

GAIDAR INSTITUTE FOR ECONOMIC POLICY

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

**Gaidar Institute Publishers
Moscow / 2017**

UDC 338.1(470+571)"2016"

BBC 65.9(2Poc)

R95 Russian Economy in 2016. Trends and Outlooks. (Issue 38) / [V. Mau at al; ed. S. Sinelnikov-Murylev (editor-in-chief), A. Radygin]; Moscow: Gaidar Institute Publishers 2017. – 480 pp. – ISBN 978-5-93255-502-6

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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ISBN 978-5-93255-502-6

□ Gaidar Institute, 2017

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2.2.2. The characteristic features of the federal budget¹

The specific features of the budgeting process at the federal level

In 2016, certain amendments were made to RF legislation, whereby the specific features of the budgeting process at the federal level were determined. In particular, the alterations introduced by Federal Law No 71-FZ dated May 30, 2016 'On Suspending Paragraph Four of Item 2 of Article 179 of the Budget Code of the Russian Federation' are designed to optimize the procedures for adjusting government (municipal) programs. With due regard for the complicated economic situation, the provision of the Budget Code of the Russian Federation (hereinafter to be referred to as RF BC) whereby all government (municipal) programs were to be brought in conformity with the budget law (or budget decision) by April 1, 2016 was suspended for one more year (until January 1, 2017).

In the course of the approval of the federal budget for 2017 and the planning period 2018–2019, it was decided to switch over to three-year budget planning. In this connection it is noteworthy that the decisions concerning the timelines for considering a new draft law and the amendments to the current law on the federal budget for 2016 were influenced by the State Duma election. In order to ensure the adoption of the federal budget for 2017–2019 by the newly elected State Duma, the election date was moved to September. Meanwhile, just as it had done in 2015, the Government of the Russian Federation submitted its draft law with a one-month delay (by November 1, and not by October 1). Thus, in particular, it was the specific purpose of *Federal Law No 158-FZ dated June 2, 2016 'On Suspending Some Provisions of the Budget Code of the Russian Federation and Introducing Alterations into Some Legislative Acts of the Russian Federation'* to optimally organize the budgeting process and to create adequate conditions for the State Duma of the seventh convocation to consider the draft laws on the federal budget and the budgets of government extrabudgetary funds for 2017–2019. Federal Law No 158-FZ created the legal foundation for the Government of the Russian Federation to submit these draft federal laws to the State Duma by November 1, 2016. Another important point is that Federal Law No 158-FZ envisaged the suspension, until January 1, 2017, of the provisions stipulated in Article 199 of the RF BC, whereby the budgetary rule for federal budget was established.

Federal Law No 409-FZ dated November 30, 2016 'On the Introduction of Alterations into the Budget Code of the Russian Federation and Recognizing Some Provisions of the Legislative Acts of the Russian Federation to be Null and Void' was adopted in order to provide proper legal conditions for preparing the draft federal law on the federal budget for 2017 and the planning period 2018–2019, and also to consolidate the possibility for prompt redistribution, whenever necessary, of budget allocations to special expenditure functions. By that Federal Law, the norms stipulated in paragraph eight of Item 3 of Article 184.1; paragraph five of Item 2 of Article 199; and the norm stipulated in Article 205 of the RF BC concerning the approval,

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as part of basic budget targets, of conditionally approved expenditure items, are to be suspended until January 1, 2017, in order to ensure the established ceiling for federal budget deficit in the federal budget for 2017–2019.

It should also be noted that the *Main Directions of Budgetary Policy for 2017–2019* had been prepared by the RF Ministry of Finance very shortly before the draft law was submitted to the State Duma, which is indicative of the formal (technical) role of such documents.

We can also point out several specific features of the budgeting process that have to do with the law on the federal budget for 2016. To begin with, this is the first time since the switchover to a three-year budget at the federal level (from the period 2008–2010 onwards) that the budget was initially adopted for a period of one year only without approved planning-period targets. Secondly, the law was amended only once while the budget for 2017–2019 was being discussed and approved.

The basic parameters of the federal budget

As demonstrated by the year-end results of 2016, RF federal budget revenue amounted to 15.7% of GDP, which is 0.7 pp of GDP below the corresponding figure for 2015 (the plunge did not exceed 1.5% in nominal terms – see *Table 12*). The downward movement of aggregate federal budget revenue was caused by the radical shrinkage of its oil and gas component, which in 2016 shrank by 17.4% even in nominal terms, and by 1.4 pp as a percentage of GDP. At the same time, an even deeper plunge was avoided thanks to the noticeable growth in the amount of non-oil and gas revenues: over the year 2016, that component increased by 0.7 pp of GDP (or by 10.5% in nominal terms).

Table 12

**The main parameters of the federal budget over the period
2012–2016, % of GDP**

	2012	2013	2014	2015	2016			Change in 2016 relative to 2015, pp of GDP
					2016 Federal Budget Law*	2016 Federal Budget Law, as amended**	actual	
Revenue	19.2	18.3	18.6	16.4	17.5	16.1	15.7	-0.7
<i>Including:</i>								
oil and gas revenues	9.8	9.3	9.7	7.0	7.7	5.8	5.6	-1.4
non-oil and gas revenues	9.4	9.0	8.9	9.4	9.8	10.4	10.0	0.6
Expenditure	19.3	18.8	19.0	18.8	20.5	19.8	19.1	0.3
Deficit (-)/surplus (+)	-0.1	-0.5	-0.4	-2.4	-3.0	-3.7	-3.4	-1.0
non-oil and gas deficit	-9.9	-9.8	-10.1	-9.4	-10.7	-9.3	-9.1	-0.3
<i>GDP, RUB bn</i>	<i>66,927</i>	<i>71,055</i>	<i>77,893</i>	<i>83,233</i>	<i>78,673</i>	<i>82,815</i>	<i>85,881</i>	
<i>Price of Urals, USD/barrel</i>	<i>110.6</i>	<i>108.0</i>	<i>97.6</i>	<i>51.2</i>	<i>50.0</i>	<i>41.0</i>	<i>41.9</i>	

* Federal Law No 359-FZ dated December 14, 2015 'On the Federal Budget for 2016'.

** As amended on 22 November 2016 by Federal Law No 397 FZ.

Sources: Federal Treasury; Rosstat; Gaidar Institute own calculations.

Federal budget expenditure executed over 2016 amounted to 19.1% of GDP, which is 0.3 pp of GDP above the corresponding index for 2015 (in nominal terms, it increased by 5%). This growth in expenditure was contributed to by an increase in both interest and non-interest spending: the growth of expenditures related to public debt servicing amounted to 19.8%, and that of non-interest expenditures – to 4.6%. A more detailed discussion of the movement patterns of different expenditure functions follows later in our review.

The year 2016 saw a continuation of the increase in the federal budget deficit, which climbed to 3.4% of GDP, thus overshooting its 2015 level by 1.0 pp of GDP. At the same time, the non-

oil and gas deficit kept on decreasing, thus continuing the downward trend that began as far back as 2015: it amounted to 9.1% of GDP, which represented a 0.3-pp-of-GDP drop on 2015. In other words, in recent years the dependence of the federal budget on the situation in global energy markets has been *de facto* steadily declining. Thus, the share of oil and gas revenues in total federal revenue was steadily on decline: from 51% in 2014, to 43% in 2015, to 35% in 2016. This fledging trend is strongly related to a considerable shrinkage of Russia's oil and gas revenues and, correspondingly, of their share of GDP. Thus, while GDP growth in nominal terms by the year-end of 2016 had amounted to 3.2%, production growth under the *Mineral Resources Extraction* section of the federal budget had been only 1.4%, which resulted in a shrinkage of its relative share in the structure of GDP by 0.2 pp. At the same time, gross value added in terms of physical volume under the *Mineral Resources Extraction* section of the federal budget gained 0.2% in 2016, while GDP in terms of physical volume over the same period lost 0.2%. Thus, the shrinkage of the relative share of *Mineral Resources Extraction* in GDP had been caused by the unfavorable behavior of export prices for energy carriers.

Traditionally, the planned targets in a new budget are based on the most conservative version of a macroeconomic forecast; on the one hand, this approach makes it easier to execute the budget, while on the other, it imposes certain constraints on the possibility to influence economic development through budgetary policy. However, in 2016, even the most conservative forecast proved to be too optimistic. Some of the basic macroeconomic parameters plunged below their forecasted values: the price of oil (USD 41.6 per barrel instead of USD 50 per barrel); GDP growth rate (-0.2 instead of +0.7%); and inflation (5.4 instead of 6.4%). These developments made it necessary to correspondingly adjust all basic parameters of the federal budget, which resulted in a budget deficit growth exceeding the initial estimate of 3% of GDP (*Table 12*). This suggests that macroeconomic forecasting can be partially used as a tool for forming the 'targeted' budget parameters and for adjusting the budget in the phase of its adoption (in order to ensure the observance of all norms of the RF Budget Code), while further budget adjustment may be done later, in the course of budget execution, which clearly reduces the transparency of the budgeting process as a whole.

When considering the issue of ensuring a balanced federal budget, it is important to note that the federal budget for 2016 would have been balanced if the average crude oil price had stood within the USD 107–110 per barrel range. It should be reminded that the federal budget for 2008 had been balanced at the average annual oil price of 57.5 USD per barrel. This discrepancy shows that over the period 2008-2016, Russia considerably increased her budget expenditure; and it also indicates a huge growth in budget risks associated with the high volatility and weak predictability of world prices for energy carriers.

The main revenue sources

As far as their volumes and composition are concerned, the parameters of execution of the revenue side of the federal budget for 2016 are presented in *Table 13*. In 2016, the aggregate revenue of the federal budget dropped by 0.7% relative to 2015. The dynamics of the revenue side of the federal budget continues to be determined by the size of oil and gas receipts, despite the emergence of a trend towards lessening the budget's dependence on MET and export duties on crude oil and petroleum products. Thus, in 2016, oil and gas revenues declined by 1.4 pp of GDP relative to 2015. At the same time, the non-oil and gas component of the revenue side of the federal budget increased by 0.7 pp of GDP, which made it possible for the budget to partly compensate for the decline in its oil and gas component.

On the whole, the decline in Russia's oil and gas revenues in 2016 was caused by a considerable fall in world oil prices, and it should be added that the aforesaid budget losses were partly compensated for by the ruble's weakening against the US dollar. As regards the composition of the oil and gas revenues in the federal budget for 2016, it is obvious that the lion's share of them was generated by MET, while the share of export duties had been declining since 2015 (as a result of the implementation of the 'tax maneuver'). As indicated earlier, the volume of revenues from MET shrank by 0.5 pp of GDP relative to 2015, whereas the drop in revenues from export duties was almost twice as large – 0.9 pp of GDP). Revenues from export duties on energy carriers could have fallen even more significantly than that, if the legislative authorities had had not taken the decision that the basic rate should remain at its 2015 level. These legislative changes, which in fact violated the very logic of the 'tax maneuver', noticeably conduced to alleviating the federal budget losses caused by the drop in oil prices.

Table 13

**The main tax receipts in the federal budget over the period
2012–2016**

	% of GDP					Change in 2016 relative to 2015, pp of GDP
	2012	2013	2014	2015	2016	
Revenue, total	19.2	18.3	18.3	16.4	15.7	-0.7
Oil and gas revenues	9.6	9.2	9.4	7.0	5.6	-1.4
<i>including:</i>						
MET	3.6	3.5	3.6	3.8	3.3	-0.5
export duties	6.1	5.7	5.8	3.3	2.3	-0.9
Non-oil and gas revenues	9.6	9.1	8.9	9.4	10.0	+0.7
<i>including:</i>						
Corporate profit tax	0.6	0.5	0.5	0.6	0.6	0.0
VAT on goods sold in RF territory	2.8	2.6	2.8	2.9	3.1	+0.2
VAT on goods imported into RF territory	2.5	2.4	2.2	2.1	2.2	+0.1
Excises on goods produced in RF territory	0.5	0.6	0.7	0.6	0.7	+0.1
Excises on goods imported into RF territory	0.1	0.1	0.1	0.1	0.1	0.0
import duties	1.1	1.0	0.8	0.7	0.6	0.0
export duties	0.2	0.2	0.2	0.1	0.1	0.0

Sources: Federal Treasury; Gaidar Institute own calculations.

The growth of the non-oil and gas revenues of the federal budget was associated with a notable rise in revenues from a number of taxes as well as in non-tax revenues, resulting from the receipt of additional revenues from the partial privatization of Public Joint Stock Company *Rosneft Oil Company* (about RUB 70bn). Tax revenues from the sale of goods in the territory of the Russian Federation increased by 0.2 pp of GDP, while revenues from VAT on imports and 'domestic' excise taxes grew by 0.1 pp of GDP. In 2016, the volume of revenues from import duties, corporate income tax, excise taxes on imports, and customs duties on exports (apart from the oil and gas component) remained at its 2015 level.

The expenditure side of the federal budget

In 2016, the volume of federal budget expenditure amounted to 19.1% of GDP, which represented a rise by 0.3 pp of GDP relative to 2015 (in nominal terms, expenditure increased by 5.1% – see *Table 14*). The rise in expenditure involved both interest and non-interest expenditures. The rise in interest expenditures (+19.8%) was due to a significant increase in expenditures on external debt servicing (+28%), while the growth rate of domestic debt servicing was much smaller (+1%). One of the factors behind the increase in debt servicing was the build-up of debt in 2016: in 2015, the volume of domestic debt declined by 1.1%, while

over the course of 2016 its nominal growth amounted to 4% (for more details, see below). Yet another factor was a slight increase in interest rates.

Table 14

**Federal budget expenditure over the period 2015–2016
(by-function distribution of federal budget expenditure)**

	2015	2016	Change		Budget execution, relative to approved annual budget projections, %		Deviation of implementation of annual targets in 2016 from that in 2015, %
	% of GDP	% of GDP	nominal growth rate, %	pp of GDP	2015	2016	
Expenditure total, including:	18.8	19.1	5.1	0.3	98.5	98.7	+0.2
Nationwide issues	1.3	1.3	-2.0	-0.1	98.6	97.1	-1.5
National defense	3.8	4.4	18.7	0.6	99.8	99.2	-0.6
National security and law enforcement activity	2.4	2.2	-3.4	-0.2	98.8	100.4	+1.6
National economy	2.8	2.7	-1.0	-0.1	96.5	95.9	-0.6
Housing and community amenities	0.2	0.1	-50.0	-0.1	98.0	95.5	-2.5
Environmental protection	0.1	0.1	26.9	0.0	99.4	99.6	+0.2
Education	0.7	0.7	-2.1	0.0	99.2	99.1	-0.1
Culture, cinematography	0.1	0.1	-2.9	0.0	99.8	96.3	-3.5
Healthcare	0.6	0.6	-1.9	0.0	97.8	97.6	-0.2
Social policies	5.1	5.3	7.6	0.2	99.6	99.7	+0.1
Physical culture and sports	0.1	0.1	-18.3	0.0	97.8	88.7	-9.1
Mass media	0.1	0.1	-6.7	0.0	99.9	99.9	0.0
Government debt servicing	0.6	0.7	19.8	0.1	87.5	97.1	+9.6
Inter-budgetary transfers	0.8	0.8	-1.5	0.0	99.7	99.8	+0.1

Sources: Federal Treasury; Gaidar Institute own calculations.

When analyzing the data presented above it can be seen that the growth in the total volume of federal expenditures over the course of 2016 was mainly due to a rise in the government spending under the *National Defense* section by 0.6 pp of GDP (or by 18.7% in nominal terms). In 2016, government spending under the *Social Policies* section of the federal budget increased by 0.2 pp of GDP (or by 7.6% in nominal terms) relative to 2015. The aforesaid growth in social expenditure was largely due to a significant increase in expenditures on pension provision (which grew by 11% in nominal terms).

At the same time, there was a decrease in the amount of funding designated to some expenditure lines. Government spending under the *National Economy* section of the federal budget declined by 0.1 pp of GDP (or by 1% in nominal terms), while government spending under the *National Security and Law-Enforcement Activity* section decreased by 0.2 pp of GDP (or by 3.4% in nominal terms).

When expressed in percentage points of GDP, government spending under the other major functional sections of the federal budget remained practically unchanged relative to 2015.

It should be noted that the dynamics of spending under the *National Defense*, *Social Policies*, and *National Economy* sections of the federal budget was strongly influenced by the amendments introduced to the federal law on the federal budget for 2016 in November 2016. As a result of those amendments, budget allocations were redistributed among various expenditure items of the federal budget, and the volume of expenditure was increased by RUB 304bn by comparison with the previously approved one. This growth in expenditure was associated with the rise in allocations to *National Defense* (by RUB 740bn) and *Social Policies* (by RUB 177bn). The aforesaid rise in defense spending was mainly determined by the

allocation of funds to military-industrial complex enterprises for the purpose of repaying their previous bank loans with payback periods expiring in 2016–2018. The allocation of the whole payback amount in 2016 was intended to reduce the corresponding expenditure in 2017–2018. The increase in government spending under the *Social Policies* section of the federal budget was largely determined by the rise in government spending on pension provision. At the same time, the introduced amendments resulted in a decrease in the amount of funding designated to some expenditure lines. The most significant decline in funding (by RUB 427bn) was suffered by the *National Economy* section of the federal budget.

The federal budget for 2016 comprised a number of additional norms that permitted to use the budget's undistributed reserves in the course of its execution. In particular, the budget included a budget reserve fund designed to finance the implementation of additional measures aimed at supporting individual branches of the economy (within the framework of the government's 'anti-crisis plan'), providing social support for citizens and rendering financial assistance to the Russian Federation's subjects. This budget reserve fund amounted to RUB 65bn (with the possibility of being increased by RUB 150bn at the expense of the previous federal budget's surpluses left unspent by the beginning of 2016). The budget also envisaged the possibility of using up to RUB 342.2bn upon the RF President's or the RF Government's decision (in the situations specified in the instructions of the RF President). These norms, which considerably increased the share of reserved funds, conduced to a decrease in the transparency of the federal budget, which had been already not too high as it was due to the existence of a significant proportion of 'closed' (or classified) articles of the federal budget.

Table 14 also presents data on the execution of the expenditure side of the federal budgets for 2015–2016 relative to the approved annual budget projections. As far as these data are concerned, it can be noted that in 2016, the proportion of the executed annual budget over the approved one amounted to 98.7%, which represents a 0.2 pp rise relative to 2015. The most significant growth in the aforesaid proportion was registered with regard to the following two sections of the federal budget: *Government Debt Servicing* (by 9.6 pp) and *National Security and Law Enforcement* (by 1.6 pp). However, some of the budget functions were executed in a much lesser proportion relative to their annual targets: *Physical Culture and Sports* (by 9.1 pp); *Culture and Cinematography* (by 3.5 pp); *Housing and Community Amenities* (by 2.5 pp); and *Nationwide Issues* (by 1.5 pp).

The amount of federal budget expenditure allocated to the implementation of government programs (GP) in 2016 (*Table 15*) was RUB 8,700bn or 10.1% of GDP, which was a step down by 0.2 pp of GDP relative to 2015. The share of program budgeting in the total volume of federal budget expenditure for 2016 shrank to 52.9% vs. 55.0% in 2015; meanwhile, the share of unclassified items in the total volume of expenditure allocated to the implementation of government programs in 2016 did not change relative to the previous year (89%).

Table 15

**Federal budget expenditure over the period 2015–2016
(by-function classification)**

Government program title	2015 (actual)		2016 (actual)		Change in 2016 relative to 2015	
	RUB bn	% of GDP	RUB bn	pp of GDP	in nominal terms, %	pp of GDP
1	2	3	4	5	6	7
Expenditure allocations for government programs	8,594	10.3	8,700	10.1	1.2	-0.2
- including non-classified program budgeting	7,714	9.3	7,763	9.0	0.6	-0.2

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- including budgeting directions:						0.0
New quality of life block, including:	3,341	4.0	3,411	4.0	2.1	0.0
GP Development of education	447	0.5	429	0.5	-4.0	0.0
GP Development of healthcare	378	0.5	375	0.4	-0.8	0.0

Cont'd

1	2	3	4	5	6	7
GP Social support for citizens	1,147	1.4	1,208	1.4	5.3	0.0
GP Public order maintenance and crime prevention	839	1.0	841	1.0	0.2	0.0
Innovative development and modernization of the economy block, including:	2,161	2.6	2,150	2.5	-0.5	-0.1
GP Economic development and innovative economy	127	0.2	98	0.1	-22.8	0.0
GP Development of science and technology	150	0.2	147	0.2	-2.0	0.0
GP Development of industry and improvement of its competitive capacity	168	0.2	230	0.3	36.9	0.1
GP Development of transport system	830	1.0	825	1.0	-0.6	0.0
GP Development of agriculture and regulation of agricultural products, raw materials and foodstuffs	222	0.3	218	0.3	-1.8	0.0
GP Russia's outer space activities	170	0.2	192	0.2	12.9	0.0
Balanced regional development block, including:	714	0.9	854	1.0	19.6	0.0
GP Socioeconomic development of Crimean Federal Okrug	94	0.1	112	0.1	19.1	0.0
GP Development of federative relations and creation of conditions for efficient and responsible management of regional and municipal finance	659	0.8	665	0.8	0.9	0.0
Efficient government block, including:	1,267	1.5	1,337	1.6	5.5	0.0
GP Management of state finance and regulation of financial markets	785	0.9	878	1.0	11.8	0.1
<i>Expenditures on implementation of government programs (classified budgeting)</i>	880	1.1	937	1.1	19.1	0.0

Sources: Federal Treasury; Gaidar Institute own calculations.

As far as the four major expenditure lines of the government programs are concerned, their dynamics in 2016 and the main changes therein as compared to 2015 were as follows:

– government spending on the *New Quality of Life* block remained practically unchanged, at around 4.0% of GDP. When expressed as a share of GDP, the volume of budget funding for the government programs *Development of Healthcare*, *Development of Education*, *Social Support for Citizens* and *Public Order Maintenance and Crime Prevention* also remained practically without any change. When expressed in nominal terms, the amount of funding designated to this expenditure line changed only insignificantly, within the range between -4% (*GP Development of Education*) and +5.3% (*GP Social Support for Citizens*);

– government spending on the *Innovative Development and Modernization of the Economy* block declined by 0.1 pp of GDP, to 2.5% of GDP. The volume of budget funding for the government program *Development of Industry and Improvement of Its Competitive Capacity* increased by 36% in nominal terms, or by 0.1 pp of GDP. When expressed as a share of GDP, the volume of spending on the other government programs remained unchanged, while slightly decreasing in nominal terms;

– government spending on the *Balanced Regional Development* block grew by 19.6% in nominal terms, or by 0.1 pp of GDP. At the same time, the volume of budget funding for the government program designed to promote the socioeconomic development of the Crimean Federal Okrug went up in nominal terms, while spending on the government program

Development of Federative Relations and Creation of Conditions for Efficient and Responsible Management of Regional and Municipal Finance was increased by a mere 0.9%.

– government spending on the *Efficient Government* block did not change in terms of a share of GDP, while in nominal terms it slightly increased – by 5.5%. At the same time, the volume of funds allocated to the government program *Management of State Finance and Regulation of Financial Markets* gained 11.8% in nominal terms, or 0.1 pp of GDP.

Most of the increase in the non-classified program and non-program expenditures was associated with the growth in budget allocations to 'long-lasting' undertakings, such as the inter-budgetary transfers to the Pension Fund, the normative legal liabilities to step up payment for labor, and other social payments.

Among other things, the *Institutional Classification of Budget Expenditures* makes it possible to analyze the regularity and the degree of budget expenditure implementation with regard to individual ministries and institutions. *Table 16* shows a list of 10 chief budget funds managers (CBFMs) with the least year-end indices of expenditure implementation relative to the annual targets for 2016.

Table 16

CBFMs with the least degree of budget expenditure implementation relative to annual targets, year-end indices for 2016

No	CBFMs	CBFM code	Budget execution, %	
			2015	2016
1	Federal Space Agency	259	91.7	58.5
2	Federal Agency for Ethnic Affairs	380	95.9	67.1
3	Federal Agency for Air Transport	107	76.3	70.9
4	RF Ministry of Justice	318	91.0	86.9
5	RF Ministry of Economic Development	139	96.4	88.1
6	RF Ministry of Sport	777	97.9	88.8
7	State Duma of the Federal Assembly of the Russian Federation	330	97.0	91.9
8	Executive Office of the President of the Russian Federation	303	97.7	92.2
9	Federal Agency for Mineral Resources	49	99.0	93.1
10	Federal Water Resources Agency	52	85.9	93.5

Sources: Federal Treasury; Gaidar Institute own calculations.

Special attention should be drawn to the fact that, judging from their 2016 year-end results, six out of the ten analyzed CBFMs had budget execution rates well below 90%. It is also important to note that in 2016, nine out of the aforesaid ten institutions displayed budget execution rates much smaller than they had been in 2015. Only one out the ten CBFMs (the Federal Water Resources Agency) increased its annual budget execution rate (by 7.6 pp) as of year-end 2016. The most noticeable decline in the budget execution rate was shown by two CBFMs, the Federal Space Agency (by 33 pp) and the Federal Agency for Ethnic Affairs (by 29 pp). The remaining seven CBFMs saw their budget execution rates drop by 4–9 pp relative to 2015.

Deficit and debt at the federal level

The volume of federal budget deficit in 2016 amounted to RUB 2,956bn, or 3.4% of GDP (the corresponding indices for 2015 are RUB 1,955bn and 2.3% of GDP respectively), which is the record high of several recent years in a row. *Table 17* presents data concerning the sources of federal budget deficit financing in 2012–2016.

In 2016, most of the funds spent on financing the federal budget deficit came from domestic sources (RUB 2,914bn, or 3.4% of GDP), while external sources provided just RUB 43bn (or 3.4% of GDP) for that purpose.

Table 17

The sources of federal budget deficit financing over the period 2012-2016

	In absolute terms, RUB bn					% of GDP				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Sources of deficit financing, total	37	323	334	1,955	2,956	0.1	0.5	0.4	2.3	3.4
Deficit financing from domestic sources	19	270	480	2,251	2,914	0.0	0.4	0.6	2.7	3.4
government securities	511	358	1,025	15	492	0.8	0.5	1.3	0.0	0.6
movement of residuals	-470	-951	-3,248	954	3 506	-0.7	-1.3	-4.1	1.1	4.1
other sources	-22	863	2,703	1,282	-1,085	0.0	1.2	3.4	1.5	-1.3
Deficit financing from external sources	18	53	-147	-296	43	0.0	0.1	-0.2	-0.4	0.0
government securities	164	185	-47	-183	110	0.2	0.3	-0.1	-0.2	0.1
credits granted by foreign states	-26	-22	-25	-51	-17	0.0	0.0	0.0	-0.1	0.0
other sources	-119	-110	-74	-63	-50	-0.2	-0.2	-0.1	-0.1	-0.1

Sources: Federal Treasury; Gaidar Institute own calculations.

A considerable part of the funds from domestic sources spent on financing the federal deficit (approximately RUB 3,506bn, or 4.1% of GDP) was provided under the article *Changes in the Resulting Balances of the Budgetary Control Accounts*, which largely has to do with operations involving the use of the Reserve Fund, which accounted for covering about 70% of the deficit. As a result, over the course of 2016, the Reserve Fund dwindled by 59% (or by 73%, if exchange rate changes are taken into account).

The resulting account balance for 2016 related to the article *Other Sources* amounted to RUB 1,085bn (1.3% of GDP). The volume of deficit financing raised by issuing government securities amounted to around RUB 492bn (0.6% of GDP).

Table 18 shows the changes undergone by the composition of the government debt of the Russian Federation in 2012–2016.

Table 18

Government debt of the Russian Federation over the period 2012–2016

	RUB bn					% of GDP				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
RF domestic debt, RUB bn	4,978	5,722	7,241	7,308	8,003	7.4	8.1	9.1	8.8	9.3
<i>less government guarantees, RUB bn</i>	4,071	4,432	5,476	5,573	6,220	6.1	6.2	6.9	6.7	7.2
RF foreign debt										
RUB bn, at RFCB's exchange rate	1,542	1,822	3 057	3,644	3,106	2.3	2.6	3.9	4.4	3.6
<i>less government guarantees, RUB bn</i>	1,196	1,450	2 377	2,779	2,395	1.8	2.0	3.0	3.3	2.8
Total, RUB bn	6,520	7 544	10,298	10,954	11,110	9.7	10.6	13.0	13.2	12.9
<i>less government guarantees, RUB bn</i>	5,267	5,882	7,853	8,354	8,615	7.9	8.3	9.9	10.0	10.0

Source: RF Ministry of Finance; Gaidar Institute own calculations.

The aggregate year-end 2016 government debt of the Russian Federation amounted to 12.9% of GDP vs. 13.2% of GDP a year earlier. The change in the amount of government debt was caused by Russia's domestic debt having been increased by 0.5 pp of GDP against the background of a 0.8 percentage point drop in the amount of external debt (recalculated in rubles in accordance with the official exchange rate of the ruble set by the Central Bank). In 2016, the amount of government guarantees contained in the federal budget did not exceed 2.9% of GDP. It can be noted that the slight shrinkage in the volume of government guarantees relative to early 2016 (3.1% of GDP) marked a halt in the continual growth trend visible since 2012 (when the volume of government guarantees had amounted to 1.9% of GDP).

It can be said with confidence that the year 2016 saw a notable change in the composition of the aggregate government debt of the Russian Federation, which shifted in favor of its domestic component: over the course of 2016, the share of domestic debt soared to 72% relative to 67% a year earlier. Such changes in debt composition are known to be conducive to budget sustainability in general, because Russia's domestic debt is denominated in the national currency, which decreases the risk of a sharp increase in debt servicing costs caused by the volatility of the ruble's exchange rate.

* * *

The role of the 2016 federal budget in the achievement of the planned socioeconomic policy goals is rather controversial. It cannot be called a development budget, because its 'productive' functions related to human capital and infrastructure were underfunded (in line with the stable trend observable over recent years). At the same time, the budget for 2016 could hardly be called a stabilization budget, either, because of the presence of a stable deficit (both total and primary deficit); to cover it, a substantial portion of the Reserve Fund was spent; the expenditures related to public debt servicing likewise notably increased. However, it should be understood that there are no simple recipes for dealing with that problem – given, moreover, the less than optimal structure of the previously assumed government spending obligations coupled with the currently unfavorable economic situation.