

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.

UDC 338.1(470+571)"2016"
BBC 65.9(2Poc)

ISBN 978-5-93255-502-6

□ Gaidar Institute, 2017

2.2.3. Intergovernmental fiscal relations and sub-national finance¹

Analysis of principal parameters of the consolidated budget of subjects of the Russian Federation

The revenue and expenditure structure of Russia’s consolidated budget reflects main trends in the relationship between various public administration levels. Fig. 20 presents data reflecting the percentage of tax revenues and expenditure of subjects of the Russian Federation in total tax revenues and expenditure of Russia’s budget system (the consolidated budget of the Russian Federation and of public off-budget funds).

As shown in the Figure, 2016 saw a reversal trend toward centralization of revenue and expenditure at the federal level. In 2016, the percentage of sub-national budget expenditure in Russia’s consolidated budget swelled to about 33.7% year over year (the data for the Republic of Crimea and the city of Sevastopol are hereinafter excluded for the purpose of comparability between time series). The percentage of regional tax revenues in the budget system revenues increased during the same period from 28.6% to 29.7%. To note, both indicators ultimately failed to reach the level of 2014 despite growth.

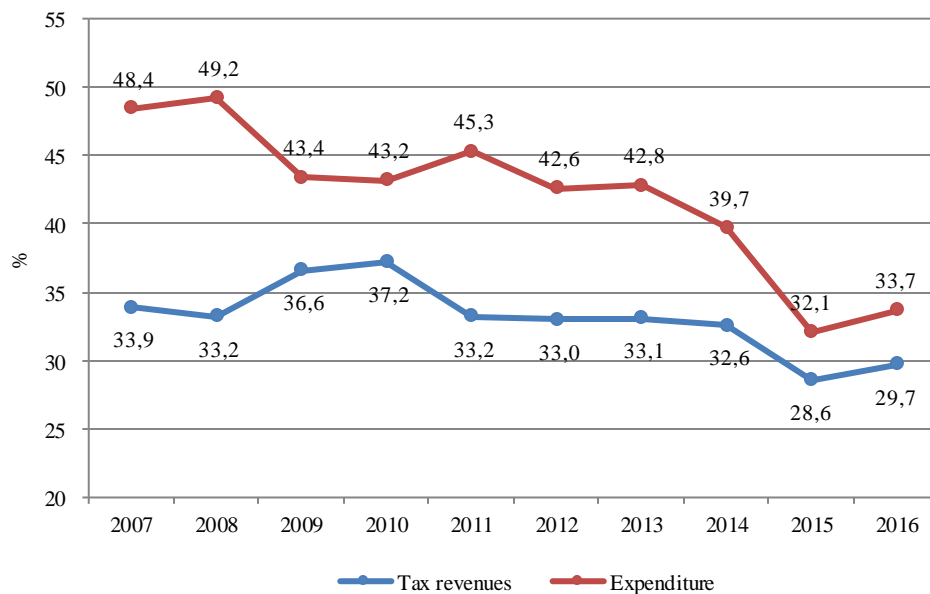


Fig. 20. Percentage of tax revenues and of sub-national budget expenditure in the Russian budget system revenue and expenditure structure in 2007/2016, %

Note. Excluding the Republic of Crimea and the city of Sevastopol.
Sources: Federal Treasury of Russia, Gaidar Institute own calculations.

¹ Authors of chapter: I. Arlashkin – Gaidar Institute, IAES RANEPА; N. Barbashova – Gaidar Institute; A. Mamedov – Gaidar Institute, IAES RANEPА.

Let us now consider more carefully the revenue side of sub-national budgets. The dynamics of the principal components of consolidated budget revenues of subjects of the Russian Federation is shown in *Table 19*. The growth of revenues in real terms is shown in the right-hand column of the table.

Table 19

**Consolidated budget revenues of subjects of the Russian Federation
in 2012–2016**

	Revenues (in nominal terms), rubles in billions					Growth in real terms, %			
	2012	2013	2014	2015	2016	2013/2012	2014/2013	2015/2014	2016/2015
Revenues, total	8.064	8.165	8.743	9.191	9.785	-17.2	-3.8	-8.6	1.00
Tax and nontax revenues	6.385	6.588	7.141	7.585	8.238	-13.8	-2.7	-6.4	3.00
<i>Including tax revenues:</i>	5.800	5.967	6.461	6.890	7.493	-12.3	-2.8	-6	3.20
profit tax	1.980	1.720	1.962	2.099	2.272	-33.1	2.4	-5.2	2.70
personal income tax	2.261	2.499	2.679	2.788	2.803	-6.6	-3.7	-7.9	-4.60
taxes on aggregate income	272	293	314	346	385	19.8	-3.8	-2.7	5.60
property taxes	785	901	955	1.067	1.115	20.7	-4.8	-1.3	-0.90
excise duties	442	491	479	484	659	42.6	-12.4	-10.5	29.20
Transfers	1624	1.515	1.545	1.538	1.547	-24.1	-8.4	-18.5	-4.60
Other revenues	56	62	57	68	0	-75.1	-17.4	4.8	-100.00

Note. Excluding the Republic of Crimea and the city of Sevastopol.

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

In 2016, consolidated budget revenues of subjects of the Russian Federation increased 1% year over year in real terms, as shown in *Table 19*. Note that both total and tax revenues were driven by positive dynamics in real terms in 2016 for the first time since 2012 (predominantly on account of profit tax, taxes on aggregate income and excise duties), thereby indicating a somewhat upturn in the economy. Of special note, however, is the continuing trend toward declining personal income tax revenues in real terms, thereby indicating that individuals' wellbeing deteriorated in real terms even amid a slowing inflation rate. The 4.6% YoY decline in real terms in transfers from the federal budget affected predominantly the fiscal capacity of regions eligible for government grants.

Let us now consider more carefully tax and nontax revenues in terms of regions (*Table 20*).

Table 20

Russian regions classification according to change in main types of consolidated budget tax and nontax revenues of subjects of the Russian Federation in 2015 and 2016, in number.

	Main types of consolidated budget tax and nontax revenues of subjects of the Russian Federation											
	A growth of more than 25%		A growth of 10 to 25%		A growth of less than 10%		A decline of less than 10%		A decline of 10 to 25%		A decline of more than 25%	
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
	in nominal terms											
Tax and nontax revenues, total	2	5	16	47	49	26	15	5	1	0	0	2
Profit tax	15	35	16	27	15	8	12	3	15	9	10	3
Personal income tax	0	1	4	11	56	71	23	2	0	0	0	0
	in real terms											
Tax and nontax revenues, total	2	0	0	15	9	49	48	16	24	3	0	2

RUSSIAN ECONOMY IN 2016

trends and outlooks

Profit tax	9	29	6	23	10	11	19	8	21	8	18	6
Personal income tax	0	2	0	5	2	46	41	31	40	1	0	0

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

A comparative analysis of the 2015–2016 dynamics of the main types of own-source revenues of regional budgets shows substantial growth in budget revenues, including figures in real terms. In real terms, tax and nontax revenues of 11 regions were driven by positive dynamics in 2015, while the number of such regions increased to 64 in 2016, that is, only 21 regions saw their revenues decline in real terms. At the same time, most of the revenues were generated from the profit tax. In real terms, profit tax revenues increased in 25 regions in 2015, with only 9 subjects of the Russian Federation experiencing a more than 25% growth, while 2016 saw profit tax revenues increase in real terms in 68 regions, with a growth rate being more than 25% in 29 subjects of the Russian Federation.

The following regions ranked at the top in terms of own-source revenue dynamics in 2016: The Republic of Crimea (29%), the city of Sevastopol (26%), the Chechen Republic (26%), Magadan Region (26%) and Ulyanovsk Region (27%). The following Russia's republics were top-ranked in terms of profit tax revenues: the Chechen Republic (173%), the Republic of Tyva (139%), the Republic of Ingushetia (100%).

Personal income tax revenues accelerated at a more moderate pace in 2016: growth rates varied within a range of 0 to 10% for the overwhelming majority of the regions (46 of 85).

There was a considerable decline in own-source consolidated budget revenues in some regions. In 2016, for instance, Sakhalin Region and Nenets Autonomous Okrug saw their annualized tax and nontax revenues decrease by 31% and 27% respectively, basically because the regional profit tax rate was cut to attract potential investors.

On the whole, it is worth noting that the situation with own-source sub-federal budget revenues in 2016 improved compared with the parameters seen in 2015. Most of the regions exhibited growth of own-source revenues in real terms (55 regions in 2016 against 11 in 2015). At the same time, own-source revenue growth rates varied within a range of 0% to 10% in most of the subjects of the Russian Federation (49 of 85 regions). In 2015, most of the regions stood within a range of -10% to 0% (48 subjects of the Russian Federation). A slowing inflation rate was a positive factor influencing the consolidated budget figures (5.4% in 2016 against 12.9% in 2015). It must be emphasized that both regions with a well-developed economic base (Vologda Region) and subjects of the Russian Federation with a relatively low degree of revenue potential (The Republics of Crimea, of Ingushetia, of Tyva) exhibited substantial growth of tax revenues. The deepest decline in own-source revenues was recorded in regions that introduced tax allowances (Nenets Autonomous Okrug, Sakhalin Region), in which case the decline constitutes a development tool rather than the affect of the crisis. Thus the analysis of own-source revenues of the budget of subjects of the Russian Federation leads to a conclusion about an upturn in the Russian economy in 2016 compared with 2015.

We now analyze changes in the expenditure side of consolidated budget of subjects of the Russian Federation in 2016 (*Table 21*).

Table 21

Consolidated budget expenditure of subjects of the Russian Federation in 2015-2016

	As % of total		As % of GDP		Growth, %	
	2015	2016	2015	2016	in nominal terms	in real terms
Nationwide issues	6.4	6.3	0.73	0.73	3.0	-2.3

National Security and Law Enforcement	1.1	1.1	0.13	0.13	8.9	3.4
National economy Including:	19.7	20.2	2.24	2.33	7.2	-5.1
Agriculture and fishery	3.3	2.8	0.38	0.32	-11.7	-16.2
Transport	4.2	4.4	0.48	0.51	9.7	4.1
public roads (road funds)	7.8	8.7	0.89	1.01	17.1	11.1
Other issues related to the national economy	2.4	4.3	0.27	0.49	86.3	76.8
Housing and communal services	9.0	9.4	1.03	1.09	9.7	4.1
Environmental protection	0.2	0.2	0.02	0.03	17.0	11.0
Education Including:	26.1	25.6	2.97	2.97	2.9	-2.3
pre-primary education	7.3	6.8	0.83	0.79	-2.4	-7.4
general education	14.6	14.7	1.66	1.70	5.6	0.1
secondary vocational education	2.0	1.9	0.23	0.22	0.9	-4.3
other issues related to education	1.3	2.2	0.15	0.26	77.9	68.8
Culture, cinematography	3.3	3.4	0.38	0.40	8.8	3.2
Healthcare	14.3	12.9	1.63	1.49	-5.5	-10.3
Social security policy	15.8	16.6	1.80	1.93	10.5	4.8
Physical culture and sports	2.0	2.1	0.23	0.25	11.7	6.0
Mass media	0.5	0.4	0.06	0.05	-8.7	-13.4
Municipal and public debt servicing	1.6	1.5	0.18	0.18	1.3	-3.9
Expenditures, total	100.0	100.0	11.39	11.57	4.8	-0.6

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

The data presented in *Table 21* suggest that subjects of the Russian Federation exhibit a stable spending structure despite a small cut to budget financing of social industries, with healthcare and pre-primary education bearing most of the cuts, whereas there was a boost in spending on social security policy, physical culture and sports. As to the real economy, most of the cuts fell on the agricultural sector.

In the following, we consider the dynamics of key parameters of consolidated budgets of subjects of the Russian Federation, as measured as a percentage of GDP (*Table 22*).

Table 22

Dynamics of consolidated budget revenues and expenditure of subjects of the Russian Federation in 2012-2016, as % of GDP

	2012	2013	2014	2015	2016
Revenues	12.05	11.49	11.04	11.04	11.56
including:					
profit tax	2.96	2.42	2.48	2.52	2.65
personal income tax	3.38	3.52	3.38	3.35	3.51
federal budget transfers	2.15	2.13	2.17	1.85	1.90
Expenditure	12.47	12.39	12.76	11.39	11.57
Deficit (-) / Surplus (+)	-0.42	-0.9	-0.66	-0.23	-0.01
<i>For reference: GDP, rubles in billions</i>	66 927	71 055	79 200	83 233	85 881

Note. Excluding the Republic of Crimea and the city of Sevastopol.

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

As shown in *Table 22*, regional budget revenues, including personal income tax and profit tax revenues, as well as federal budget transfers, as measured as a percentage of GDP, increased in 2016 over the level seen in 2015. Budget deficit reached a 5-year low in 2016.

Let us consider more carefully how subjects of the Russian Federation ran their consolidated budgets (with a deficit/surplus), as expressed in number of regions (*Table 23*).

Table 23

Execution (with a deficit/surplus) of consolidated budgets of subjects of the Russian Federation in the period between 2008 and 2016

Year	Number of subjects of the Russian Federation that ran a	
	budget deficit	budget surplus
2012	67	16
2013	77	6
2014	74	9
2015	75	8
2016	53	30

Note. Excluding the Republic of Crimea and the city of Sevastopol.

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

The regional data also suggests an improvement in the equilibrium of consolidated budgets of the Russian Federation and in the regional finance as a whole.

Financial aid from the federal budget

In 2016, the total amount of federal budget intergovernmental transfers to regions contracted both in nominal terms (-2.2%) and as a percentage of GDP (-0.09 percentage points of GDP) compared with 2015 (*Table 24*). At the same time, the decline fell on intergovernmental fiscal transfers of all types, except budget capacity equalization grants and other intergovernmental fiscal transfers. However, the increase in budget capacity equalization grants (+0.02 percentage points of GDP) failed to compensate in full for fiscal equalization grant cuts (-0.04 percentage points of GDP). Subsidies bore most of the decline both in nominal terms and as a percentage of GDP. Subventions were cut insignificantly in nominal terms, while other intergovernmental fiscal transfers increased. The foregoing changes influenced the structure of federal financial aid to budgets of subjects of the Russian Federation. For instance, subsidies lost 2.9 percentage points in 2016 compared with 2015, whereas 1.3 percentage points were added to grants.

Table 24

Federal budget transfers to subjects of the Russian Federation in 2014-2016

	2014		2015		2016		YoY growth in 2016	
	rubles in billions	as % of total	rubles in billions	as % of total	rubles in billions	as % of total	nominal, %	percentage points of GDP
Transfers regions, total	1607	100	1603.6	100	1 567.8	100	-2.2	-0.09
Grants	774.7	48.2	650.9	40.6	656.2	41.9	0.8	-0.01
Including:								
budget capacity equalization grants	439.8	27.4	487.7	30.4	513.7	32.8	5.3	0.02
grants as support to budget equalization measures	334.9	20.8	163.2	10.2	131.7	8.4	-19.3	-0.04
Subsidies	409.9	25.5	400.2	25.6	356.5	22.7	-10.9	-0.06
Including:								
national economy development subsidies	241.9	15.1	258.2	16.1	231.9	14.8	-10.2	-0.04
Subventions	308.2	19.2	336.6	21	334.3	21.3	-0.7	-0.01
Other intergovernmental fiscal transfers	114.2	7.1	215.9	13.5	220.8	14.1	2.3	0.00

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

The change in the amount of subventions is indicative of sub-national budgets becoming more independent in exercising the delegated powers. At the same time, the number of subventions grew up to 30 (27 in 2015) in 2016, including 10 subventions to the Republic of Crimea and the city of Sevastopol, some of which duplicated subventions allocated to other subjects of the Russian Federation.

Subsidies made a substantial contribution (22.7%) to intergovernmental fiscal transfers to regions in 2016. Ninety eight types of subsidies were allocated in 2016, although the State Program of *The Development of Federal Relations and the Creation of Conditions for Efficient and Prudent Regional and Municipal Finance Management* (hereinafter – The State Program) contemplated a reduction in the number of subsidies to 86 in 2016. Thus no consolidation and optimization of the number of subsidies took place in 2016.

Although other intergovernmental fiscal transfers increased in nominal terms, they remained unchanged as a percentage of GDP, with growth (from 50 to 57) in the number of other intergovernmental fiscal transfers compared with 2015. In addition, account must be taken of a lack of transparency and formalization regarding the manner they are appropriated and allotted.

Reducing the percentage of targeted financial aid in federal transfers still remains one of the fiscal policy priorities. The percentage of grants in federal transfers to subjects of the Russian Federation increased as a whole, with the relevant State Program's indicator having been achieved. However, the indicator could not be achieved given the fact that grants as partial compensation for extra costs of increasing public employees' remuneration pertain largely to subsidies and not to grants.

It is worth noting that growth of the percentage of grants in the structure of intergovernmental fiscal transfers to regions was driven up largely by cutting targeted financial aid and by growth, albeit small, of nontargeted transfers. Growth of budget capacity equalization grants coupled with equilibrium grant cuts should be deemed to be a positive move because the latter are allotted in a much less transparent manner.

In analyzing the process whereby the federal authorities appropriate transfers to regions, it is important to consider the effect of federal aid on the differentiation of revenues of subjects of the Russian Federation by assessing the equilibrium features of the financial aid from the federal budget (*Table 26*).

Table 25

Percentage of grants in intergovernmental fiscal transfers

Indicator	2015	2016
Percentage of grants in intergovernmental fiscal transfers in accordance with the state program (plan), %	40.0	41.0
Percentage of grants in intergovernmental fiscal transfers (estimate), %	40.6	41.9
Percentage of grants in intergovernmental fiscal transfers, excluding grants as partial compensation for extra costs of increasing public employees' remuneration (estimate), %	36.9	39.9

Sources: Federal Treasury of Russia, the State Program of The Development of Federal Relations and the Creation of Conditions for Efficient and Prudent Regional and Municipal Finance Management, Gaidar Institute own calculations.

Table 26

Variation coefficient of regional consolidated budget revenues (per capita, having regard to budget expenditure index) in 2008–2016, %

Year	Tax revenues	Tax revenues and budget capacity equalization grants	Tax revenues, grants, subsidies
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
2016	55.6	42.1	37.3

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

As shown in *Table 25*, differentiation of sub-national budget revenues decreased in 2016. The variation coefficient of tax revenues of consolidated budgets of subjects of the Russian

Federation dropped from 66.1 to 55.6% mainly due to the plunge of tax revenues in Sakhalin Region in 2016. Given budget capacity equalization grants, the variation coefficient of regional budget revenues fell from 60.3 to 42.1%. Considering the result obtained after the appropriation of all grants and subsidies, the variation coefficient decreased to 37.3% (56% in 2015).

Deficit and debt at the regional level

Table 27 presents the structure of sources of financing of the consolidated budget deficit of subjects of the Russian Federation in 2011–2016.

Table 27

Sources of financing of consolidated budget deficit of subjects of the Russian Federation in 2012–2016, rubles in billions

	2012	2013	2014	2015	2016
Sources of deficit financing - total	278.5	642.0	447.8	171.6	12.6
Domestic sources of deficit financing	278.5	642.8	447.8	171.6	40.8
Government (municipal) securities	38.2	77.6	-9.2	-5.8	32.0
Credit institutions' loans	162.3	282.6	217.4	101.6	-102.6
Federal budget loans	5.0	43.0	169.3	167.4	181.6
International financial institutions' loans	0.0	2.2	-1.1	0.0	-0.6
Change in cash balances	-74.6	98.1	19.2	77.4	-32.0
Other sources	147.6	139.3	52.2	-168.9	-37.6
External sources of deficit financing	0.0	-0.8	0.0	0.0	-28.2

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

The presented data show that, the consolidated budget of subjects of the Russian Federation faced a better situation than that seen in 2012–2015: the budgets ran a deficit of only RUB 12.6bn, which is many times less than the values recorded in previous years. The balance of commercial (bank) loans and of budget loans is to be noted in particular. The bank loan balance came to be negative and, more importantly, considerable in absolute terms (-RUB 102.6bn) for the first time during the period under review, that is, loan repayments outstripped new lending. Conversely, the budget loan balance came to be positive and comparable in absolute terms (RUB 181.6bn) with the commercial loan balance. These figures reflect a federal policy aimed at replacing more expensive bank loans with cheaper budget loans (at an interest rate of 0.1% p.a.) within the regional debt structure. The role of securities increased somehow, with the securities balance being positive (RUB 32.0bn) as distinct from that over the past two years but much less than the budget loan balance.

Table 28

Public and municipal debt owed by sub-national budgets in 2011–2016, as % of GDP

	As at 2012 year-end		As at 2013 year-end		As at 2014 year-end		As at 2015 year-end		As at 2016 year-end	
	% of GDP	growth, percentage points of GDP	% of GDP	growth, percentage points of GDP	% of GDP	growth, percentage points of GDP	% of GDP	growth, percentage points of GDP	% of GDP	growth, percentage points of GDP
Total for regional budgets	2.00	-	2.40	0.40	2.70	0.20	2.90	0.20	2.74	-0.16
Total for regional budgets (excluding Moscow and the Moscow Region)	1.60	-	2.10	0.50	2.30	0.30	2.60	0.20	2.55	-0.05

Total for municipal budgets	0.40	-	0.40	0.00	0.40	0.00	0.40	0.00	0.42	0.02
-----------------------------	------	---	------	------	------	------	------	------	------	------

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

The regional debt dynamics was generally driven by a steady upward trend in the period of 2012–2015, from 2.0% of GDP as at 2012 year-end to 2.9% of GDP as at 2015 year-end (Table 28). Regions had their debt reduced by 0.16 percentage points to 2.7% of GDP (however, it increased slightly RUB 35bn, or by 1.5%, in nominal terms) at 2016 year end, whereas municipalities saw their debt rise 0.02 percentage points to 0.42% of GDP. Thus a substantial debt ramp-up was halted at the regional level during the year under review. Given a small amount of accumulated liabilities, neither the regional nor the municipal debt is posing any serious macroeconomic risk for the national budget system as a whole. However, a more precise assessment of the regional debt and related budget risks requires analysis by subject of the Russian Federation (see Table 29).

Table 29

Public debt owed by subjects of the Russian Federation in 2012–2015

	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						
	a growth of more than 50%	a growth of 15 to 50%	a growth of less than 15%	no change	a decline of less than 15%	a decline of 15 to 50%	a decline of more than 50%
2012	18	29	14	0	8	10	1
2013	31	36	8	0	6	1	0
2014	12	44	18	0	5	1	2
2015	7	27	31	0	15	1	0
2016	1	13	33	3	25	6	1

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

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

The data on the debt dynamics by region also confirm an improved equilibrium of consolidated budgets of subjects of the Russian Federation in 2016. The number of regions with a debt growth of at least 15% decreased considerably, except for a single region (Tyumen Region) where the debt increased more than 50%. The number of subjects of the Russian Federation that had their debt reduced over the year doubled (from 16 to 32), with a reduction of more than 50% in the city of Moscow. Therefore, although the number of regions that had their debt increased (47) was still bigger than that of the regions having their debt reduced (32), this ratio narrowed substantially compared with that seen a year earlier (65 to 16).

Examination of the Russian regions' debt structure (see Fig. 21) reveals a change toward a notable increase in federal budget loans up to 42.1%, thus adding 7.2 percentage points to the value seen earlier in 2016.

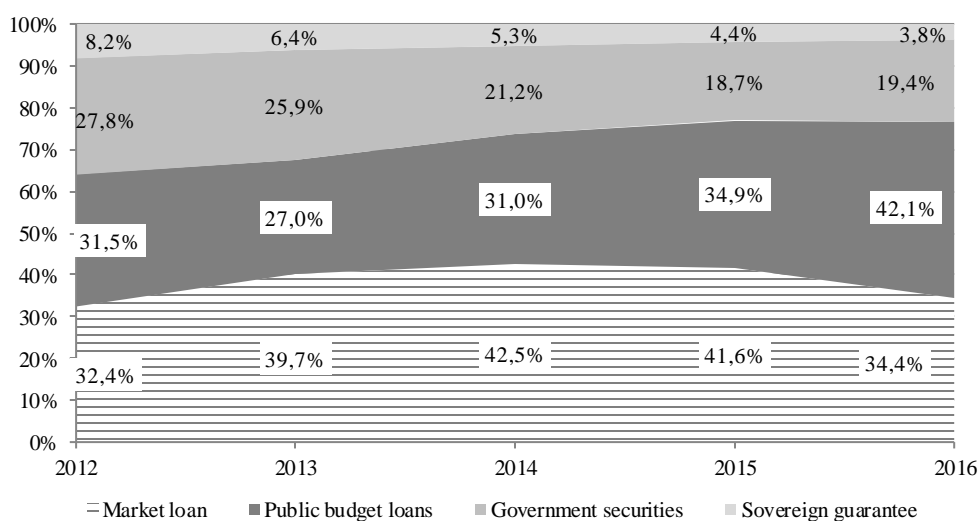


Fig. 21. Public debt structure of subjects of the Russian Federation in 2012–2016

Notes. 1) the presented data exclude the Crimean Federal Okrug (to ensure full compatibility of various periods); 2) in 2015–2016, 0.4% of the public debt owed by subjects of the Russian Federation is accounted for by other debt instruments not shown in the diagram (mostly Kemerovo Region’s liabilities).

Source: Russia’s Ministry of Finance.

Fiscal debt increased amid a plunging percentage of commercial loans (-7.3 percentage points) and a small percentage growth of securities (+0.8 percentage points). Thus this once again points to the above noted trend toward replacing commercial debt with budget loans across regional budgets, thereby reflecting current federal policy priorities toward regions. This however creates the risk of heavier dependence of subjects of the Russian Federation on federal budget loans, and thereby pressurizing harder Russia’s Ministry of Finance and government to write off or freeze the relevant payments. No matter how simple such a measure appears to be to the extent of addressing the accumulated debt issue facing certain subjects of the Russian Federation, it may seriously undermine the budget discipline at the regional level and aggravate the issue of soft budget restrictions by sub-national government authorities in Russia.

* * *

On the whole, a reversal of certain negative trends developed in 2014–2015 was observed in 2016. The percentage of sub-federal budgets in the budget system increased in general, growth rates of tax and nontax revenues outpaced the inflation rate, both deficit and debt were reduced (as a percentage of GDP). However, there were few negative trends worth pointing out. For instance, the decline in personal income tax revenues was indicative of a declining household real income. All in all, Russia’s regions faced a heterogeneous financial situation. Further cuts to federal budget transfers had an adverse effect on regional revenues.