial compensation for extra expenditure to increase public sector wages). In 2015, as little as Rb 62.7bn were allocated for the implementation of the state program called “Development of federative relations and creation of conditions for efficient and prudent management of regional and municipal finances”. Second, in 2015 the volume of financial support as partial compensation for extra expenditure to increase public sector wages was cut in half to Rb 59.8bn, as a result of which the share of grants allocated in support of measures aimed at ensuring budget equilibrium in the structure of transfers shrank from 20.8% to 10.2% (by Rb 171.7bn).

In general, the decline in the share of grants allocated in support of measures aimed at ensuring budget equilibrium is a positive factor, because the grants are much less transparent than equalization transfers that in 2015 saw the least negative dynamics (-1.8%) compared with other types of transfers. However, the federal government’s policy aimed at a broader application of the budget loan instrument instead of equalization grants raises some questions, because regions will have to repay budget loans. Should Russia’s economy see no improvements in the years to come, there may be risks of regions being unable to repay their federal budget loans, in which case the federal government will have to extend new budget loans to ensure that old budget loans are repaid, or they will have to decide on writing off (or “freezing”) outstanding budget loans. Such a situation will deteriorate the transparency of intergovernmental fiscal relations, and it will inevitably deteriorate the fiscal discipline of regional government authorities.

Analysis of the process of allocation of federal government transfers to regions should consider the effect of federal support on differentiation of revenues of subjects of the Russian Federation, measuring the equalization performance of financial support from the federal budget (see *Table 24*).

Table 24

**Variation coefficient of consolidated budget revenues in regions
(per capita, with consideration for budget expenditure index) in 2008–2015, %**

Year	Tax revenues	Tax revenues and equalization transfers	Tax revenues, grants, 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
2014	59.0	51.2	49.9
2015	66.1	60.3	56.0

Note: No calculations were made for regions of the Crimean Federal Okrug.

Sources: Russia’s Federal Treasury, Ministry of Finance, Gaidar Institute’s own calculations.

The data in *Table 24* show that differentiation of subnational budget revenues increased in 2015. The coefficient of tax revenues of consolidated budgets of subjects of the Russian Federation was up from 59% to 66.1%, reaching the level seen in 2012. With equalization

¹ See, e.g., the Guidelines of the Fiscal Policy of the Russian Federation for 2016 and for the Planning Period of 2017–2018.

transfers, the variation coefficient of budget revenues in regions increased from 51.3% in 2014 to 60.3% in 2015, and with all the allocated grants and subsidies, it increased in 2015 to 56% (49.9% in 2014). Differentiation of regional revenues in 2015 increased largely because the profit tax was up in a few subjects of the Russian Federation, which was related to export-oriented industries. For instance, the profit tax rose by more than 25% from 2014 in 15 regions (in nominal terms) and in 9 regions (in real terms).

2.3.3. Debt policy at regional level

Table 25 shows data on the dynamics of volumes of public debt owed by subjects of the Russian Federation and municipal debt in 2010–2015. The Table shows that in 2015 the year-to-date growth in the debt owed by regional budgets was nearly 11% in nominal terms (for comparison: 28.2% in 2013, and 20.3% in 2014), excluding 14% in Moscow and Moscow Region (37.9% in 2013, 23.8% in 2014). The volume of debt owed by municipal budgets rose by 8.9% during the same period (17.8% in 2013, 8.4% in 2014). In December 2015, the debt of subjects of the Russian Federation was equal to or less than 6% over the volumes recorded as of December 1st, which differs notably from the practice of 2012–2014, when the year-end debt increased by 15–20%.

Table 25

Subnational budgets' public and municipal debt in nominal terms in 2011–2015, rubles in billions

	As of 2011 year-end		As of 2012 year-end		As of 2013 year-end		As of 2014 year-end		As of 2015 year-end	
	volume, rubles in billions	growth, %	volume, rubles in billions	growth, %	volume, rubles in billions	growth, %	volume, rubles in billions	growth, %	volume, rubles in billions	growth, %
Total in regional budgets	1172	7	1355	16	1738	28	2090	20	2319	11
Total in regional budgets (excluding Moscow and Moscow Region)	832	28	1069	28	1474	38	1825	24	2079	14
Total in municipal budgets	216	27	245	13	289	18	313	8	341	9

Sources: Russia's Ministry of Finance, Rosstat, Gaidar Institute's own calculations.

Regional debt growth rates slowed down considerably in 2015, following the earlier downturn at the municipal level (municipal debt growth rates slowed down notably as early as 2014). 2015 saw debt growth rates slow down at the subnational level largely as a result of curtailing growth in expenditure that increased in nominal terms by mere 1.4% year-over-year (to compare, 5.6% in 2013 and 6.2% in 2014) amid favorable dynamics in nominal terms of tax and nontax revenues of regional consolidated budgets: a growth of 6.2% (however, a decline of 5.9% in real terms). As a result, subjects of the Russian Federation ran a consolidated budget deficit of 0.3% of GDP in 2015 against 0.6% of GDP in 2014 and 0.8% of GDP in 2013.

Overall, the dynamics of regional debt in 2011–2015 revealed a steady uptrend from 2.0% of GDP as of 2011 year-end to 2.9% of GDP as of 2015 year-end¹ (see *Table 26*). The volume

¹ The presented data rely on Rosstat's data calculated using a new method for GDP in 2011–2015.

of regional debt is estimated to be insignificant for the budget system and the economy as a whole. Given the slowdown in 2015, the regional debt does not yet pose a serious macroeconomic risk at the national level. However, a more correct assessment of the situation with the regional debt and with related budget risks requires analysis by subject of the Russian Federation.

Table 26

**Volumes of public and municipal debt of subnational budgets
in 2011–2015, as % of GDP**

	As of 2011 year-end		As of 2012 year-end		As of 2013 year-end		As of 2014 year-end		As of 2015 year-end	
	as % of GDP	growth, percentage points of GDP	as % of GDP	growth, percentage points of GDP	as % of GDP	growth, percentage points of GDP	as % of GDP	growth, percentage points of GDP	as % of GDP	growth, percentage points of GDP
Total to budgets in regions	2.0	-	2.0	0.1	2.4	0.4	2.7	0.2	2.9	0.2
Total for regional budgets (excluding Moscow and Moscow Region)	1.4	-	1.6	0.2	2.1	0.5	2.3	0.3	2.6	0.2
Total for municipal budgets	0.4	-	0.4	0.0	0.4	0.0	0.4	0.0	0.4	0.0

Sources: Russia's Ministry of Finance, Rosstat, Gaidar Institute's own calculations.

Note that previously only two subjects of the Russian Federation, namely Moscow and Moscow Region made up the major share of regional debt (as of January 1, 2011, they accounted for 40.7% of the total regional debt), whereas as of January 1, 2016 they accounted for about 10% of the total debt. This reflects the recently mounting problem with executing budgets at the regional level, which prompted not a few but many regions to raise funds to cover their current expenses rather than to finance investment.

The data on regions reveal that many subjects of the Russian Federation increased their debt volumes in 2015 (see Table 27). At the same time, it is significant that there was redistribution of regions towards growth in the number of subjects of the Russian Federation with a more moderate (less than 15% a year) growth in indebtedness, as well as the number of regions that reduced the volume of their debt increased notably (from 8 in 2014 to 16 in 2015).

The 2015 debt structure of Russia's regions was changed towards considerable growth in the volume of federal budget loans (see Fig. 23). The share of budget loans increased to 34.9%, by 3.9 percentage points above the value seen earlier in 2015. Outstanding budget debts increased as the share of commercial loans and government securities shrank by 0.9 and 2.5 percentage points respectively. In absolute terms, the volume of the commercial share of debts owed by subjects of the Russian Federation (government securities and commercial loans) shrank by about Rb 56bn. Thus, a trend unfolded towards replacing commercial loans with budget loans across regional budgets, reflecting region-focused priorities of the federal government's current policy.

Table 27

**Dynamics of public debt owed by budgets of subjects
of the Russian Federation in 2008–2015**

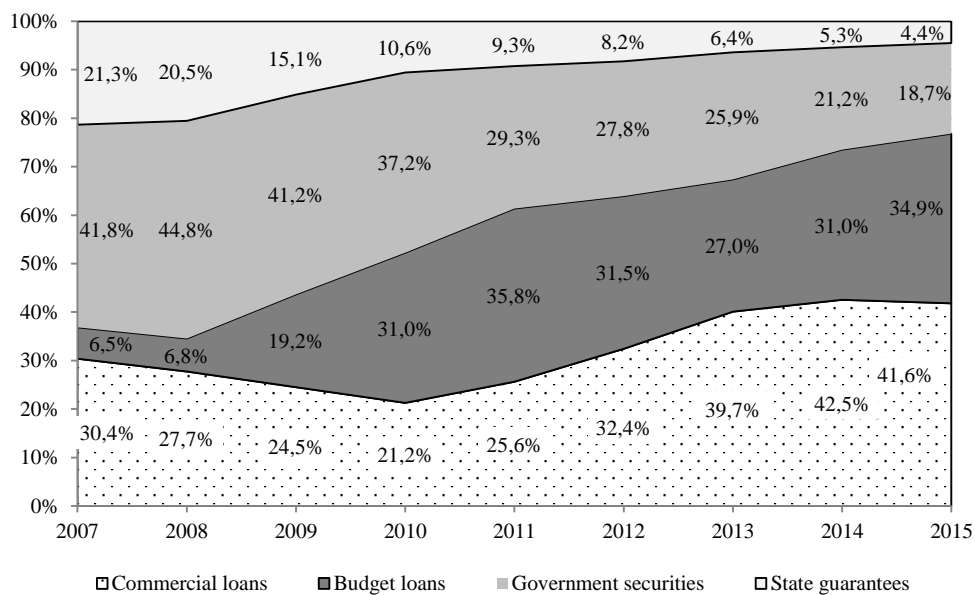
	Dynamics of public debt owed by subjects of the Russian Federation in a certain period (in nominal terms), number of subjects of the Russian Federation
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	growth by more than 50%	growth by 15 to 50%	growth by less than 15%	decline by less than 15%	decline by 15 to 50%	decline 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
2014	12	44	18	5	1	2
2015	7	27	31	15	1	0

Note: Arkhangelsk Region and Nenets Autonomous Okrug are presented as a single subject of the Russian Federation; the presented data exclude the Crimean Federal Okrug (to ensure full compatibility at various years).

Sources: Russia’s Ministry of Finance, Gaidar Institute’s own calculations.

However, the situation differs largely from one region to another, which may necessitate further growth in the volume of budget loans (for regions that continue accumulating commercial debts). This creates risks of even heavier reliance of subjects of the Russian Federation on federal budget loans, which in turn would build up political pressure on Russia’s Ministry of Finance over making a decision on writing off or “freezing” repayments. Although such a measure seems to be simple in terms of tackling the problem of debts accumulated by some subjects of the Russian Federation, it can substantially undermine the fiscal discipline at the regional level and deteriorate the problem of soft fiscal constraints of subnational authorities in Russia.



Note: The presented data exclude the Crimean Federal Okrug (to ensure full compatibility at various years).

Fig. 24. Structure of public debt owed by subjects of the Russian Federation in the period of 2007–2015

Fig. 23 shows a breakdown of subjects of the Russian Federation according to the dynamics of debt burden and growth rates in debt volumes in 2015. Subjects of the Russian Federation located in II quadrant are more vulnerable in terms of fiscal sustainability. This group includes 28 regions where the level of debt burden (the ratio of debt amount to the volume of regional budget revenues, excluding transfers) and growth rates of debt volumes in 2015 were higher than Russia’s average values (excluding Moscow). In terms of general values (excluding debt structure), the following regions faced the most challenging situation: Republic of Mordovia

(in 2015, the debt volume increased by 26.2%, the level of debt burden was 182.5% as of January 1, 2016), Smolensk Region (+20.8% and 121.4%), Republic of Khakassia (+53.6% and 116.8%), Republic of Ingushetia (+21.5% and 113.3%), Jewish Autonomous Region (+41.3% and 109.5%), Zabaykalskiy Territory (+32.3% and 107.2%), Republic of Mariy-El (+21.9% and 106.1%).

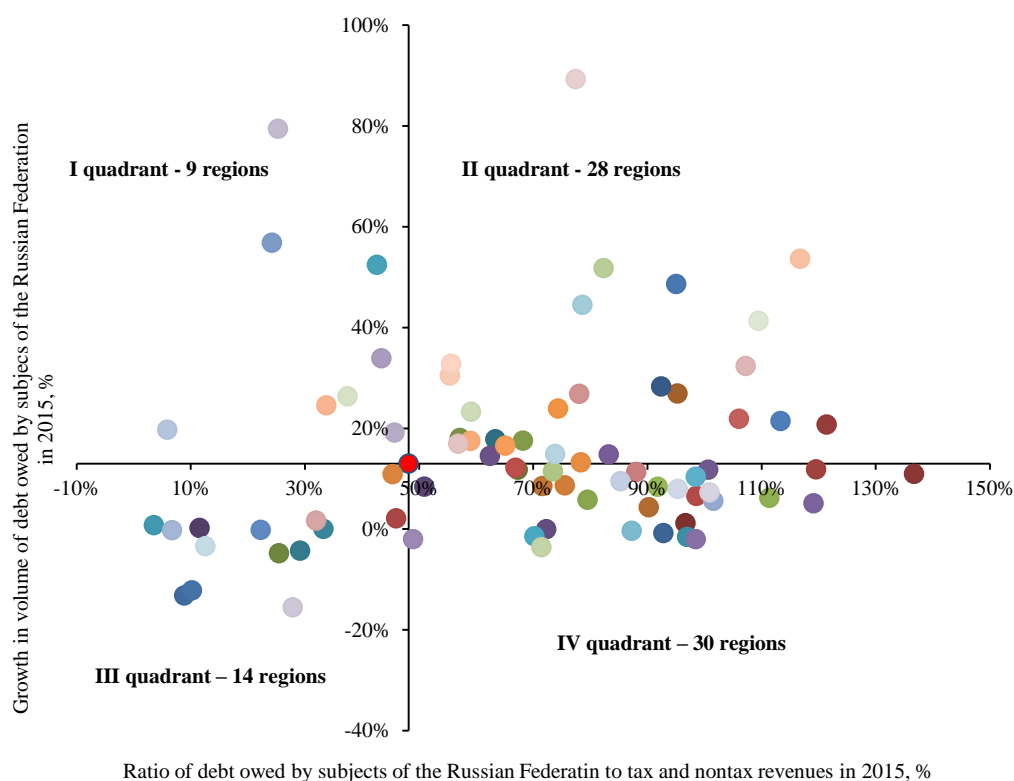


Fig. 24. Debt burden and change in volumes of public debt owed by subjects of the Russian Federation in 2015

Notes: 1. The axes intercept at the point where debt burden and growth of volume of debt owed by subjects of the Russian Federation in 2015 take on Russia's average values (48.2% and 13% respectively, excluding Moscow). 2. The figure shows Tyumen Region (0.89%, 256.9%), Republic of Mordovia (182.5%, 26.2%).
Sources: Russia's Federal Treasury, Ministry of Finance, Gaidar Institute's own calculations.

However, to assess sustainability of regional budgets, it is important to consider not only the general dynamics of debt but also the structure thereof. Analysis of the structure of indebtedness of the subjects of the Russian Federation located in II quadrant shows that the most challenging situation unfolded in 9 of 28 regions, where commercial loans and bonded loans increased in volumes in 2015. The rest 19 subjects increased the volume of their regional debt due to budget loans and/or state guarantees. Note that in 2015 a few subjects of the Russian Federation increased their commercial debt despite considerable volumes thereof in the regional debt structure as early as 2015. Analysis of the 2015 data shows that six regions faced the most alarming situation: Magadan Region (in 2015, the outstanding commercial debt increased by 95% in nominal terms; the share outstanding commercial debt of the total regional debt was 88% as of the beginning of 2015), Republic of Khakassia (+73%; 71%), Republic of Mariy-El (+55%;

58%), Kurgan Region (+53%; 73%), Ivanovo Region (+52%; 75%), Novosibirsk Region (+38%; 74%).