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R95 **Russian Economy in 2018. Trends and Outlooks. (Issue 40)** / [V. Mau at al; ed. Editors – Alexei Kudrin, doctor of sciences (economics), Alexander Radygin, doctor of sciences (economics), doctor of sciences Sergey Sinelnikov-Murylev, doctor of sciences (economics)]; Moscow: Gaidar Institute Publishers 2019. – 616 pp. – ISBN 978-5-93255-556-9

The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 40th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 6 big sections that highlight different aspects of Russia's economic development, which allow to monitor all angles of ongoing events over a prolonged period: the socio-political issues and challenges; the monetary and budget spheres; financial markets and institutions; the real sector; social sphere; institutional changes. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts confirming the conclusions.

*Reviewer:* Lev Yakobson, Doctor of sciences (economics), professor, first pro-rector, NRU-HSE.

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## **2.2. Russia's Fiscal Policy in 2018<sup>1</sup>**

### **2.2.1. Budgets characteristics in the budgetary system of Russia**

#### ***Basic parameters of the budgetary system of Russia***

In 2018, fiscal revenues of the enlarged government (hereinafter BEG) according to the preliminary data released by the Federal Treasury<sup>2</sup> exceeded the volumes seen in the previous year by 1.9 percentage points of GDP, or by RUB 5,870 billion in absolute terms (*Table 7*). At the same time, 75 percent of the income increment of BEG was secured by the federal budget including oil revenues to RUB 3,046 billion, or by 2.2 percentage points of GDP. Non-oil and gas receipts to the consolidated budget of the Russian Federation in 2018 compared to 2017 rose by RUB 2,824 billion in absolute terms but dropped in shares of GDP by 0.3 percentage points. Expenditures of Russia's budgetary system contracted in 2018 compared to January-December 2017 by 2.6 percentage points of GDP growing in absolute terms by RUB 1,485 billion.

In 2018, fiscal revenues of the budgetary system of Russia hit maximum for the five-year period which was mainly due to the favorable price environment on the natural resources. Budget expenditures of the enlarged government in shares of GDP in 2018 on the contrary reached minimum for the five-year period, which was possible due to budgetary rule in force, which significantly limited spending of the federal budget.

As a result, consolidated budget of the Russian Federation in 2018 was executed with a surplus (2.9 percent of GDP) for the first time during the period in review.

<sup>1</sup> This section was written by I. Arlashkin, RANEPA; N. Barbashova, RANEPA; S. Belev, Gaidar Institute, RANEPA; A. Deryugin, RANEPA; E. Leonov, Gaidar Institute, RANEPA; I. Sokolov, Gaidar Institute, RANEPA, VAVT; T. Tischenko, RANEPA.

<sup>2</sup> Data for 25.02.2019.

*Tablea 7*

**Main parameters of the budget of the enlarged government in 2014–2018**

	2014		2015		2016		2017		2018		Changes in 2018 relative to 2017, para GDP p.p. p. of GDP
	RUB bn	% of GDP	RUB bn	% of GDP	RUB bn	% of GDP	RUB bn	% of GDP	RUB bn	% of GDP	
Revenues, Including:	26 766	33.8	26 922	32.3	28 181	32.8	31 047	33.7	36917	35.6	1.9
- oil and gas	7434	9.4	5863	7.0	4844	5.6	5972	6.5	9018	8.7	2.2
- non-oil and gas	19 332	24.4	21 059	25.3	23 337	27.2	25 075	27.2	27 899	26.9	-0.3
Expenditures	27 612	34.9	29 741	35.7	31324	36.4	32 396	35.2	33881	32.7	-2.5
Deficit (-)/ Surplus (+)	-846	-1.1	-2 819	-3.4	-3 143	-3.6	-1 349	-1.5	3 036	2.9	4.4
Reference: GDP, RUB billion	79 200		83 387		86 010		92 089		103 627		

Sources: Federal Treasury, Rosstat.

***Receipts from the main taxes to the budgetary system of Russia***

According to 2018 figures, fiscal revenues of the consolidated budget moved up (Table 8). Across the majority of certain components of the tax burden a positive receipts dynamics was observed.

*Table 8*

**Receipts from the main taxes of the enlarged government of the Russian Federation in 2014–2018**

	In percent of GDP					Change in 2018 against 2017 in p.p. of GDP	Growth in 2018 in prices of 2017 against 2017, %
	2014	2015	2016	2017	2018		
<b>Revenues total</b>	<b>33.7</b>	<b>31.9</b>	<b>32.1</b>	<b>32.6</b>	<b>35.0*</b>	<b>2.4</b>	<b>15.8</b>
Corporate profit tax	3.0	3.1	3.2	3.6	4.0	0.4	19.5
PIT	3.4	3.4	3.5	3.5	3.5	0.0	7.8
Insurance contributions	6.3	6.4	6.7	6.4	6.3*	-0.1	6.1
VAT	5.0	5.1	5.4	5.6	5.8	0.2	12.3
Excises	1.4	1.3	1.6	1.7	1.5	-0.2	-4.7
NRET	3.7	3.9	3.4	4.5	5.9	1.4	42.3
Customs duties and levies	6.9	4.0	3.0	2.8	2.9	0.1	11.5

\* insurance contributions and total revenues are given without double count of insurance contributions for economically inactive population, values of total revenues differ from the official data for given value.

Sources: Federal Treasury, Rosstat, own calculations.

Oil and gas revenues of the budget, which plummeted in 2016, in 2018 continued growing. The volume of customs duties and levies demonstrated an upward trend (by +0.1 percentage points of GDP against 2017, or +19.6 percent in real terms), and receipts from MET exhibited the highest growth by 1.4 percentage points of GDP (by 39.8 in real terms).

Insurance contributions and excises somewhat decreased, and receipts from VAT went up by 0.2 percentage points of GDP. Receipts form PIT since 2016 go along with GDP.

There were no serious changes in the parameters of the tax policy effective in 2018.

**Oil and gas revenues.** Base rate of MET-oil remained at RUB 919 per ton. In the wake of oil price growth there was an increase of oil and gas receipts (*Table 9*).

Table 9

**Proceeds from export duties on energy products and MET  
in 2014–2018, percent of GDP**

	2014	2015	2016	2017	2018
MET	3.7	3.9	3.4	4.5	5.9
Export duties of energy products:	5.8	3.3	2.3	2.1	2.9
Crude oil	3.3	1.7	1.2	1.1	1.5
Petroleum products	1.9	0.9	0.5	0.4	0.6
Natural gas	0.6	0.7	0.6	0.6	0.8

Sources: Rosstat, Bank of Russia, Federal Treasury, Federal Customs Service.

Analysis of tax and customs bases dynamics (*Fig. 15*) exhibits that in 2018 export and production of crude oil changed slightly or did not change against 2017: exports amounted to 257.5 million tons (+0.5 million tons against 2017), and extraction came to 555.8 million tons ( up 9.1 million tons to 2017).

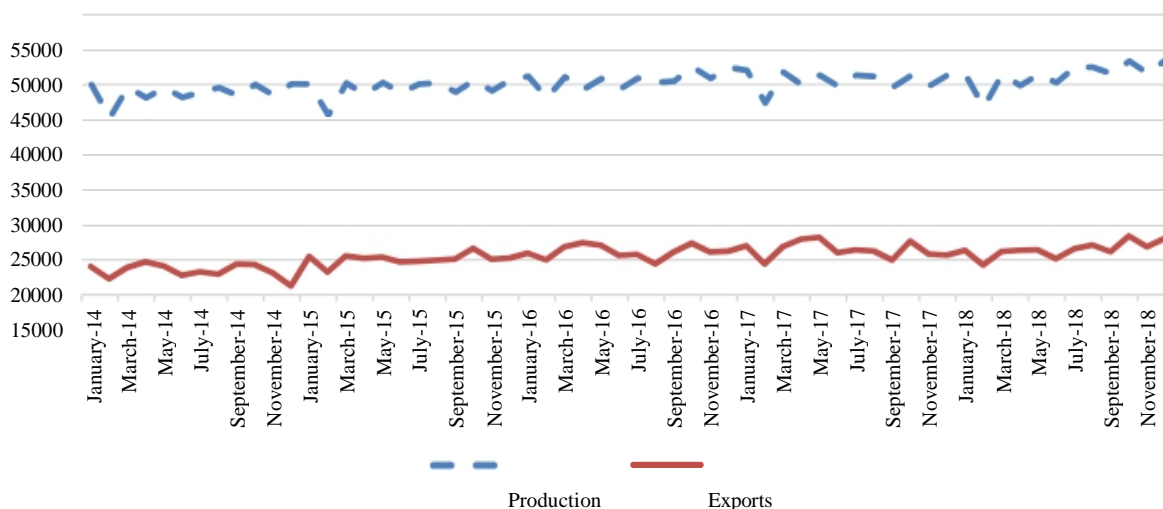


Fig. 15. Export and production of crude oil in 2014–2018, thousand tons

Source: Ministry of Energy of Russia.

Thus, Urals price growth was the main contribution to the growth of oil and gas revenues. USD exchange rate did not react to the oil price change owing to the fact that the Russian Finance Ministry abided to the budgetary rule (*Fig. 16*). As a result, actual ruble rate on MET averaged in 2018 over RUB 12,000 per ton of oil meanwhile in 2017 it averaged over RUB 7,800 per ton.

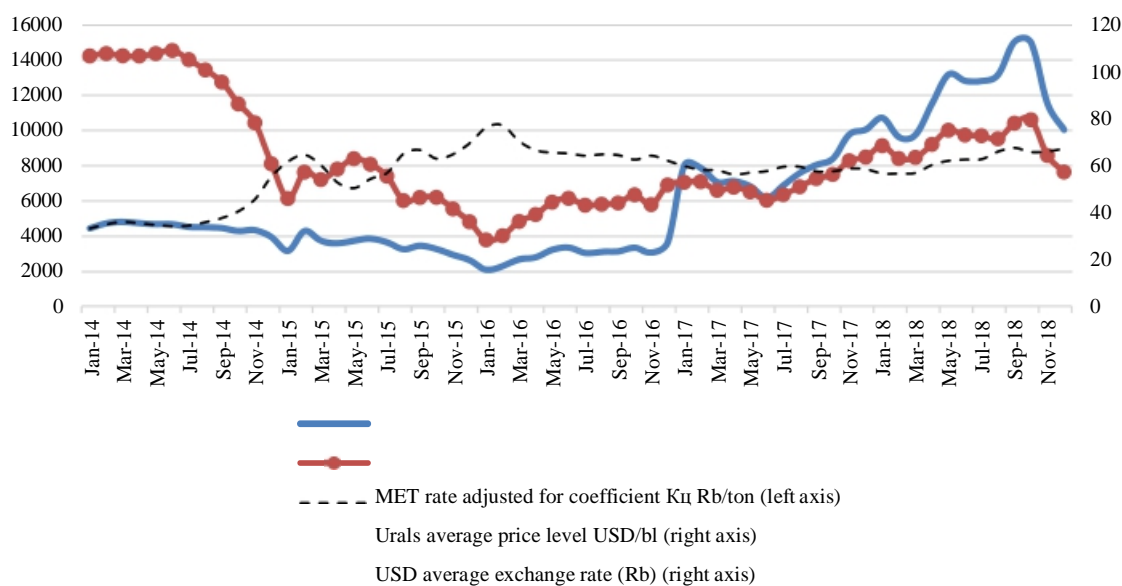


Fig. 16. Dynamics of actual tax rate on MET, Urals price and USD exchange rate in 2014–2018

**Corporate income tax.** In 2018, returns from the corporate income tax increased notably (ip0.4 percentage points of GDP). Fig. 17 demonstrates significant income growth of the profit-making companies. Nevertheless, growing share of the loss-making enterprises is alarming.

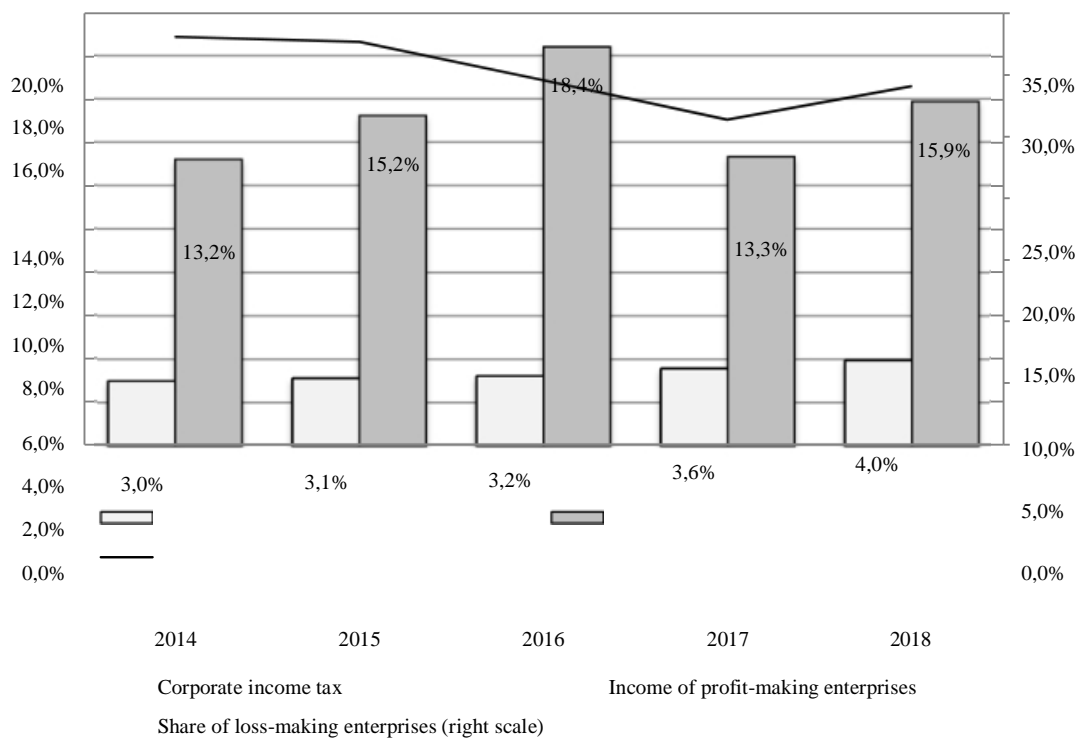
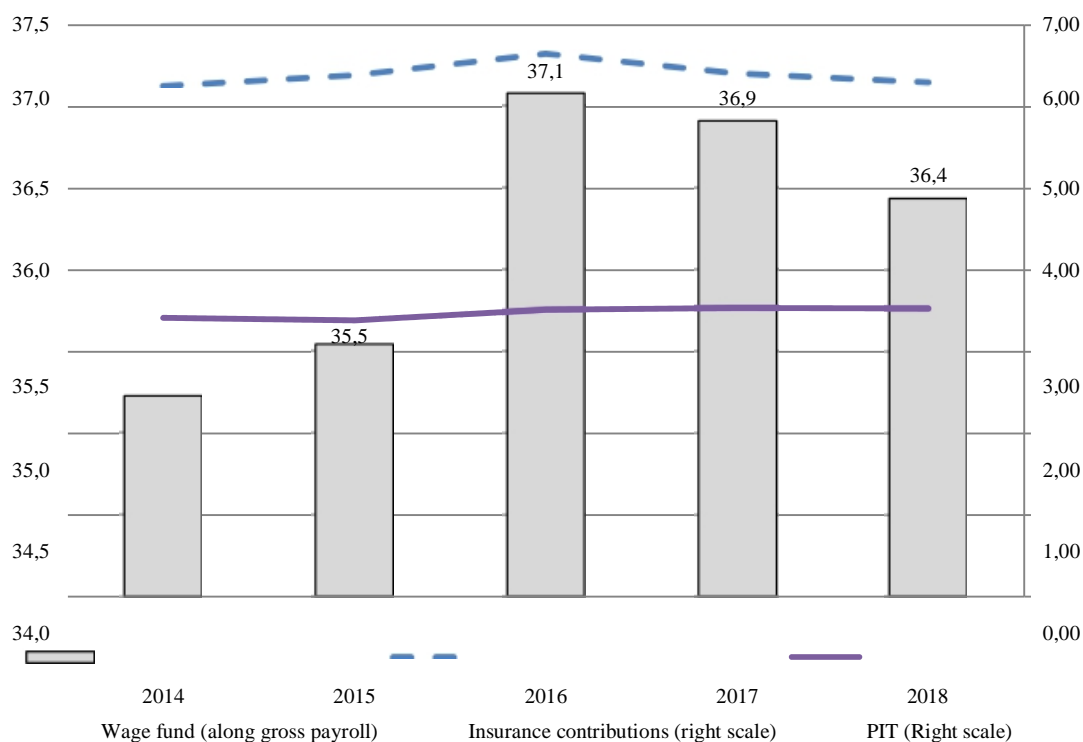


Fig. 17. Dynamics of proceeds from the corporate income tax to the budgetary system of the Russian Federation, income of profit-making enterprises (percent of GDP), share of loss-making enterprises in percent in 2014–2018

Sources: Federal Customs Service, Rosstat.

**Insurance contributions and PIT.** In 2018, there was no change in the rates and base of insurance contributions. Wage Fund of gross payroll relative GDP somewhat decreased. Meanwhile, returns from insurance contributions repeat the Fund’s dynamic. Receipts from PIT consistently stay at the same level against GDP in recent years. This is due to the fact that the decrease of the tax base on ‘wage’ component was offset by the growth of other income subject to taxation along PIT.



*Fig. 18. Receipts from insurance contributions, PIT, and wage fund (along gross payroll) in 2013–2018, percent of GDP*

Sources: Rosstat, Federal Treasury, own calculations.

**VAT.** Total receipts from VAT in 2018 rose by 0.2 percentage points hitting 5.8 percent of GDP. At the same time in 2018 contrary to 2017, significantly grew the share of VAT returns from imports in the increments of income amount. For example, in 2017, decisive contribution in the income growth (0.3 percentage points of GDP) was due to VAT on goods sold on the territory of the Russian Federation (“internal VAT”) with insignificant VAT growth from imports (merely 0.02 percentage points of GDP), then in 2018, VAT growth from imports constituted nearly 0.2 percentage points, meanwhile income from “internal” VAT moved up merely by around 0.1 percentage points of GDP (*Table 10*).

It should be noted that in 2018, the imputed fiscal performance rose significantly strengthening upward trend which made itself felt after 2014 and reaching the highest level for the recent years. Receipts growth is due first of all to the ongoing usage of ACS

VAT-2 by customs bodies as well as to a certain decrease of the shadow sector in the Russian economy.

*Table 10*

**Dynamics of proceeds from VAT to the budgetary system  
of the Russian Federation, percent of GDP**

	2014	2015	2016	2017	2018
Proceeds from VAT, total	5.0	5.2	5.3	5.6	5.8
VAT on goods sold on the RF territory	2.8	3.0	3.1	3.3	3.4
Vat on goods imported to the RF territory	2.3	2.2	2.2	2.3	2.4
Effective VAT rate, percent	7.5	7.8	8.0	8.6	9.7
Fiscal performance coefficient (C-efficiency), percent	41.5	43.5	44.6	47.5	53.7

*Sources:* Rosstat, Federal Treasury, own calculations.

**Excises.** In 2018, somewhat decreased returns from excises both on alcoholic beverages and tobacco products: collections from excises of these products in 2018 amounted to RUB 395 billion and RUB 583 billion, respectively.

Recent years have seen the contraction of consumption of practically all types of alcoholic beverages in volume terms. Thus, owing to the rates stability returns to the budget from excises on alcoholic beverages contracted by 0.4 percent in 2018 against 2017.

Tobacco products market has been steadily shrinking recently. When previously fiscal revenues were growing in the wake of excises rates growth, then at year-end 2018 returns fell by nearly RUB 8 billion (down 1.3 percent compared to 2017). There are two reasons for this contraction:

1. Increase of the absolute volume of black market sales and correspondingly share of bootleg turnover on the falling market. For example, according to Euromonitor Int. estimates, the share of bootleg turnover moved up from 2.9 percent in 2014 to 6.5 percent in 2018.

2. Shifts in the market structure and switchover of part of consumers to electronic systems of nicotine provision (e-cigarette), which popularity and diversity grow all the more. This fact is reflected in the budget statistics: when in 2017 total collections from excises from e-cigarettes amounted to merely RUB 0.57 billion, in 2018 – already RUB 5.33 billion.

*Table 11*

**Proceeds from excises on tobacco and alcoholic beverages,  
RUB billion.**

	2014	2015	2016	2017	2018
Market volume of tobacco products (turnover of retail trade according to Rosstat)	553	633	701	775	n/a
Proceeds from excises on tobacco products ( <i>less e-cigarettes</i> )	319	386	483	591	583
Alcoholic beverages market (retail trade turnover according to data released by Rosstat)	1871	1904	1933	1997	n/a
Proceeds from excises on alcohol	340	327	354	397	395

*Sources:* Rosstat, Federal Treasury, Federal Customs Service, own calculations.



### *Expenditures of the budgetary system of the Russian Federation*

Expenditure of the budgetary system contracted in 2018 by 2.5 percentage points of GDP in comparison with 2017 level (*Table 12*).

*Table 12*

#### **Budget expenditure of the enlarged government in 2014–2018, percent of GDP**

	2014	2015	2016	2017	2018	Change in 2018 to 2017
<b>Expenditure, total</b>	<b>34.9</b>	<b>35.7</b>	<b>36.4</b>	<b>35.2</b>	<b>32.7</b>	<b>-2.5</b>
General state issues	2.1	2.2	2.2	2.1	2.1	0.0
National defense	3.1	3.8	4.4	3.1	2.7	-0.4
National security and law enforcement activities	2.8	2.5	2.3	2.2	2.0	-0.2
National economy	5.7	4.5	4.5	4.7	4.3	-0.4
Housing and utility sector	1.3	1.2	1.2	1.3	1.3	0.0
Environmental conservation	0.1	0.1	0.1	0.1	0.1	0.0
Education	3.8	3.6	3.6	3.5	3.5	0.0
Culture, cinematography	0.5	0.5	0.5	0.5	0.5	0.0
Healthcare	3.2	3.4	3.6	3.1	3.2	0.1
Social policy	11.1	12.6	12.7	13.1	11.6	-1.5
Physical fitness and sports	0.3	0.3	0.3	0.4	0.3	-0.1
Mass media	0.1	0.2	0.1	0.1	0.1	0.0
Servicing state and municipal debt	0.7	0.8	0.9	0.9	0.9	0.0

*Sources:* Federal Treasury, own calculations.

One should note downward trend in spending during 2018 against 2017 across the following budget lines: Social policy down 1.5 percentage points of GDP, National defense and National economy down 0.4 percentage points of GDP, National security and law enforcement activities down 0.2 percentage points of GDP, physical fitness and sports down 0.1 percentage points of GDP. Only spending on Healthcare demonstrated growth 0.1 percentage point of GDP. Regarding other budget lines the volume of budget allocations in 2018 against 2017 in share of GDP remained unchanged.

The share of productive expenditures in the overall volume of the expenditure budget of the enlarged government in 2018 constituted 29.3 percent against 27.3 percent in 2017. Regarding certain lines of productive expenditures of the enlarged government budget in 2018 compared to 2017 under the general growth by 4.6 percent in nominal terms the following changes are observed:

- growth of budget allocations on fundamental research (up 27.4 percent), on applied research in the sphere of general state issues (up 2.3-fold), on applied research in the sphere of national defense (up 20.0 percent), on public road system (up 8.0 percent), on higher education (up 8.5 percent), on outpatient care (up 22.1 percent), and in-patient care (up 11.9 percent);

- reduction of budget allocations on transportation (down 3.2 percent).

National projects are the basic instruments for the implementation of the Presidential May Decree<sup>1</sup>. At the end of 2018, twelve national projects and a complex plan for modernization and extension of the long-distance infrastructure were developed.

<sup>1</sup> The Executive Order of the President of the Russian Federation of 07.05.2018 No. 204 “On National Goals and Strategic Objectives of the Russian Federation through 2024.”

Intersectoral feature has become a signature plank of such national projects. For instance, national project Demography consists of five federal projects<sup>1</sup>. Budget allocation on these projects are distributed across various sections of functional classification forming part of the following state programs: “Social safety net,” “Development of physical fitness and sports,” “Provision of accessible and comfortable housing and utilities citizens of the Russian Federation,” “Promotion of employment,” “Development of education,” “Development of healthcare,” and “Economic development and innovation-driven economy.” Participation of the RF subjects in the implementation of the national projects is achieved through the regional projects coordinated at the federal level. Planned volume of spending on the implementation of the national projects in 2019–2024 will amount RUB 25.7 trillion including along sources of financing: the federal budget – RUB 13.1 trillion, The RF subjects’ budgets – RUB 4.9 trillion, extrabudgetary sources – RUB 7.2 trillion, state extrabudgetary funds – RUB 0.1 trillion<sup>2</sup>. Achievement of objectives of the national projects will depend, first of all, on the efficiency of the interdepartmental coordination and attraction of funds from the extrabudgetary sources of financing.

### *Deficit of the budgetary system of the Russian Federation*

At the year-end 2018, the budget of the enlarged government was executed with a surplus amounting to RUB 3,036 billion, or 2.9 percent of GDP against the budget deficit registered in 2017 to the tune of 1.5 percent of GDP, or RUB 1,349 billion (Table 13).

*Table 13*

### **Sources of financing the budget deficit of Russia in 2014–2018**

	RUB billion					Percent of GDP				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
<b>Sources of the deficit financing, total</b>	<b>845</b>	<b>2 819</b>	<b>3 143</b>	<b>1 349</b>	<b>-3 036</b>	<b>1.1</b>	<b>3.4</b>	<b>3.7</b>	<b>1.5</b>	<b>-2.9</b>
<i>Financing of deficit from internal sources</i>	<b>4 478</b>	<b>1 713</b>	<b>-405</b>	<b>2 555</b>	<b>1 566</b>	<b>5.7</b>	<b>2.1</b>	<b>-0.5</b>	<b>2.8</b>	<b>1.5</b>
Government bonds	1 016	9	524	1220	507	1.3	0.0	0.6	1.3	0.5
Loans from credit organizations	217	102	-103	-126	-15	0.3	0.1	-0.1	-0.1	0.0
Other sources	3 245	1 602	-826	1 461	1 074	4.1	1.9	-1.0	1.6	1.0
<i>Financing of the deficit from external sources</i>	<b>-147</b>	<b>-296</b>	<b>15</b>	<b>-126</b>	<b>-135</b>	<b>-0.2</b>	<b>-0.4</b>	<b>0.0</b>	<b>-0.1</b>	<b>-0.1</b>
Government bonds	-47	-183	110	41	-50	-0.1	-0.2	0.1	0.0	0.0
Credits from foreign countries	-25	-51	-17	-20	-15	0.0	-0.1	0.0	0.0	0.0
Other sources	-75	-63	-78	-147	-70	-0.1	-0.1	-0.1	-0.2	-0.1
<i>Change of remaining balance</i>	<b>-3 486</b>	<b>1 402</b>	<b>3 533</b>	<b>-1 080</b>	<b>-4 467</b>	<b>-4.4</b>	<b>1.7</b>	<b>4.1</b>	<b>-1.2</b>	<b>-4.3</b>

Sources: Federal Treasury, own calculations.

<sup>1</sup> “Financial assistance to families at child birth,” “Promotion of women’s employment- creation of conditions for pre-school education for children to three years,” “Old generation,” “Older generation,” “Promotion of one’s health,” “Sports – way of life».

<sup>2</sup> Website of the RF Government. URL: <http://static.government.ru/media/files/p7nn2CS0pVhvQ98OOwAt2dzCIAietQih.pdf>

In 2018 against the previous year, the amount of net borrowings<sup>1</sup> on the internal market significantly contracted from 1.3 percent of GDP to 0.5 percent of GDP, in particular, the volume of placed securities amounted to RUB 1,123.5 billion with the amount of redemption coming to RUB 616.0 billion (in 2017 – RUB 1,917.7 and 751.2 billion, respectively). Consolidated budgets of the RF subjects borrowed in bonds in 2018 amounting to RUB 86.9 trillion under the planned volumes coming to RUB 231.9 billion, the amount of redemption constituted RUB 86.9 trillion. Thus, the amount of regional debt on government bonds in 2018 remained unchanged and as of January 1, 2019 constituted RUB 551.4 billion (in 2017 – RUB 548.5 billion<sup>2</sup>), or 25 percent of the total state debt of the subjects of the Russian Federation (RUB 2,206.3 billion). Across other internal sources of the budget deficit financing it will be noted that returns from the sale of shares and other forms of participation in debt equity swap amounted to RUB 22.7 billion (in 2017 – RUB 22.8 billion), including regarding the consolidated budget of the subjects of the Russian Federation – RUB 10.0 billion (in 2017 – RUB 8.5 billion).

On the whole, the dynamics of the main parameters of the enlarged government budget in 2018 against the previous four-year period is in keeping with the policy of the budget consolidation, which ensures sustainability of the public finance in the medium-term, which, in its turn, is one of the significant factors for successful implementation of the national projects.

## 2.2.2. Specification of the federal budget

### *Basic parameters of the federal budget*

In 2018, the revenue of the federal budget hit a fresh all-time high reaching 18.8 percent of GDP (RUB 19,457.9 billion), which is above their indicator for 2017 by 2.4 percentage points (*Table 14*). Growth of the gross income of the federal budget was triggered both by an increase of oil and gas components by 2.2 percentage points of GDP and by non-oil and gas proceeds by 0.2 percentage points of GDP. Furthermore, the volume of oil and gas income (8.7 percent of GDP) exceeded the original forecast values presented in the memorandum to the draft of the federal law on the federal budget for 2018-2020 by 3.1 percentage points of GDP.

The federal budget expenditures for 2018 amounted to 16.1 percent of GDP (RUB 16,664.7 billion) down 1.7 percentage points of GDP against the previous year (17.8 percent of GDP) and by 0.9 percentage points of GDP of the originally approved volume.

Budget surplus at the year-end 2018 hit 2.7 percentage points of GDP (RUB 2,793.2 billion) against 1.4 percentage points a year earlier. At the same time, non-oil and gas deficit contracted by 1.9 percentage points of GDP to -6.0 of GDP.

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<sup>1</sup> The difference between the volume of placed securities and redeemed for the period under review.

<sup>2</sup> The difference of RUB 3 billion is due to the redemption of municipal securities of urban districts.

*Table 14*

**Main parameters of the federal budget in 2014–2018, percent of GDP**

	2014	2015	2016	2017	2018			Change in 2018 relative to 2017, p.p. of GDP
					Law on FB for 2018 <sup>1</sup>	Law on FB for 2018 with amendments introduced in May <sup>2</sup>	Actually	
<b>Revenues</b>	18.3	16.4	15.7	16.4	15.7	17.4	18.8	2.4
Oil and gas	9.4	7.0	5.6	6.5	5.6	7.4	8.7	2.2
Non oil and gas	8.9	9.4	10.1	9.9	10.1	10.0	10.1	0.2
<b>Expenditures</b>	18.7	18.7	19.1	17.8	17.0	16.9	16.1	-1.7
<b>Deficit (-) / surplus (+)</b>	-0.4	-2.3	-3.4	-1.4	-1.3	0.5	2.7	4.1
Non-oil and gas deficit	-9.8	-9.3	-9.0	-7.9	-7.0	-6.9	-6.0	1.9
<i>GDP, RUB billion</i>	79 200	83 387	86 010	92 089	97 462	98 234	103 627 <sup>3</sup>	
<i>Urals USD per barrel</i>	97.6	51.2	41.9	53.0	43.8	61.4	70.0	

Sources: Federal Treasury,<sup>4</sup> PRosstat, own calculations.

The share of oil and gas revenues on the overall amount of income in 2018 increased to 46.3 percent against 39.6 percent in 2017, however this dynamic can not attest to an increase of the dependence of the budget system sustainability on the oil and gas revenues because the growth of spending is limited by the budget rules and all additional oil and gas revenues are directed to the NWF. For instance, according to data released by the Finance Ministry of Russia additional oil and gas revenues obtained in 2018 due to the excess of the actual oil prices over the base one<sup>6</sup> are estimated in the volume of RUB 4,261.4 billion. Thus, the difference between the volume of fiscal revenues less additional oil and gas revenues (RUB 15,196.5 billion) and the nominal volume of the federal budget expenditures (provisional expected deficit) constitutes RUB 1,468.2 billion, or -1.4 percent of GDP<sup>7</sup>.

***Main sources of revenue***

Parameters of the federal budget revenue part execution for 2018 on volumes and structure are presented in *Table 15*. The amount of collections from the oil and gas component went up by 2.2 percentage points of GDP due to the growth receipts from MET by 1.4 percentage points of GDP and to the export customs duties by 0.8 percentage points of GDP which was owing to the increase of Urals price growth (oil price at the year-end 2017 averaged USD 53.03 bbl against USD 70.01 bbl in 2018) and USD ruble exchange rate (RUB 58.3 per USD in 2017 against RUB 62.7 in 2018). Growth of oil and gas revenues was affected by a change in the computed interest rate on MET in terms of combustible natural gas with increasing Kgp coefficient for

<sup>1</sup> Federal Law of 05.12.2017 No. 362-FZ.

<sup>2</sup> Federal Law of 3.06.2018 No. 193-FZ.

<sup>3</sup> Estimates of Rosstat as of 11.02.2019

<sup>4</sup> According to data released by the Federal Treasury as of 07.02.2019.

<sup>5</sup> USD 70.01 bbl.

<sup>6</sup> USD 40.8 bbl.

<sup>7</sup> Projected budget deficit exhibits that under the base oil price at USD 40.8 bbl the federal budget is not balanced by 1.4 percent of GDP.

organizations – owners of the United gas supply system in Q4 2018 (from 1.4022 to 2.055). The share of MET in the total volume of oil and gas revenues demonstrates a sustainable upward trend from 38.3 percent in 2014 to 66.6 percent in 2018 by means of reducing the share of proceeds from export duties (resulting from tax maneuver effective in the oil and gas sector).

*Table 15*
**Proceeds of main taxes to the federal budget in 2014–2018**

	Percent of GDP					Change in 2018 against 2017, p.p. of GDP
	2014	2015	2016	2017	2018	
<b>Revenues, total</b>	<b>18.3</b>	<b>16.4</b>	<b>15.7</b>	<b>16.4</b>	<b>18.8</b>	<b>2.4</b>
<b>Oil and gas revenues</b>	<b>9.4</b>	<b>7.0</b>	<b>5.6</b>	<b>6.5</b>	<b>8.7</b>	<b>2.2</b>
<i>Of which:</i>						
MET	3.6	3.7	3.3	4.4	5.8	1.4
Export duties	5.8	3.3	2.3	2.1	2.9	0.8
<b>Non-oil and gas revenues</b>	<b>8.9</b>	<b>9.4</b>	<b>10.1</b>	<b>9.9</b>	<b>10.1</b>	<b>0.2</b>
<i>Of which:</i>						
Corporate income tax	0.5	0.6	0.6	0.8	1.0	0.2
VAT on goods sold on the territory of the Russian Federation	2.8	2.9	3.1	3.3	3.4	0.1
VAT on goods imported into the territory of the Russian Federation	2.2	2.1	2.2	2.2	2.4	0.2
Excises on goods produced on the RF territory	0.7	0.6	0.7	1.0	0.8	-0.2
Excises on goods imported into the RF territory	0.1	0.1	0.1	0.1	0.1	0.0
Import duties	0.8	0.7	0.7	0.6	0.6	0.0
Other revenues	1.8	2.4	2.7	1.9	1.8	-0.1

*Sources:* Federal Treasury, own calculations.

The volume of non-oil and gas revenues of the federal budget in 2018 against the previous year rose across all fiscal revenues except internal excises, which contracted by 0.2 percentage points of GDP mainly due to a decrease of proceeds from excises on ethyl alcohol, gasoline, and tobacco products. Regarding other non-oil and gas revenues growth is noted in 2018 against the previous year: by 0.2 percentage points of GDP on the corporate income tax and import VAT, and by 0.1 percentage point of GDP on internal VAT. Returns from the corporate income tax transferred to the budget using corresponding rates increased by 0/1 percentage point of GDP, or by 29.8 percent in nominal terms. On the whole, non-oil and gas fiscal revenues are rather stable in recent years which confirms conclusions about the adaptation of the Russian economy to the impact of external negative factors.

The amount of non-tax revenues contracted in 2018 relative 2017 by 0.1 percentage points of GDP. However, regarding certain lines the following upward trend is noted in nominal terms:

- revenues in terms of income proceeding from the share in authorized (contributed) capital of partnerships and business companies, or dividends from shares owned by the Russian Federation, growth by 24.3 percent;
- revenues from placement of budget funds up 2.5-fold.

### *Federal budget expenditures*

The federal budget expenditures in 2018 amounted to 16.1 percent of GDP, down 1.7 percentage points against 2017 with the growth by RUB 244.4 billion in absolute terms, or by 1.5 percent (*Table 16*).

*Table 16*

#### **Federal budget expenditures in 2017–2018**

	2017			2018			Change in 2018 relative to 2017	
	RUB bn	in % of GDP	Cash execution, %	RUB bn	in % of GDP	Cash execution, %	RUB bn	p.p. of GDP
<b>Expenditures total, including:</b>	<b>16 420.3</b>	<b>17.8</b>	<b>96.5</b>	<b>16 664.7</b>	<b>16.1</b>	<b>95.5</b>	<b>244.4</b>	<b>-1.7</b>
General state issues	1 162.4	1.3	93.1	1 235.8	1.2	88.9	73.4	-0.1
National defense	2 852.3	3.1	93.2	2 826.3	2.7	92.3	-26.0	-0.4
National security and law enforcement	1 918.0	2.1	97.8	1 971.0	1.9	96.2	53.0	-0.2
National economy	2 460.0	2.7	95.3	2 401.8	2.3	93.5	-58.2	-0.4
Housing and utility sector	119.5	0.1	95.6	148.4	0.1	88.1	28.9	0.0
Environmental conservation	92.3	0.1	99.2	116.0	0.1	98.8	23.7	0.0
Education	615.0	0.7	98.7	722.6	0.7	95.9	107.6	0.0
Culture and cinematography	89.7	0.1	91.1	94.5	0.1	84.3	4.8	0.0
Healthcare	439.8	0.5	97.3	537.3	0.5	96.3	97.5	0.0
Social policy	4 992.0	5.4	99.2	4 582.1	4.5	99.4	-409.9	-0.9
Physical fitness and sports	96.1	0.1	93.8	63.9	0.1	86.8	-32.2	0.0
Healthcare	83.2	0.1	99.9	88.4	0.1	99.9	5.2	0.0
Social policy	709.1	0.8	97.1	781.0	0.8	99.0	71.9	0.0
Interbudgetary transfers	790.7	0.8	95.3	1 095.4	1.1	99.7	304.7	0.3

*Sources:* Federal Treasury, own calculations.

Contraction in shares of GDP in 2018 relative 2017 is noted across the following lines:

- “Social policy” down 0.9 percentage points of GDP due to the decrease of budget allocations on “pension provision” from 3.9 percent of GDP to 3.0 percent of GDP;
- “National economy” down 0.4 percentage points of GDP including decrease of spending on the items “transportation” and “other issues in the sphere of national economy;”
- “National defense” down 0.4 percentage points of GDP through a decrease of spending on the item “Armed forces of the Russian Federation down 0.3 percentage points of GDP;
- “National security and law enforcement” and “General state issues” down 0.2 and 0.1 percentage points of GDP, respectively.

Growth of the federal budget allocations in 2018 compared to 2017 was solely on the line “Interbudgetary transfers” by 0.3 percentage points of GDP mainly owing to the increase of budget allocations on the item “other subsidies.”

On the whole, the federal budget structure regarding productive and non-productive expenditures has not changed significantly. The share of productive expenditures in the overall volume of expenditures moved up from 16.8 percent in 2017 to 18.4 percent registered in 2018 and has not changed in shares of GDP (3.0 percent of GDP).

Regarding cash execution of the federal budget in 2017-2018 against the approved annual parameters one can note that for 2017 the share of execution hit 96.5 percent of the annual budget of the annual budget breakdown, meanwhile, for twelve months of 2018 cash execution constituted 95.5 percent.<sup>1</sup> As during the previous year, the maximum volume of implemented budget allocations over 99.0 percent is registered in 2018 across budget lines “Social policy,” and Mass media. Underdogs regarding cash execution of the federal budget in 2018 (below 90 percent) were budget lines “General state issues,” “Housing and utility sector,” “Culture and cinematography,” and “Physical fitness and sports.”

Analysis of the implementation of budget allocations across executive performers of state programs (*Table 17*) at the year-end 2017-2018 revealed somewhat improvement with the implementation of state program “Implementation of state national policy” (75.7 percent against 66.3 percent) and decrease of cash execution across all other state programs presented in the table.

*Table 17*

**State programs with the lowest percent of expenditure execution in 2017–2018**

No.	Program	Executive body <sup>2</sup>	Execution, %	
			2017	2018
1	Implementation of state national policy	Federal agency for national affairs	66.3	75.7
2	Development of pharmaceutical and medical industry for 2013–2020	Ministry for industry and trade	81.6	62.9
3	Space activity of Russia for 2013-2020	Federal space agency	82.8	74.4
4	Reproduction and use of natural resources	Ministry of natural resources and environmental protection	91.2	88.5
5	Development of culture and tourism for 2013–2020	Ministry of culture	91.3	82.8

Sources: Federal Treasury, own calculations.

***Deficit and debt at the federal level***

At year-end 2018, cash flow from the sources of financing the budget deficit demonstrated the following dynamics (*Table 18*):

- the amount of borrowing on the internal market has contracted to RUB 1,036.6 billion against RUB 1,756.4 billion registered in 2017. However, the volume of repayment decreased from RUB 632.9 billion in 2017 to RUB 529.0 billion;

- volume of receipt obtained from the sale of shares and other forms of equity participation in the state ownership – RUB 12.8 billion (in 2017 – RUB 14.3 billion);

- purchase/sale of precious metals and precious stones register negative balance (receipts in 2018 – RUB 6.2 billion, purchases – RUB 8.5 billion in 2017 – 7.6 and 6.0 billion, respectively);

- receipts from the repayment of the budget loans extended for the partial coverage of the deficit of the RF subjects’ budgets constituted RUB 69.9 billion. According to the

<sup>1</sup> According to real-time data. According to final data, cash execution can increase.

<sup>2</sup> Executive performer is indicated in the passport of SP not taking into consideration changes in the structure of the Federal bodies of executive power.

operative records budget loans in the line were not extended (in 2017, there was a negative balance regarding extension/repayment of budget loans amounting to RUB -20.3 billion);

- the amount of placement of state bonds in the external market also decreased from RUB 405.5 billion in 2017 to RUB 120.2 billion in 2018 with the repayment volume at RUB 194.6 billion in 2018 against RUB 364.7 billion in 2017.

*Table 18*

### Sources of financing of the federal budget deficit in 2014–2018

	RUB billion					Percent of GDP				
	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
<b>Sources of financing deficit, total</b>	<b>334</b>	<b>1 961</b>	<b>2 956</b>	<b>1 331</b>	<b>-2 793</b>	<b>0.4</b>	<b>2.4</b>	<b>3.4</b>	<b>1.4</b>	<b>-2.7</b>
<i>Financing of deficit from internal sources</i>	<i>4 076</i>	<i>1 242</i>	<i>-684</i>	<i>2 091</i>	<i>1 386</i>	<i>5.1</i>	<i>1.5</i>	<i>-0.8</i>	<i>2.3</i>	<i>1.3</i>
State securities	1 025	15	492	1 123	507	1.3	0.0	0.6	1.2	0.5
Other sources	3 051	1 227	-1 176	968	879	3.9	1.5	-1.4	1.1	0.8
<i>Financing of deficit from external sources</i>	<i>-147</i>	<i>-296</i>	<i>43</i>	<i>-126</i>	<i>-161</i>	<i>-0.2</i>	<i>-0.4</i>	<i>0.0</i>	<i>-0.1</i>	<i>-0.2</i>
State securities	-47	-183	110	41	-74	-0.1	-0.2	0.1	0.0	-0.1
Credits from foreign countries	-25	-51	-17	-20	-17	0.0	-0.1	0.0	0.0	0.0
Other sources	-74	-63	-50	-147	-70	-0.1	-0.1	-0.1	-0.2	-0.1
<b>Change in remaining balance</b>	<b>-3 595</b>	<b>1 015</b>	<b>3 597</b>	<b>-634</b>	<b>-4 018</b>	<b>-4.5</b>	<b>1.3</b>	<b>4.2</b>	<b>-0.8</b>	<b>-3.8</b>

Sources: Federal Treasury, own calculations.

As of December 31, 2018, the state debt amounted to RUB 12,581 billion (12.1 percent of GDP against 12.6 percent in 2017), including internal debt amounting to RUB 9,170 billion (increase by RUB 500 billion), external – USD 49.1 billion (reduction by USD 0.7 billion).

National Wealth Fund (NWF) at the year-end of the reporting period amounted to RUB 4,036.0 billion (up RUB 283.1 billion), or 3.9 percent of GDP. The exchange rate difference obtained from the NWF funds revaluation constituted RUB 489.7 billion. During 2018, the following transactions with the NWF funds took place:

- decrease by RUB 5.1 billion for co-financing of pension savings of insured individuals who paid additional insurance contributions for the savings pension;
- decrease by RUB 1,108.2 billion to secure balancing (deficit payments) the Pension fund budget of the Russian Federation;
- returns of RUB 906.7 billion from additional oil and gas revenues of the federal budget in 2017<sup>1</sup>.

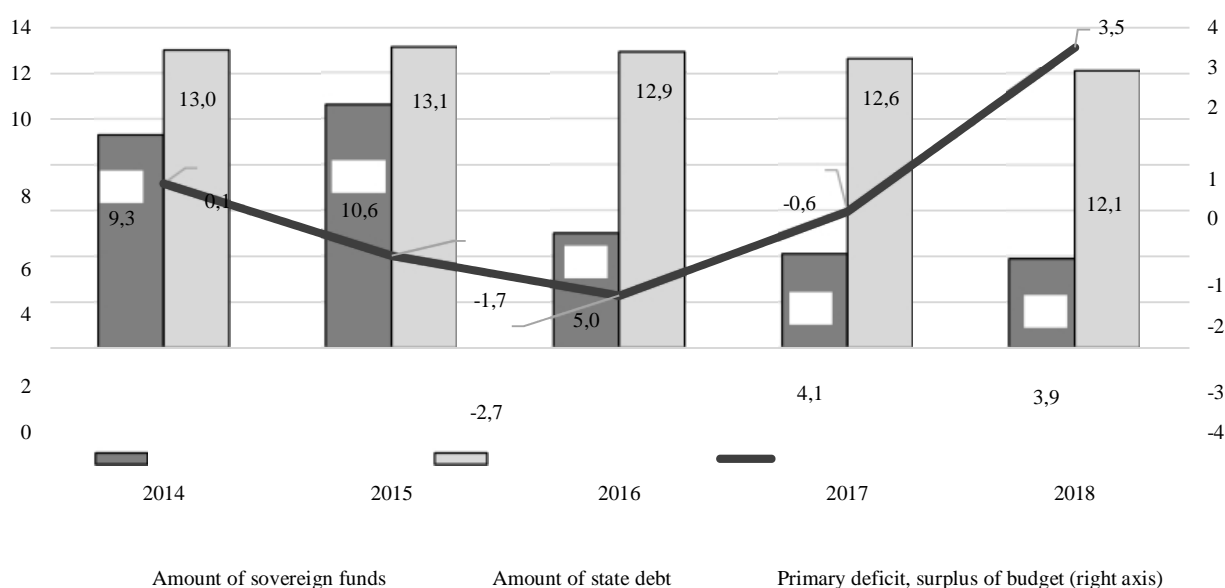
Main funds of the NWF in ruble terms amounting to RUB 2,355.5 billion are deposited on the accounts of the Bank of Russia in foreign currency. Total funds of the NWF invested in securities of Russian issuers for the implementation of self-funding infrastructure projects constitute RUB 446.4 billion, and in senior shares of credit organizations – RUB 279.0 billion.

Regarding dynamics of the federal budget deficit, state debt, and sovereign funds (RF and NWF through 2018) in shares of GDP in 2014-2018 (*Fig. 19*) one should note that

<sup>1</sup> In keeping with the order of the Finance Ministry of Russia of June 9, 2018 No. 955 “On the use of additional oil and gas revenues in the federal budget obtained in 2017”.



the most difficult situation with the budget sustainability was registered in 2016 when there occurred significant nearly twofold contraction of the sovereign funds and the budget deficit rose to 3.4 percent of GDP. At the same time, the positive balance of the federal budget execution in 2018 did not significantly affect on the state debt and sovereign reserves registered in the NWF, and in shares of GDP. Dynamics of the primary deficit in 2014–2018 correlates with dynamics of the budget deficit, with the maximum negative value -2.7 percent of GDP in 2016 and maximum positive value 3.5 percent of GDP registered in 2018.



*Fig. 19. Dynamics of the federal budget deficit, state debt, and sovereign funds (RF, NWF through 2018) in 2014-2018, percent of GDP*

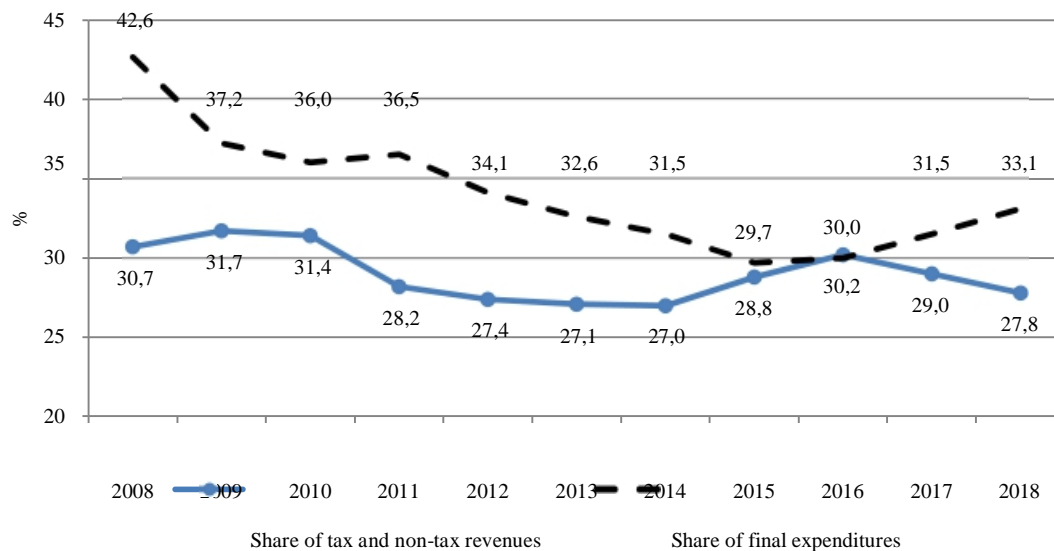
Sources: Federal Treasury, own calculations.

Summarizing dynamics and structure of the main parameters of the federal budget in 2018 both against five-year period and against the previous year one should note the development of a positive trend along fiscal revenues as well as maintaining expenditures, state debt, and amount of the NWF at the acceptable for the ensuring financial sustainability level.

### 2.2.3. Interbudgetary relations and subnational finances

#### *Analysis of main parameters of the consolidated budgets of the RF subjects*

Primary trends in the relations between various levels of power are reflected in the structure of revenues and expenditures of the consolidated budgets of the subjects of the Russian Federation. *Fig. 20* provides data reflecting the share of tax and non-tax revenues and final expenditures of the consolidated budgets of the RF subjects in the overall amount of tax and non-tax revenues and final expenditures of the RF consolidated budget and state extrabudgetary funds.



*Fig. 20.* Share of tax and non-tax revenues and expenditures of budgets of the budgetary system of the Russian Federation in 2008–2018

*Sources:* Federal Treasury, own calculations.

*Fig. 20* demonstrates that in 2014–2016 there was a certain decentralization of tax and non-tax revenues. However, later on trends changed: 2017 saw increased centralization of fiscal revenues at the federal level with simultaneous growth of regional spending obligations. Share of tax and non-tax revenues of the consolidated regional budgets in tax and non-tax revenues decreased from 30 percent in 2016 to 29 percent in 2017, and correspondingly the share of final expenditures in the budgetary system expenses for the same years increased from 30.0 percent to 31.5 percent. In 2018, this trend remained: the share of regional and local budgets in tax and non-tax revenues fell to 27.8 percent, and their share in final expenditure moved up to 33.1 percent. Thus, imbalance between the level of decentralization of revenues and expenditures of the regional budgets in 2018 continued growing.

Let's analyze in more detail the revenues part of subnational budgets. Dynamics of the main components of revenues of the consolidated budgets of The RF subjects is given in *Table 19*. The right side of the table demonstrates revenues in real terms (adjusted for inflation)<sup>1</sup>.

As is seen from *Table 19*, the dynamics of the real regional revenues exhibit upward trend since 2016. Revenues of the consolidated budgets of the RF subjects demonstrate growth in 2018 vis-à-vis 2017 by 10.5 percent in real terms. This is the most significant increment of regional revenues for the period since 2014. At the same time, the real tax revenues rose approximately to the same extent as the total amount of fiscal revenues (by 10.2 percent), and the real non-tax revenues contracted somewhat (by 2.5 percent). One should note a significant growth of the real amount of interbudgetary transfers by 17.4 percent, which is the highest increment registered for the period under review. The

<sup>1</sup> According to data released by Rosstat consumer price index in 2018 constituted 4.3 percent.

corporate income tax (increment of returns in real term constituted 17.8 percent) exhibits the best dynamics in the framework of tax revenues. Tax returns into the consolidated budgets of The RF subjects have also risen in real terms across such taxes as PIT (up 7.8 percent), property taxes (up 7.2 percent), taxes of aggregate income (up 11.6 percent). In the meantime, there is a small reduction of proceeds from excises (down 0.8 percent in real terms in comparison with 2017). However, in the wake of a slight share of excises in the structure of consolidated regional budgets this reduction is not reflected in the total income dynamics. To note, in 2017 the real returns from excises were also contracting compared to 2016.

Table 19

**Revenues of the consolidated budgets of The RF subjects in 2014–2018**

	In nominal terms, RUB billion.					Real increase, %			
	2014	2015	2016	2017	2018	2015/ 2014	2016/ 2015	2017/ 2016	2018/ 2017
<b>Revenues, total</b>	<b>8 906</b>	<b>9 308</b>	<b>9 924</b>	<b>10 758</b>	<b>12 392</b>	<b>-7.4</b>	<b>1.2</b>	<b>5.8</b>	<b>10.5</b>
<b>Tax and non-tax revenues</b>	<b>7 177</b>	<b>7 625</b>	<b>8 289</b>	<b>8 986</b>	<b>10 222</b>	<b>-5.9</b>	<b>3.2</b>	<b>5.8</b>	<b>9.1</b>
<i>Including tax revenues:</i>	<i>6 493</i>	<i>6 925</i>	<i>7 574</i>	<i>8 205</i>	<i>9 429</i>	<i>-5.5</i>	<i>3.8</i>	<i>5.7</i>	<i>10.2</i>
Corporate income tax	1 964	2 108	2 279	2 528	3 105	-5.0	2.6	8.2	17.8
PIT	2 693	2 808	3 019	3 252	3 654	-7.7	2.0	5.1	7.8
Excises	480	487	662	612	632	-10.2	29.1	-9.8	-0.8
Taxes on aggregate income	315	348	388	447	520	-2.3	6.0	12.2	11.6
Property taxes	957	1 069	1 117	1 250	1 397	-1.2	-0.8	9.2	7.2
<i>Non-tax revenues</i>	<i>685</i>	<i>700</i>	<i>715</i>	<i>781</i>	<i>794</i>	<i>-9.4</i>	<i>-3.0</i>	<i>6.5</i>	<i>-2.5</i>
<b>Transfers from other budgets</b>	<b>1 671</b>	<b>1 617</b>	<b>1 578</b>	<b>1 703</b>	<b>2 085</b>	<b>-14.3</b>	<b>-7.4</b>	<b>5.3</b>	<b>17.4</b>
<b>Other revenues</b>	<b>58</b>	<b>66</b>	<b>56</b>	<b>69</b>	<b>85</b>	<b>2.0</b>	<b>-19.2</b>	<b>18.7</b>	<b>18.2</b>

Sources: Federal Treasury, own calculations.

Let us analyze in more detail the situation with returns of tax and non-tax revenues across regions (Table 20).

Table 20

**Classification of regions along growth rates of main types of tax and non-tax revenues of the consolidated budgets of the RF subjects in 2017–2018**

	Change in main types of tax and non-tax revenues of consolidated budgets of the RF subjects to the previous year											
	Growth by more than 25%		Growth from 10 to 25%		Growth less than 10%		Decrease less than 10%		Decrease from 10 to 25%		Decrease by more than 25%	
	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018
<b>In real terms</b>												
Tax and non-tax revenues, total	5	4	16	46	48	33	13	2	3	0	0	0
Corporate income tax	18	26	29	29	18	13	9	9	5	5	6	3
PIT	1	3	9	50	69	31	5	0	1	0	0	0
<b>In real terms</b>												
Tax and non-tax revenues, total	3	2	12	25	48	54	18	3	4	1	0	0
Corporate income tax	18	16	22	26	24	22	8	10	7	8	6	3
PIT	0	2	1	11	72	68	11	4	1	0	0	0

Sources: Federal Treasury, own calculations.

Comparison of change in the amount of main types of regional and local budgets revenue sources leads to the following conclusion. Since 2016, the revenue vector on average across Russia changed its course from recession to growth. In 2017–2018, dynamics of revenues of the consolidated budgets of the RF subjects continued its upward trend. The number of “fast growing” regions (revenue growth rate in real terms over 25 percent) decreased from 3 to 2. In 2017 the highest tax and non-tax revenues growth rates were demonstrated by Republic of Crimea, Republic of Kalmykia, and Nenets autonomous district. In 2018 the leaders were Khanty-Mansi autonomous district, and Tyumen region.

To note, on the whole growth rates of tax and non-tax revenues of the regional and local budgets in 2018 were above the corresponding rates demonstrated in 2017. In 2017 the number of regions with revenues growth in real terms from 10 to 25 percent came to 12. In 2018, this number increased to 25. The most numerous remains the group of regions with the real revenues growth to 10 percent (48 subjects in 2017, and 54 subjects in 2018).

Compared to 2017, fell the number of regions where the real volume of tax and non-tax revenues of the consolidated budgets was decreasing against to the previous year. In 2017, the number of such regions constituted 16 (reduction of revenues in nominal terms) and 22 (reduction in real terms). In 2018, decrease of nominal revenues is observed in two subjects (Republic of Crimea<sup>1</sup> and Republic of Mariy El), and in real terms in four subjects (in addition to mentioned above Chukotka autonomous district and Ryazan region).

The corporate income tax hit the regional budgets in 2018 ahead of schedule. The number of subjects which registered the increase of returns on this tax in real terms grew over the year by more than 25 percent constituted 16 in 2018 (in 2017 there were 18 such subjects). Front runners regarding revenues growth are Khanty-Mansi autonomous district (158 percent), Republic of Karelia (94 percent), and Republic of Sakha (68 percent). All these three subjects in the previous year faced contraction of the real returns on the corporate income tax (Khanty-Mansi autonomous district – by 33 percent, Republic of Sakha – by 34 percent, and Republic Karelia – by 8 percent), i.e. for them to a considerable extent 2018 growth is an offset one. Following the results of the last two years, persistently high increments of the corporate income tax returns were demonstrated by Vologda region: 32 percent in 2017 and 61 percent in 2018. Among the regions with the highest growth rates on this tax also are Tyumen region (64 percent in real terms), and Republic of Bashkortostan (56 percent in real terms). Decrease of the real returns from the corporate income tax was observed in 21 regions – just as much as in 2017. The situation with the highest decrease of tax returns can be called a “mirror-like” one regarding the situation with the maximum growth of tax returns. Regions that were the front-runners in tax returns growth in 2017 registered the highest tax returns decrease in 2018. For example, the highest decrease of the real tax returns on the corporate income tax in 2018 was observed in Republic of Crimea (67 percent), which

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<sup>1</sup> Republic of Crimea in 2017 demonstrated the highest growth rates of proper revenues.

was the front-runner on tax returns growth on this type of tax in 2017 (214 percent). The same situation is observed in Republic Mariy El (in 2018 down 42 percent with growth at 59 percent in 2017), and Republic Tyva (in 2017 up 66.1 percent, and in 2018 down 36 percent). To note that Sakhalin region registered returns on the corporate income tax both in 2017 (43 percent in real terms) and in 2018 (19 percent).

Average growth rates of returns from PIT in 2018 into the consolidated regional budgets outstrip indicators of 2017: when in 2017 solely one region boasted of the growth of returns on this tax by more than 10 percent in real terms (Lipetsk region – 23 percent) then in 2018 there were 14 such regions. Front runners were Republic of Khakassia (73 percent in real terms), Republic of Dagestan (25 percent), and Tyumen region (22 percent). Decrease of proceeds from PIT in real terms in 2018 took place solely in 4 regions (Lipetsk region – contraction by 3 percent< Krasnodar territory – by 2 percent, Republic of Mordovia and Vladimir region – less than 1 percent). In 2017 there 12 such subjects.

Let us analyze changes in the expenditure part of the consolidated budgets of the RF subjects in 2018 (*Table 21*).

*Table 21*

**Expenditures of the consolidated budgets of the RF subjects**

	% to total		% of GDP		Change	
	2017	2018	2017	2018	In nominal terms, %	p.p. of GDP
General state issues	6.1	6.3	0.71	0.72	14.05	0.01
National security and law enforcement	1.1	1.2	0.13	0.13	19.14	0.01
National economy, including:	21.2	20.8	2.48	2.38	7.87	-0.10
Agriculture and fisheries	2.5	2.3	0.29	0.26	1.01	-0.03
Transport	5.2	4.7	0.61	0.54	-0.07	-0.07
Public road system (road funds)	8.8	8.9	1.03	1.02	11.12	-0.01
Other issues in the sphere of national economy	4.7	4.9	0.55	0.56	14.19	0.01
Housing and utility sector	10.4	10.2	1.22	1.17	7.60	-0.05
Environmental conservation	0.3	0.3	0.03	0.04	48.65	0.01
Education, including:	24.9	25.4	2.92	2.91	12.10	-0.01
Housing and utility sector	6.7	7.1	0.78	0.81	16.53	0.03
Environmental conservation	12.2	12.2	1.43	1.40	10.34	-0.03
Education, including:	1.9	1.9	0.22	0.21	9.35	-0.01
Housing and utility sector	4.2	4.2	0.49	0.49	11.41	0.00
Culture, cinematography	3.8	3.7	0.45	0.43	7.56	-0.02
Healthcare	7.8	8.0	0.92	0.92	12.22	0.00
Social policy	20.4	20.3	2.40	2.33	9.40	-0.07
Physical fitness and sports	2.3	2.4	0.28	0.27	11.47	0.00
Mass media	0.4	0.4	0.05	0.05	9.12	0.00
Servicing state and municipal debt	1.2	0.9	0.15	0.11	-16.83	-0.04
<b>Expenditure, total</b>	<b>100.0</b>	<b>100.0</b>	<b>11.74</b>	<b>11.47</b>	<b>9.92</b>	<b>-0.27</b>

*Sources:* Federal Treasury, own calculations.

From *Table 21* it follows that the functional structure of the regional expenditure in 2018 changed slightly compared to the previous year. All structural changes were in the range of 1 percentage point. Among major structural changes, one should note decrease of spending on national economy by 0.4 percentage points (mainly due to transportation), reduction of spending on servicing state and municipal debt by

0.3 percentage points, as well as growth of expenses on education by 0.5 percentage points. Major contribution in the increment of educational expenses was due to preschool education.

Virtually all functional components of the regional expenses moved up in nominal terms in 2018 except spending on servicing state and municipal debt (contraction by 16.8 percent) and transportation (reduction by 0.1 percent). In real terms, expenses also fell on agriculture, housing and utility sector, culture and social policy. To note, spending on agriculture was falling relative to the previous year also in 2017 both in nominal and real terms.

One should note significant growth of certain types of expenditure in social sphere: education (first of all preschool) and healthcare. Expenses on environmental conservation increased two-fold, however the share of this type of spending remains insignificant (0.3 percent in the overall volume of expenditure and 0.04 percentage points of GDP). The overall share of expenditure of the consolidated budgets of the RF subjects in GDP in 2018 decreased by 0.27 percentage points in comparison with 2017.

Let us analyze dynamics of the main parameters of the consolidated budgets of the RF subjects in shares of GDP (*Table 22*).

*Table 22*

**Dynamics of revenues and expenditures of the consolidated budget of the RF subjects, percent of GDP**

	2014	2015	2016	2017	2018
<b>Revenues</b>	<b>11.24</b>	<b>11.16</b>	<b>11.54</b>	<b>11.68</b>	<b>11.96</b>
including:					
Corporate income tax	2.48	2.53	2.65	2.74	3.00
PIT	3.40	3.37	3.51	3.53	3.53
Transfers from Federal budget	2.11	1.94	1.83	1.85	2.01
<b>Expenditures</b>	<b>11.81</b>	<b>11.37</b>	<b>11.55</b>	<b>11.74</b>	<b>11.47</b>
<b>Deficit (-) / Surplus (+)</b>	<b>-0.57</b>	<b>-0.21</b>	<b>-0.01</b>	<b>-0.06</b>	<b>0.49</b>

*Sources:* Federal Treasury, own calculations.

*Table 22* demonstrates that in the course of three years both revenues of the subnational budgets as a whole and proceeds from PIT and the corporate income tax were growing in shares of GDP. During 2014-2016, transfers from the federal budget were contracting. In 2017 they somewhat increased and in 2018 continued growing. Expenditures of the subnational budgets increased in 2016-2017, but somewhat decreased in 2018.

***Financial assistance from the federal budget***

Total volume of interbudgetary transfers from the federal budget distributed between regions significantly increased in 2018<sup>1</sup> compared to 2017 both in nominal terms (+21.0 percent) and in shares of GDP (+1.4 percentage points of GDP (*Table 23*)). The increment was, first of all, due to growing subsidies on securing balancing (+2.2 percentage points of GDP) offsetting partial reduction of subsidies for the fiscal

<sup>1</sup> Data for 2018 is preliminary because it is put together on the basis of monthly reports of budget execution as of January 1, 2019, and not on the annual reports.

equalization (-0.5 percentage points of GDP). The volume of other interbudgetary transfers has grown notably (+0.8 percentage points of GDP). Within other types of transfers subsidies have undergone the highest reduction (-0.9 percentage points of GDP), where subsidies on the development of national economy contracted by more than 21 percent in comparison with 2017. For instance, in 2018 the share of subsidies (undesigned financial assistance) moved up by 5.7 percentage points in comparison with 2017 and exceeded 50 percent.

*Table 23*

**Transfers to the budgets of the subjects of the Russian Federation  
from the federal budget**

	2016		2017		2018		Increment in 2018 to 2017	
	RUB bn	% to total	RUB bn	% to total	RUB bn	% to total	nominal, %	p.p. of GDP
<b>Transfers to regions, total</b>	<b>1 567.8</b>	<b>100.0</b>	<b>1 690.1</b>	<b>100.0</b>	<b>2 044.8</b>	<b>100.0</b>	<b>21.0</b>	<b>1.4</b>
<b>Subsidies</b>	<b>656.2</b>	<b>41.9</b>	<b>759.0</b>	<b>44.9</b>	<b>1 035.5</b>	<b>50.6</b>	<b>36.4</b>	<b>1.8</b>
Including:								
Grants for budget equalization	513.7	32.8	614.5	36.4	644.5	31.5	4.9	-0.5
Grants for ensuring budgets' balance	131.7	8.4	133.8	7.9	380.4	18.6	184.2	2.2
<b>Subsidies</b>	<b>356.5</b>	<b>22.7</b>	<b>419.8</b>	<b>24.8</b>	<b>381.8</b>	<b>18.7</b>	<b>-9.0</b>	<b>-0.9</b>
Including:								
Subsidies for development of national economy	231.9	14.8	242.4	14.3	190.0	9.3	-21.6	-0.8
<b>Subventions</b>	<b>334.3</b>	<b>21.3</b>	<b>326.1</b>	<b>19.3</b>	<b>331.7</b>	<b>16.2</b>	<b>1.7</b>	<b>-0.3</b>
<b>Other interbudgetary transfers</b>	<b>220.8</b>	<b>14.1</b>	<b>185.1</b>	<b>11.0</b>	<b>295.8</b>	<b>14.5</b>	<b>59.8</b>	<b>0.8</b>

*Sources:* Federal Treasury, Rosstat, own calculations.

The volume of subventions contracted (0.3 percentage points of GDP), which demonstrated a small decrease of dependence of the subnational budgets regarding execution of delegated powers. This trend is characteristic of several recent years. At the same time, the number of subventions<sup>1</sup> compared to 2017 increased by two and constitutes 32. Nine subventions are for Republic of Crimea and the city of Sebastopol, besides two of them duplicate those which are given to other subjects of the Russian Federation.

The amount of subsidies granted in 2018 constituted 74. The same amount of subsidies were granted in 2017. The state program “Development of the Federative Relations and Creation of Conditions for Effective and Responsible Management of Regional and Municipal Finances” (hereinafter – SP “Development of the Federative Relations...”) envisages a reduction of the number of subsidies in 2018 down to 57. Thus, the process of consolidation and optimization of the number of subsidies was halted.

<sup>1</sup> The number of transfers is determined by the number of unique items of expenditure (13-16 code positions in the classification of budget expenditure), envisaged in the report on the federal budget execution.

The volume of other interbudgetary transfers has significantly increased both in nominal terms (+59.8 percent) and in shares of GDP (+0.8 percentage points of GDP). Their number moved up: when in 2017 the federal budget granted regions 77 other types of interbudgetary transfers then in 2018 – already 93. Because other interbudgetary transfers are distributed on a less transparent and formalized basis than the subsidies (which volume has decreased), one should consider that the structure of provision of targeted financial assistance to the regions has deteriorated.

In the meantime, the share of non-targeted assistance has increased, which allowed to over fulfill the targeted value of the corresponding indicator of SP “Development of Federative Relations...”: the share of subsidies in the interbudgetary transfers granted to regions constituted 50.6 percent under the planned one of 48 percent. However, if we consider that grants provided for partial compensation of additional expenses for raising wages of the budget sphere employees in essence are rather subsidies than grants, then the share of grants (less indicated ones) will constitute solely 45.7 percent.

It should be noted that the growth of the share of grants is mainly ensured by the growth of grants on support of measures for budget balancing, which contrary to equalization transfers are distributed on a less transparent and formalized basis.

When analyzing granting by the federal center of transfers to the regions it is important to analyze the effect of the federal assistance on the income differences of the subjects of the Russian Federation, assessing the leveling features of the financial assistance from the federal budget (*Table 24*).

*Table 24*

**Coefficient of variation of income of the consolidated regional budgets (per capita inclusive of index of budget expenditure)**

Year	Tax revenues	Tax revenues and equalization transfers	Tax revenues, subsidies, subsidies
2014	0.590	0.512	0.499
2015	0.661	0.603	0.560
2016	0.556	0.421	0.373
2017	0.558	0.413	0.377
2018	0.593	0.433	0.381

*Sources:* Federal Treasury, Finance Ministry of Russia, own calculations.

As seen from *Table 24*, in 2018 compared to the previous year the differentiation of tax revenues of the subnational budgets increased quite a bit. Consequently, differentiation of the subnational budgets increased following the equalization and after provision of grants and subsidies, however equalization effect from provision of these types of transfers has remained. For instance, after the equalization the differentiation decreased by 27 percent (in 2017 – by 26 percent), and after the provision of grants and subsidies – by 36 percent (in 2017 – by 32 percent).



### ***Regional deficit and debt***

Income growth and curbing of spending growth of the regional consolidated budgets in 2018 positively affected their balancing: for the first time over last eleven years surplus of the consolidated budgets of the RF subjects was registered, the amount of which hit all-time maximum – RUB 0.5 trillion.

Regional data reveals increased balancing of the consolidated budgets of the majority of the RF subjects. The number of subjects with the budget deficit in 2018 decreased by more than 3-fold compared to 2017 and came to 15 (*Table 25*).

*Table 25*

#### **Execution (deficit/surplus) of the consolidated budgets of the RF subjects in 2014–2018**

Year	Number of RF subjects which executed budget with	
	deficit	surplus
2014	74	11
2015	76	9
2016	56	29
2017	47	38
2018	15	70

*Sources:* Federal Treasury, own calculations.

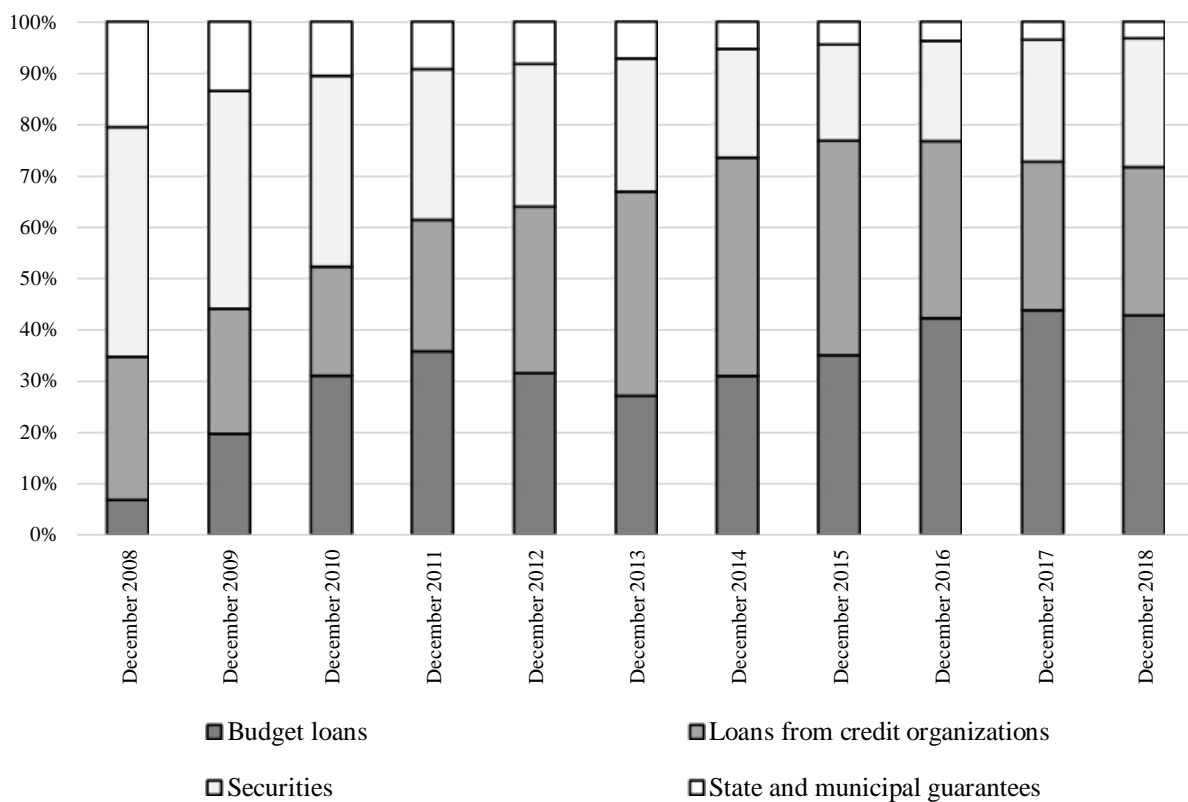
Improved parameters of fiscal balance of the majority of the regions positively affected the dynamic of their state debt, which at year-end 2018 decreased from RUB 2.32 to 2.21 trillion.

As against the volume of tax and non-tax revenues of the budgets of the RF subjects for 2018 it contracted over the year from 30.5 to 25.3 percent, going back to the level of late 2011.

As of January 1, 2018 there were solely two RF subjects with the correlation of state debt to tax and non-tax revenues exceeds 100 percent – Kostroma region (115.2 percent), and Republic of Mordovia (236.9 percent). Meanwhile a year earlier there were seven such regions.

Despite a general positive dynamics of the regional state debt the picture across the federal districts differs significantly. If in North-Western and North-Caucasus federal districts the reduction of nominal volume of the state debt in 2018 were demonstrated by all regions, then in the Far-Eastern federal district there were only 50 percent of such regions.

The structure of state regional debt over the year stayed practically unchanged: budget loans still prevail, which share constituted by the year-end 42.6 percent falling relative to late 2017 by 1 percent (*Fig. 21*). The share of loans issued by the credit organizations remained at 28.8 percent, halting decline which procrastinated from late 2013, and the share of the state securities over the year moved up by 1.3 percent hitting 25.0 percent. Securities were the sole debt regional instrument which volume over the year increased in nominal terms.



Sources: Finance Ministry of Russia, own calculations.

Fig. 21. Structure of state debt of the RF subjects in 2008–2018

