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**RUSSIAN ECONOMY IN 2016  
TRENDS AND OUTLOOKS  
(ISSUE 38)**

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The review provides a detailed analysis of main trends in Russian economy in 2016. The paper contains 6 big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and budget spheres; financial markets; 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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□ Gaidar Institute, 2017

2.2.4. Description of main off-budget funds<sup>1</sup>

In the following, we analyze the budget execution of the two main (in terms of size and value for the budget system) public off-budget funds: The Pension Fund of Russia (hereinafter – PFR) and The Federal Compulsory Medical Insurance Fund (hereinafter – FCMIF).

***Pension Fund of Russia***

The PFR’s revenues amounted to RUB 7625bn, or 8.9% of GDP, in 2016. The year-over-year PFR’s revenues increased 7.0% in nominal terms and 1.5% in real terms (or by 0.32 percentage points of GDP). The PFR expenditure amounted to RUB 7829bn (or 9.1% of GDP). The PFR’s expenditure increased 2.1% in nominal terms and decreased by 3.1% in real terms (or by 0.9 percentage points of GDP). While the Pension Fund’s budget was RUB 543.6bn in deficit (or 0.65% of GDP) in 2015, it was notably reduced to RUB 204.4bn (or 0.24% of GDP) in 2016 on account of higher-than-expected growth of revenues.

We now consider more carefully the PFR revenue components in 2016 (see *Table 30*).

*Table 30*

**Pension Fund of Russia’ revenues in 2015–2016, rubles in millions**

	2015	2016	Revenue nominal growth in 2016, % change – year to year	Revenue real growth in 2016, % change – year to year
<b>Revenues, total</b>	<b>7,126,634</b>	<b>7,625,248</b>	<b>107.0</b>	<b>101.5</b>
including				
Tax and nontax revenues	4,021,467	4,258,412	105.9	100.5
Compulsory social insurance contributions	3,878,731	4,144,434	106.9	101.4
Uncompensated receipts	3,105,167	3,366,836	108.4	102.9
Federal budget transfers to the budget of the Pension Fund of Russia	3,091,683	3,355,303	108.5	103.0
including				
Compulsory pension insurance transfers from the federal budget to the budget of the Pension Fund of Russia	814,181	988,588	121.4	115.2
including				
Federal budget transfers to the budget of the Pension Fund of Russia for the notional pension capital valorization	680,098	676,878	99.5	94.4
Federal budget transfers to the budget of the Pension Fund of Russia as compensation for the insurance component due to adding non-qualifying periods to the pensionable service	9,065	12,079	133.2	126.4
Federal budget transfers to the budget of the Pension Fund of Russia as compensation for shortfalls in the Pension Fund of Russia’s budget revenues due to the establishment of reduced rates on compulsory pension insurance contributions	342,898	392,037	114.3	108.5

*Sources:* the data for 2015 are based on Federal Law of October 31, 2016 No. 378-FZ “On Execution of the Budget of the Pension Fund of Russia in 2015”, the data for 2016 are based on the data released by the Federal Treasury: Federal Treasury of Russia, Russian public off-budget funds’ budget as at January 1, 2017. Gaidar Institute own calculations.

Compulsory social insurance contributions amounted to RUB 4144bn (or 4.83% of GDP) in 2016. The insurance contribution inflow increased 6.9% in nominal terms and 1.4% in real terms, whereas insurance contributions subject to the additional rate for insured individuals exposed to harmful working conditions fell 2.9% in nominal terms, thus reflecting job cuts in progress.

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The PFR budget received RUB 3355bn from the federal budget in 2016, which is a YoY increase of 8.5% in nominal terms and of 3.0% in real terms. The biggest (in size) compulsory pension insurance transfer from the federal budget amounted to RUB 988,6bn in 2016, which is a YoY increase of 15.2% in real terms. In real terms, transfers to the PFR for retirement benefits as part of social welfare, as well as notional pension capital valorization transfers, contracted by 7.5% and 5.6% respectively, whereas transfers for retirement benefits due to adding non-qualifying periods to the pensionable service, as well as due to the establishment of reduced rates on compulsory pension insurance contributions, increased 26.4% and 8.5% respectively.

We now consider more carefully the PFR expenditure components in 2016 (see *Table 31*).

*Table 31*

**Pension Fund of Russia's budget expenditure in 2015–2016, rubles in millions**

	2015	2016	Expenditure nominal growth in 2016, % change – year to year	Expenditure real growth in 2016, % change – year to year
<b>Budget expenditure – total</b>	<b>7,670,270</b>	<b>7,829,672</b>	<b>102.1</b>	<b>96.9</b>
including				
<b>Nationwide issues</b>	<b>104,781</b>	<b>107,256</b>	<b>102.4</b>	<b>97.1</b>
including the exercise of functions of governing bodies of public off-budget funds of the Russian Federation	102,414	106,447	103.9	98.6
<b>Social security policy</b>	<b>7,565,387</b>	<b>7,722,322</b>	<b>102.1</b>	<b>96.9</b>
Retirement benefits	6,264,047	6,613,400	105.6	100.2
including				
Payment of the federal social security supplement to retirement benefits as part of social security benefits related to other than program activities of management bodies of public off-budget funds of the Russian Federation (social security benefits and other payments to individuals)	42,145	99,807	236.8	224.7
Payment of the insurance component of pension as part of social security benefits related to other than program activities of management bodies of public off-budget funds of the Russian Federation (social security benefits and other payments to individuals)	5,782,134	6,050,187	104.6	99.3
Payment of public retirement benefits as part of social security benefits related to other than program activities of management bodies of public off-budget funds of the Russian Federation (social security benefits and other payments to individuals)	390,950	414,886	106.1	100.7
Social security benefits for individuals	444,145	462,053	104.0	98.7
including the retirement savings transfer to nongovernment pension funds as part of public functions within the framework of social security policy related to other than program activities of management bodies of public off-budget funds of the Russian Federation (social security benefits and other payments to individuals)	527,033	279,669	53.1	50.4

*Sources:* the data for 2015 are based on Federal Law of October 31, 2016 No. 378-FZ “On Execution of the Budget of the Pension Fund of Russia in 2015”, the data for 2016 are based on the data released by the Federal Treasury: Federal Treasury of Russia, Russian public off-budget funds’ budget as at January 1, 2017. Gaidar Institute own calculations.

In 2016, the PFR spent RUB 106.4bn on the exercise of functions of governing bodies of public off-budget funds of the Russian Federation, which is a YoY decline of 1.4% in real terms. RUB 7722bn were spent on social security policy, down 3.1% in real terms. Spending on retirement benefits rose both in nominal terms (+5.6%) and in real terms (+0.2%). In real terms, spending on the insurance component were reduced by 0.7%, whereas spending on public retirement benefits rose 0.7%. In 2016, spending on the funded component rose 35.4% in real

terms, reflecting growth of funded pension entitlements among those who retired during the period under review.

A substantial amount was spent on the federal social security supplement to retirement benefits – a 2.4-fold increase in nominal terms, from RUB 42.1bn in 2015 to RUB 99.8bn in 2016 – because some regions switched from the provision of regional social security supplement to the federal social security benefit.

In 2016, the PFR spent RUB 462.1bn on social security benefits for individuals, which is a YoY growth of 4.0% in nominal terms (+1.3% in real terms). RUB 298.0bn were spent on monthly cash payments (MCPs) to disabled individuals, which is a 1.8% hike in real terms, and RUB 281.6bn were spent on the provision of maternity (family) capital, an increase of 5.5%, whereas spending on MCPs to veterans were cut 0.7% in real terms. RUB 67.2bn were spent on compensations to persons nursing unemployable citizens and disabled children, a 1.1% hike in real terms. Even the spending on social security for holders of the Soviet Union Hero Gold Star and of the Socialist Labor Hero Gold Star was reduced in nominal terms due to attrition of the said categories of beneficiaries.

All in all, it may be inferred that the PFR's budget equilibrium improved in 2016: the budget deficit was reduced (by 0.42 percentage points of GDP), while budget revenues increased due to the growth of insurance component contributions (by 0.16 percentage points of GDP).

#### ***Federal Compulsory Medical Insurance Fund***

In 2016, the Federal Compulsory Medical Insurance Fund's (hereinafter – FCMIF) budget revenues totaled RUB 1658bn (see *Table 32*). Compulsory medical insurance contributions for individuals accounted for about 98% of the revenues: RUB 1006bn in compulsory medical insurance contributions for employees (including RUB 11bn in self-employed individuals' contributions), and RUB 618bn in contributions for unemployed individuals. The federal budget transfer as compensation for shortfalls in the FCMIF revenues arising from the establishment of reduced rates on compulsory medical insurance (hereinafter – CMI) for certain categories of payers amounted to RUB 25.4bn. The refund for targeted transfers not used in the past year, the last among the traditional key FCMIF revenue items, amounted to RUB 7.7bn in 2016.

In 2016, the FCMIF's revenues saw a meager decline of about 0.04% in real terms compared with 2015. However, allowance must be made for the fact that the FCMIF's real revenues rose steadily until the previous year, and a halt in growth may aggravate the CMI deficit issue down the road, especially in light of the need to raise medical personnel wages to the levels set forth in the *Presidential Executive Orders of May 2012*.

In 2016, the FCMIF's expenditure amounted to RUB 1.590bn, most of which was accounted for by the subvention (RUB 1459bn or 92% of total expenditures) to local CMI funds for the implementation of the CMI baseline scheme (see *Table 33*).

*Table 32*

#### **Federal Compulsory Medical Insurance Fund's revenues in 2016**

Revenues	Implementation, RUB bn	implementation %	Real change compared with 2015
<b>Total</b>	<b>1657.6</b>	<b>99.8%</b>	<b>0.0%</b>
Including:			

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Compulsory medical insurance contributions for employees	1006.4	98.8%	3.6%
Compulsory medical insurance contributions for unemployed individuals	617.8	100.0%	-4.9%
Intergovernmental transfer to the Federal Compulsory Medical Insurance Fund' budget for compensation for shortfalls of revenues arising from the establishment of reduced rates on compulsory medical insurance contributions	25.4	100.0%	1.2%
Refund for transfers not used over previous years	7.7	-	-38.2%

Sources: Federal Treasury of Russia, Gaidar Institute own calculations.

Table 33

### Federal Compulsory Medical Insurance Fund' expenditure in 2016

Expenditure	Spent, RUB bn	Spent, %	Real change compared with 2015
<b>Total:</b>	<b>1590.2</b>	<b>94.2</b>	<b>-7.9</b>
Including:			
Subventions to the budget of local compulsory medical insurance funds for the provision of financing to the organization of compulsory medical insurance on the territory of subjects of the Russian Federation	1458.6	100.0	-3.0
Other intergovernmental fiscal transfers for the provision of financing to lump-sum payments to medical personnel	2.9	91.9	49.2
Other intergovernmental fiscal transfers to the budget of local compulsory medical insurance funds for the provision of extra financing to specialized, including high-tech, medical aid within the scope of the compulsory medical insurance baseline scheme	15.0	100.0	51.1
Provision of financing to prenatal, labor and postnatal care, as well as to preventive medical examination for infants at the age of one year or less	17.8	95.0	-7.9
Financial aid for the provision of high-tech medical aid outside the scope of the compulsory medical insurance baseline scheme	89.0	98.1	8.7
Co-financing of costs arising from the provision of high-tech medical aid to nationals of Russia outside the scope of the compulsory medical insurance baseline scheme	5.4	90.0	1.8
Equilibrium grant from the Federal Compulsory Medical Insurance Fund's budget to the federal budget	0.0	0.0	-100.0
Other expenditures	1.5	29.1	-81.1
Budget execution results: surplus (+) / deficit (-)	+67.7	-251.9	-98.1

Sources: Federal Treasury of Russia, Gaidar Institute own calculations.

In addition, local compulsory medical insurance funds received other intergovernmental fiscal transfers for the provision of financing to lump-sum payments to medical personnel (RUB 2.9bn) and extra financing to specialized, including high-tech, medical aid within the scope of the CMI baseline scheme (RUB 15bn). Unused appropriations were observed only with regard to transfers for the provision of financing to lump-sum payments to medical personnel: RUB 3.2bn were initially supposed to be allotted for this purpose.

In 2016, RUB 17.8bn were spent on the annual FCMIF transfer to the Social Insurance Fund for the provision of financing to prenatal, labor and postnatal care, as well as preventive medical examination for infants at the age of one year or less, a YoY decline of about 3% in nominal terms.

In 2016, the federal budget received two FCMIF transfers, namely the financial aid for the provision of high-tech medical aid outside the scope of the CMI baseline scheme (RUB 89bn) and for co-financing of costs arising from the provision of high-tech medical aid to nationals of Russia outside the scope of the CMI baseline scheme (RUB 5bn). The implementation of these transfers was 98 and 90% respectively.

Another transfer to the federal budget – the equilibrium grant (or the so-called ‘reverse transfer’) worth RUB 91.2bn – was initially budgeted in the FCMIF. This type of transfer worth

about RUB 92bn was made for the first time in 2015. While this transfer was also made in 2016 under Paragraph 22, Article 51, Federal Law No. 326 “On Compulsory Medical Insurance in the Russian Federation”, the relevant provision was repealed at the end of the year, and therefore the money was ultimately left in the FCMIF. The need to accumulate FCMIF’s resources for raising medical personnel wages was an informal reason for the ‘reverse transfer’ repeal. At the same time, the repeal enabled the FCMIF to run a budget surplus of more than RUB 67bn for the first time since 2013. In addition, the repeal partially accounts for a substantial (about 8%) decline in the FCMIF’s expenditure in real terms compared with 2015. The expenditure in real terms was also driven down by a 3% fall of subventions earmarked for the implementation of the CMI baseline scheme.

