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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 41th 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: global economic and political challenges and national responses, economic growth and economic crisis; 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.

By contrast to the previous publications the present issue includes also a short analysis of the first three months of 2020 from the perspective of the COVID-19 pandemic impact on the Russian economy development.

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□ Gaidar Institute, 2020

2.2. Fiscal policy in 2019¹

2.2.1. Characteristics of budgets of the budgetary system of Russia

The basic parameters of the budgetary system of Russia

In 2019, revenues of the budgetary system of Russia according to the fresher data released by the Ministry of Finance of Russia in shares of GDP against the previous year remained flat amounting to 35.8 percent of GDP (*Table 7*), meanwhile in absolute terms they have increased by RUB 1,860 billion. Solely 39.4 percent of the revenues increment of the enlarged government budget (RUB 732.8 billion) have been secured by the federal budget and 62.4 percent (RUB 1,160.8 billion) by the increment of the consolidated budget of the RF subjects receipts. However, in the overall volume of the revenue part of the enlarged government budget a share of federal and subnational levels budget in 2019 against 2018 has changed insignificantly: a share of the federal budget has contracted from 52.1 to 51.5 percent and a share of the consolidated budget of the RF subjects has gone up from 33.2 to 34.6 percent.

Dynamics of oil and gas revenues of the enlarged government budget is negative: contraction of receipts in 2019 in comparison with the previous year constituted 1.1 percentage points of GDP or RUB 770 billion, meanwhile non-oil and gas revenues went up in 2019 to the maximum for the 5-year period level coming to 28.3 percent of GDP up by 1.1 percentage points of GDP against the previous year.

Table 7

The main parameters of the enlarged government budget in 2015–2019

	2015		2016		2017		2018		2019*		Dev in 2019 relative to 2018
	RUB bn	% of GDP	RUB bn	% of GDP	RUB bn	% of GDP	RUB bn	% of GDP	RUB bn	% of GDP	pp. of GDP
Revenue including:	26 922	32.3	28 181	32.8	31 047	33.7	37 320	35.8	39 180	35.8	0.0
- oil and gas	5 863	7.0	4 844	5.6	5 972	6.5	9 018	8.6	8 248	7.5	-1.1
- non-oil and gas	21 059	25.3	23 337	27.2	25 075	27.2	28 302	27.2	30 932	28.3	1.1
Outlays	29 741	35.7	31 324	36.4	32 396	35.2	34 285	32.8	37 115	33.9	1.1
Deficit (-) /surplus (+)	-2 819	-3.4	-3 143	-3.6	-1 349	-1.5	3 035	3.0	2 065	1.9	-1.1
For reference: GDP, RUB billion	83 087		85 616		91 843		104 335		109 361**		

¹ This section was written by *Arlashkin I.Yu.*, researcher, Budget Policy Studies Department, IAES, RANEP; *Barbashova N.E.*, candidate of science (economics), researcher, Budget Policy Studies Department, IAES, RANEP; *Belev S.G.*, candidate of science (economics), Head of Budget Policy Department, Gaidar Institute; senior researcher, Budget Policy Studies Department, IAES, RANEP; *Deryugin A.N.*, senior researcher, Budget Policy Studies Department, IAES, RANEP; *Sokolov I.A.*, candidate of science (economics), leading researcher, Center for Macroeconomics and Finance, Gaidar Institute; Head of Budget Policy Studies Department, IAES, RANEP; Director of Institute for Macroeconomic Studies, VAVT, Ministry of Economic Development of Russia; *Tischenko T.V.*, candidate of science (economics), senior researcher, Budget Policy Studies Department, IAES, RANEP.

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* Hereinafter data for 2019 is preliminary – formed on the basis of the progress report released by the Federal treasury on the execution of budgets as of January 1, 2020.

** Estimate GDP.

Sources: Ministry of Finance of Russia, Federal treasury, Rosstat.

Expenditures of the budgetary system of Russia after 3-year downturn from 36.4 percent of GDP in 2016 to 32.8 percent of GDP in 2018) moved up to 34.0 percent of GDP in 2019, which was predominantly due to allocation of additional funds for the implementation of national projects.

The budget surplus of the enlarged government for January-December 2019 amounted to 1.9 percent of GDP down 1.1 percentage points of GDP in 2018.

The main tax returns in the budgetary system of Russia

According to 2019 figures, fiscal revenues of the enlarged government budget moved up (Table 8) moreover the growth was reported across the majority of revenue items.

The highest growth of returns was from VAT (up by 0.7 percentage points of GDP or up by 14 percent in 2018 prices). Receipts from the profits tax up by 0.3 percent of GDP or up by 7 percent in 2018 prices. Insurance contributions and PIT moved up insignificantly (up 0.1 percentage points of GDP or up by 3–4 percent in 2018 prices).

Returns from excises have decreased (down 0.3 percentage points of GDP or down 17 percent in 2018 prices), from MET (down 0.4 percentage points of GDP or down 4 percent in 2018 prices), from customs duties and levies (down 0.2 percentage points of GDP or down 4 percent in 2018 prices).

Table 8

The main tax returns in the enlarged government budget of the Russian Federation in 2015–2019, in percent of GDP

	2015	2016	2017	2018	2019	Dev in 2019 relative to 2018 pp. of GDP	Growth in 2019 in prices of 2018 relative to 2018, in %
Revenue* (total) including:	32.0	32.0	32.6	35.3	35.2	-0.1	2
Corporate income tax	3.1	3.2	3.6	3.9	4.2	0.3	7
PIT	3.4	3.5	3.5	3.5	3.6	0.1	3
Insurance contributions*	6.4	6.6	6.7	6.6	6.7	0.1	4
VAT	5.1	5.3	5.6	5.8	6.5	0.7	14
Excises	1.3	1.6	1.7	1.5	1.2	-0.3	-17
MET	3.9	3.4	4.5	5.9	5.5	-0.4	-4
Customs duties and levies	3.3	2.4	2.1	2.9	2.7	-0.2	-4

* Revenue (total) and insurance contributions without double count of insurance contributions for the non-working population, total value of receipts differ from the official one by given value.

Sources: Federal Treasury, Rosstat, own calculations.

Oil and gas revenues. The MET-oil base rate remained in place in the amount of RUB 919 per ton as it was in 2018. Dynamics of returns from MET was determined by USD exchange rate and the oil price. USD/RUB rate demonstrated a downward trend (Fig. 15) The price of a ton of crude on average in 2019 was down 5–6 USD than in 2018. As a result, actual ruble rate on MET-oil constituted in 2019 on average over 11,000 RUB/t, meanwhile a year earlier it was above 12,000 RUB/t.

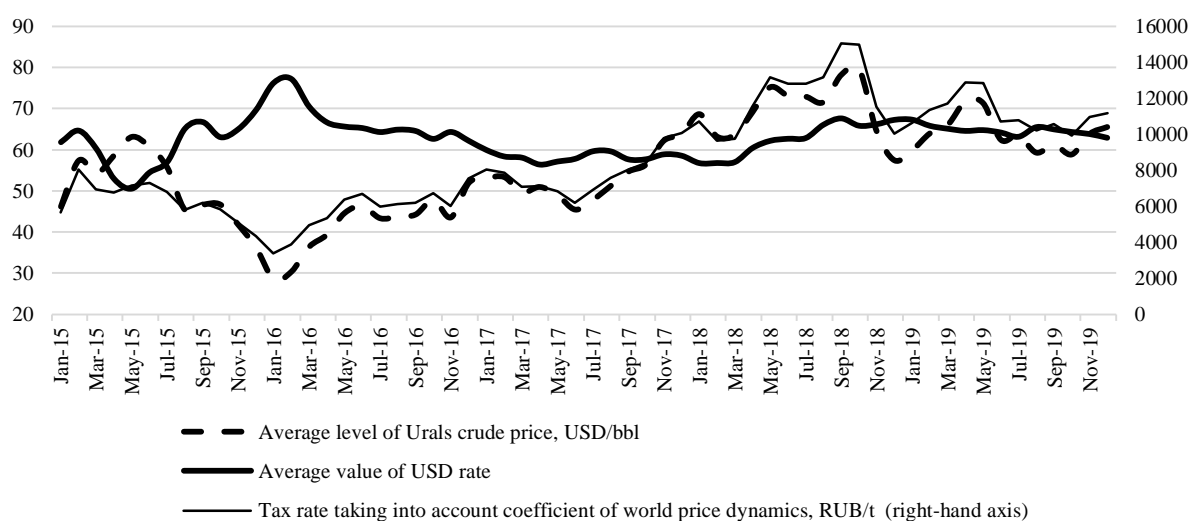


Fig. 15. Dynamics of actual MET-oil rate, Urals price and USD rate in 2015–2019

Sources: Rosstat, CB of RF, FCS of Russia, FTS of Russia.

Corporate income tax. In 2019, returns from the corporate income tax demonstrated an upward trend (up by 0.3 percentage points of GDP). As can be seen on Fig. 16 the profit-making companies demonstrated income growth and somewhat contracted the proportion of loss-making enterprises. This confirms that the restriction in place from 2017 regarding provision for losses carryforward accrued over the previous periods to the tune of not more than 50 percent of the taxable income continues to exert positive fiscal effect.

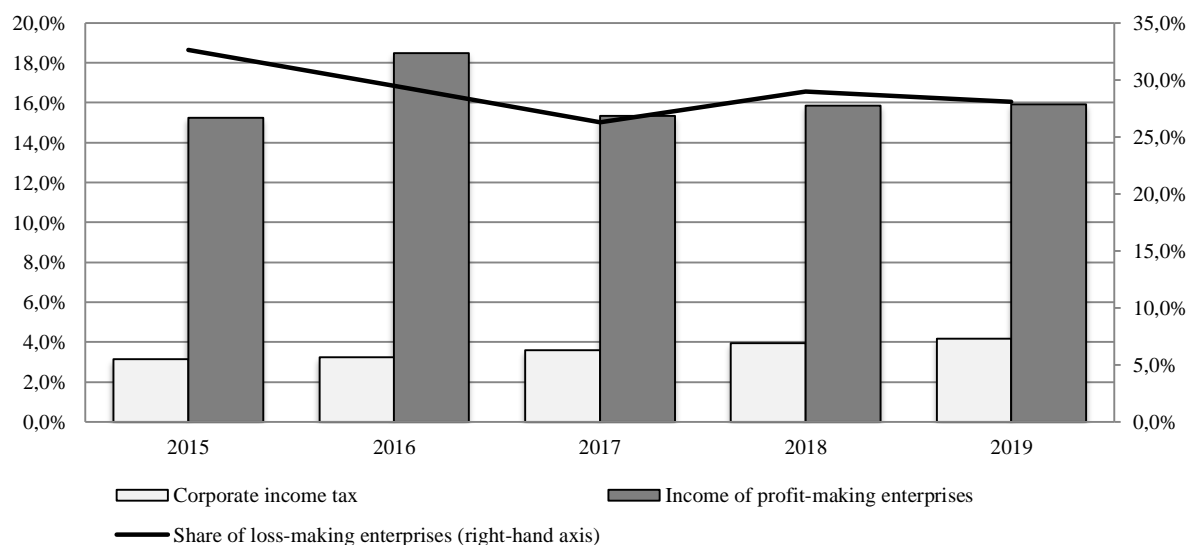


Fig. 16. Dynamics of returns from the corporate income tax to the budgetary system of the Russian Federation, income of profit-making enterprises (percent of GDP), share of loss-making enterprises in percent in 2015–2019

Sources: Federal Customs Service, Rosstat, own calculations.

Insurance contributions and PIT. In 2019, In 2018, there were no legislative changes in the rates or estimation of base of insurance contributions. According to advance data, the payroll

fund on accrued wage relative GDP increased, which resulted in growing receipts from insurance contributions and PIT in shares of GDP (*Fig. 17*).

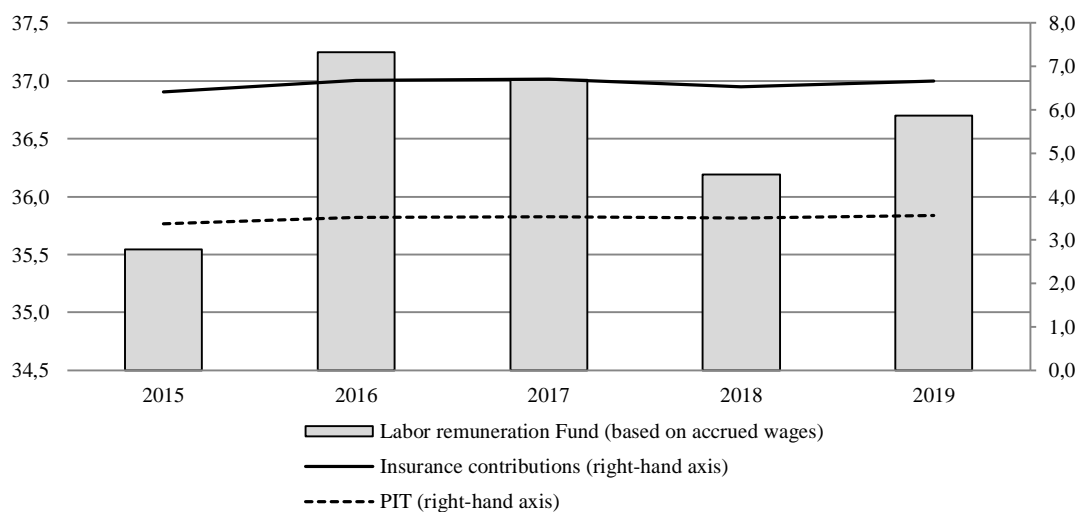


Fig. 17. Receipts from insurance contributions, PIT, and payroll fund (on accrued wages) in 2015–2019, in percent of GDP

Sources: Rosstat, Federal Treasury, own calculations.

VAT. Returns from VAT in 2019 rose by 0.7 percentage points hitting 6.5 percent of GDP, which was mainly due to growth of the VAT base rate from 18 to 20 percent (*Table 9*).

Moreover, on the back of the ruble appreciation imports have grown which has also contributed to the increase of returns from VAT on imported goods (such returns have gone up by 0.3 percentage points of GDP). It should be noted that despite the raise of the VAT base rate there was no decrease in its collection in 2019.

Table 9

Dynamics of VAT returns in the budgetary system of the Russian Federation, percent of GDP

	2015	2016	2017	2018	2019
Revenue generated by VAT	5.1	5.3	5.6	5.8	6.5
Including:					
VAT on goods sold on the RF territory	2.9	3.1	3.3	3.5	3.9
Vat on goods imported to the RF territory	2.1	2.2	2.3	2.3	2.6
Effective VAT rate, percent	7.3	7.4	7.9	8.7	10.0
Fiscal performance coefficient (C-efficiency), percent	40.4	41.4	43.8	48.2	49.9

Sources: Rosstat, Federal Treasury, own calculations.

Excises. In 2019, the main reason for the decrease of budget receipts from excises by 0.3 percentage points of GDP was the introduction of a “reverse excise, envisaged within the implementation of the tax maneuver in the oil and gas sector, which was aimed at the control over the price growth on fuel (on the back of the increase of the MET base rates) by way of actual subsidizing of the refining sector via the reduction of excise tax on petroleum products on condition of meeting certain conditions.

Returns from other excisable goods have barely changed relative to the previous year level.

Outlays of the budgetary system of the Russian Federation

According to advance data the budget system expenditure increased in 2019 by 1.1 percentage points of GDP in comparison with 2018.

For the implementation of defined in the May Executive Order of the President of Russia¹ national goals, the twelve national projects and complex plan of modernization of infrastructure have been outlined. Their specific features are the Intersectoral character and rather high proportion of investment spending. The launch of the national projects required the development of a rather large list of normative documents, and establish cooperation with the regions. As can be seen from *Table 10*, the cash execution of spending on the implementation of the national projects from the consolidated budget of the Russian Federation during 2019 according to current data constituted around 91.6 percent. A little more than RUB 200 billion remained unspent besides three quarters account for the federal budget.

The best indicators of budget discipline regarding the national projects implementation have been shown by Science (99.1 percent) and Healthcare (97.3 percent). The worst indicators have been shown by Ecology (71.2 percent) and Digital economy (75.1 percent). Undoubtedly, the cash execution should not become a goal in itself because the effectiveness of the national projects implementation is marked by delivery of results and indicators, whether life conditions of the citizens and business environment change for the better. It is also obvious that without timely financing is rather hard to deliver any positive results.

Table 10

Data of the execution of the expenditure regarding budget appropriations envisaged for the implementation of national projects during 2019 (current data)

No.	National projects	Consolidated budget of Russia, RUB billion		
		Plan	Cash execution (current data)	Reference: percent of budget appropriations
	Total	2 444.2	2 238.5	91.6
1	Demography	728.4	693.7	95.2
2	Healthcare	219.7	213.7.2	97.3
3	Education	194.2	175.6	90.4
4	Housing and urban environment	243.2	217.0	89.2
5	Ecology	69.1	49.2	71.2
6	Safe and quality roads	297.5	283.4	95.3
7	Productivity and employment support	7.6	6.6	87.3
8	Science	38.0	37.7	99.1
9	Digital economy	111.2	83.5	75.1
10	Culture	26.2	25.3	96.3
11	Small and medium-sized enterprises and support of individual entrepreneurship	68.4	64.0	93.6
12	International cooperation and exports	91.3	81.7	89.5
13	Complex plan of modernization of infrastructure	349.4	307.1	87.9

Sources: Federal treasury, own calculations.

Among the main reasons for a relatively low cash execution of expenditures on national projects are the following:

- Novelty of a number of measures envisaged within national projects, which in its turn, involves the need to develop and adopt corresponding normative and guidance documents prior to disbursement of funds;

¹ Executive Order of the President of the Russian Federation of May 7, 2018 No. 204 “On National Goals and Strategic Tasks of the Russian Federation for the Period through 2024”.

- Sectoral specifics of the projects when dynamics of the cash execution directly depends on the demand from the part of recipients of budget support (for example, in case of requests of SME for privileged loans);
- Features of financing certain steps regarding national projects, for example, payment from budget funds only upon completion of works (which is prevailing at construction projects). However, in this case the cash execution reflects the actual dynamics of delivering project results;
- Unnecessary extended effective in 2019 procedures both in case of procurements for state and municipal needs and within preparation of necessary documents (for example, rule for the provision of intergovernmental fiscal transfers, subsidies to legal entities).

It should also be noted that the Federal Law of November 12, 2019 No. 367-FZ “On the Suspension of Certain Provisions of the Budget Code of the Russian Federation and Establishment of Specifics for the execution of the Budget Code in 2020” envisages transfer of unused in 2019 balance of budget appropriations of the federal budget to 2020 for the same purposes. Such decisions can be adopted by the Council under the President of the Russian Federation on strategic development and national projects, meanwhile reasons for incomplete disbursement of budget funds and the need of their use must be explained.

Functional breakdown of expenditure reported insignificant growth of industrial items of the enlarged government budget (*Table 11*). For example, spending grew on the items “Healthcare” by 0.2 percentage points of GDP and on “Education” – by 0.3 percentage points of GDP. The breakdown of the enlarged government budget demonstrates an upward trend regarding industrial spending on the back of national projects, which strengthens positive influence of the fiscal policy on economic growth.

Table 11
Expenditure of the enlarged government budget in 2015–2019, percent of GDP

	2015	2016	2017	2018	2019	Dev. in 2019 relative to 2018, pp. of GDP
Outlays, total	35.7	36.4	35.2	32.8	33.9	1.1
General state issues	2.2	2.2	2.1	2.0	2.0	0.0
National defense	3.8	4.4	3.1	2.7	2.7	0.0
National security and law enforcement activities	2.5	2.3	2.2	2.0	2.0	0.0
National economy	4.5	4.5	4.7	4.3	4.6	0.3
Housing and utility sector	1.2	1.2	1.3	1.3	1.3	0.0
Environmental conservation	0.1	0.1	0.1	0.1	0.2	0.1
Education	3.6	3.6	3.5	3.5	3.8	0.3
Culture, cinematography	0.5	0.5	0.5	0.5	0.5	0.0
Healthcare	3.4	3.6	3.1	3.2	3.4	0.2
Social policy	12.6	12.7	13.1	11.9	12.2	0.3
Physical fitness and sports	0.3	0.3	0.4	0.3	0.3	0.0
Mass media	0.2	0.1	0.1	0.1	0.1	0.0
Servicing state and municipal debt	0.8	0.9	0.9	0.9	0.9	0.0

Sources: Finance Ministry of Russia, Federal treasury, own calculations.

Notable growth of spending of the enlarged government budget in 2019 against 2018 was reported in relation to items “National economy” and “Social policy” (up by 0.3 percentage points of GDP each), which can be assessed as a trend towards a proactive fiscal policy.

2.2.2. Specification of the federal budget

The basic parameters of the federal budget

In 2019, the revenues of the federal budget against the previous year increased by RUB 732.8 billion in nominal terms, but decreased in shares of GDP by 0.1 percentage point of GDP to 18.5 percent of GDP (*Table 12*) which was due to a reduction of receipts from the oil and gas component of the budget by 1.1 percentage point of GDP to 7.5 percent of GDP (Rub 8,247.7 billion). Meanwhile, non-oil and gas revenues went up by 0.9 percentage points of GDP to 10.9 percent of GDP (RUB 11,939.5 billion) which is the minimum for the last 5-year period. As a result, the share of oil and gas revenues in the overall amount of revenues in 2019 contracted to 40.8 percent against 46.2 percent seen in 2018, which speaks in favor of a reduction of budget dependence on revenues from the current economic situation. The volume of basic oil and gas revenues calculated on the basis of the fiscal rule¹ hit RUB 4,967.4 billion (RUB 4,756.3 billion in 2018) and the volume of additional oil and gas revenues hit RUB 3,280.3 billion (RUB 4,261.4 billion in 2018).

In 2019, the federal budget expenditures moved up by 0.6 percentage points of GDP to 16.6 percent of GDP or by RUB 1,500.2 billion compared to January-December 2018 hitting RUB 18,213.2 billion. The federal budget surplus has contracted to 1.8 percent of GDP against 2.6 percent of GDP in the previous year, non-oil and gas deficit demonstrated a downward trend, which commenced in 2015 hitting 5.7 percent of GDP in 2019.

In the course of the year, the original version of the Law on the federal budget was subject to changes twice – in June and December of 2019.² One should highlight a downward revision of the oil and gas revenues in the federal budget in late 2019 relative to the original text of the law from 7.8 to 7.2 percent of GDP, which was due to the expectations of the fall of the global prices on hydrocarbons, to the adjustment of the structure of oil production as well as to the consequences from a number of tax changes adopted in 2019. The federal budget expenditures, on the contrary saw an upward revision by 2.5 percent in nominal terms in late 2019. For example, the approved federal budget expenditure moved up in July 2019 by RUB 256.5bn including on the implementation of state program “Development of transport system” – by RUB 78.0bn. In December of the same year, the amount of annual budget appropriations was increased by another RUB 195.7bn including on the state program (Management of public finances and regulation of financial markets” – by RUB 121.5bn and “Securing of national defense capability” – by RUB 36.9bn.

Table 12

The main parameters of the federal budget in 2015–2019, percent of GDP

	2015	2016	2017	2018	2019			Dev. in 2019 relative to 2018, in pp. of GDP
					Law on FB for 2019*	Law on FB for 2019 with amendments **	Actually	
Revenue including:	16.4	15.7	16.4	18.6	18.9	18.4	18.5	-0.1
Oil and gas	7.0	5.6	6.5	8.6	7.8	7.2	7.5	-1.1
Non-oil and gas	9.4	10.1	9.9	10.0	11.1	11.2	10.9	0.9
Outlays	18.7	19.1	17.8	16.0	17.0	17.1	16.6	0.6
Deficit (-) / Surplus (+)	-2.3	-3.4	-1.4	2.6	1.9	1.3	1.8	-0.8
Non-oil and gas deficit	-9.3	-9.0	-7.9	-6.0	-6.1	5.9	-5.7	0.3
<i>GDP, RUB billion</i>	83 387	86 010	92 089	104 335	105 820	108 414	109 361	

¹ On base oil price to the tune of 41,6 USD/bbl. for 2019.

² Federal Laws of July 18, 2019 No.175-FZ and December 2 2019 No. 389-FZ.

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<i>Urals USD per barrel.</i>	51.2	41.9	53.0	70.0	63.4	62.2	63.6
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* Federal Law of November 29, 2018 No. 459-FZ “On the Federal Budget for 2019 and the 2020 and 2021 Planning Period”

** Federal Law of December 2, 2019 No. 389-FZ “On Amendments to the Federal Law ‘On the Federal Budget for 2019 and the 2020 and 2021 Planning Period’”

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

The main sources of revenue

Parameters of the federal budget revenue part execution for 2019 on volumes and structure are presented in *Table 13*. The amount of returns from the oil and gas components contracted against 2018 which was due to an adverse dynamics of receipts from MET by 0.4 percentage points and from export customs duties by 0.8 percentage points of GDP on the back of the ruble appreciation against the U.S. dollar and decrease of the average crude oil price, as well as owing to a revision commenced from July 1, 2019 of the calculation of damping component of the excise tax on crude oil supplied to refineries which was partially compensated by the rise from October 1, 2019 of the MET rate in crude extraction within the tax maneuver adjustment effective in the oil sector.¹ As a result, 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 72.4 percent in 2019.

Table 13

The main tax returns in the federal budget in 2015–2019

	percent of GDP					Dev in 2019 relative to 2018, pp. Of GDP
	2015	2016	2017	2018	2019	
1	2	3	4	5	6	7
Revenue, total	16.4	15.7	16.4	18.6	18.5	-0.1
Oil and gas revenues	7.0	5.6	6.5	8.6	7.5	-1.1
<i>Of which:</i>						
MET	3.7	3.3	4.4	5.9	5.5	-0.4
Export duties	3.3	2.3	2.1	2.8	2.0	-0.8

Cont'd

1	2	3	4	5	6	7
Non-oil and gas revenues	9.4	10.1	9.9	10.0	10.9	0.9
<i>Of which:</i>						
Corporate income tax	0.6	0.6	0.8	0.9	1.1	0.2
VAT on goods sold on the territory of the Russian Federation	2.9	3.1	3.3	3.4	3.9	0.5
VAT on goods imported into the territory of the Russian Federation	2.1	2.2	2.2	2.3	2.6	0.3
Excises on goods produced on the RF territory	0.6	0.7	1.0	0.8	0.5	-0.3
Excises on goods imported into the RF territory	0.1	0.1	0.1	0.1	0.1	0.0
Import duties	0.7	0.7	0.6	0.6	0.7	0.1
Other revenues	2.4	2.7	1.9	1.9	2.0	0.1

Sources: Federal Treasury, own calculations.

The volume of non-oil and gas revenues of the federal budget in 2019 against the previous year rose by 0.9 percentage points of GDP on the back of total tax receipts growth except excises, which amount in share of GDP contracted by 0.3 percentage points of GDP. The highest growth of non-oil and gas revenues of the federal budget was demonstrated by VAT, which was due to an increase of the VAT base rate rise. On the whole, dynamics of the non-oil and gas revenues of the federal budget demonstrated a stable upward trend.

¹ Federal Law of July 30, 2019 No. 255-FZ “On Amendments in Part II of the Tax Code of the Russian Federation.”

Federal budget expenditures

The federal budget expenditures in 2019 amounted to 16.6 percent of GDP up by 0.6 percentage points of GDP or RUB 1,500.2 billion against 2018 (*Table 14*).

Table 14

Federal budget expenditures in 2018–2019

	2018			2019			Dev in 2019 relative to 2018	
	RUB billion	% of GDP	Cash execution, percent	RUB billion	% of GDP	Cash execution, percent	RUB billion	pp. of GDP
Expenditure, total	16 713.0	16.0	95.5	18 213.2	16.6	94.2	1 500.2	0.6
Including:								
General state issues	1 257.2	1.2	89.0	1 366.3	1.2	85.6	109.1	0.0
National defense	2 827.1	2.7	92.3	2 997.2	2.7	92.7	170.1	0.0
National security and law enforcement activities	1 971.1	1.9	96.2	2 083.1	1.9	95.5	112.0	0.0
National economy	2 402.2	2.3	93.5	2 824.5	2.5	91.8	422.3	0.2
Housing and utility sector	148.8	0.1	88.1	283.7	0.3	84.2	134.9	0.2
Environmental conservation	116.0	0.1	98.8	197.5	0.2	91.7	81.5	0.1
Education	722.6	0.7	95.9	826.6	0.7	93.1	104.0	0.0
Culture, cinematography	94.8	0.1	84.3	122.4	0.1	87.8	27.6	0.0
Healthcare	537.3	0.5	96.3	713.0	0.6	95.6	175.7	0.1
Social policy	4 581.9	4.4	99.3	4 881.1	4.5	99.7	299.2	0.1
Physical fitness and sports	64.0	0.1	86.9	81.4	0.1	91.5	17.4	0.0
Mass media	88.5	0.1	99.9	103.5	0.1	99.9	15.0	0.0
Servicing state and municipal debt	806.0	0.8	99.0	730.8	0.7	94.0	-75.2	-0.1
Intergovernmental fiscal transfers	1 095.5	1.0	99.7	1 002.1	1.0	95.7	-93.4	0.0

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

Federal Budget expenditures growth in shares of GDP in 2019 relative to the previous year is registered across five functional classification sectors:

- “National economy” – up by 0.2 percentage points of GDP on the back of expenditures growth by 0.1 percentage point on agriculture, public road system and on the item “Other issues in the sphere of national economy”;

- “Housing and utility sector” and “Environmental protection” – up by 0.2 and by 0.1 percentage points of GDP, respectively;

- “Healthcare” – up by 0.1 percentage point of GDP including 0.05 percentage points of GDP each on items “Inpatient care” and “Other issues in the sphere of healthcare”;

- “Social policy” – up by 1.0 percentage point of GDP due to the increase of budget appropriations on the social safety net, family and childhood protection, and on other issues in the sphere of social policy.

Shrinkage of the federal budget allocations in 2019 is reported solely across expenditures on the public debt servicing by 0.1 percentage point of GDP. Regarding other functional classification sections, the federal budget expenditures remained flat in 2019 relative to 2018.

The federal budget structure across non-productive and productive expenditures was subject to certain changes in favor of the latter: the share of productive expenditures in the total volume of expenditures went up from 19.1 percent in 2018 to 20.3 percent in 2019 or from 3.0 to 3.4 percent of GDP.

There were no significant changes regarding cash execution of the federal budget outlays in 2018–2019 (94.2 percent in 2019 against 95.5 percent in 2018).

The program structure of the open part of the federal budget outlays at the year-end 2019 (*Table 15*) reports increment of the program expenditures by 1.9 percentage points of GDP relative to 2018 on the back of the expenditure growth on innovation development and modernization of economy by 0.8 percentage points of GDP and national security priorities by 1.4 percentage points of GDP amid the contraction of the budget appropriations on “New quality of life” by 0.1 percentage point of GDP and “Balanced regional development” by 0.2 percentage points of GDP.

The proportion of the federal budget expenditures has gone up to 78.5 percent against 69.9 percent a year earlier.

Table 15

**Federal budget expenditures on the implementation of state programs
in 2018–2019**

	2018			2019			Dev in 2019 relative to 2018	
	RUB billion	% of GDP	Cash execution, percent	RUB billion	GDP, percent	Cash execution, percent	RUB billion	pp. of GDP
1	2	3	4	5	6	7	8	9
Expenditure, total	16 713.0	16.0	95.5	18 213.2	16.6	94.2	1 500.2	0.6
<i>Including on implementation of state programs (open part)</i>	<i>11 677.0</i>	<i>11.2</i>	<i>93.6</i>	<i>14 305.3</i>	<i>13.1</i>	<i>91.5</i>	<i>2 628.3</i>	<i>1.9</i>
Including across directions:								
I. New quality of life	5 603.9	5.4	93.0	5 739.3	5.3	90.8	135.4	-0.1
Including SP “Development of Pension System”	3 020.3	2.9	100.0	3 129.2	2.9	99.8	108.9	0.0
II. Innovative development of economic modernization	2 266.0	2.2	92.6	3 272.9	3.0	88.6	1 006.9	0.8
III. National security provision*, **	880.8	0.8	98.3	2 382.1	2.2	98.6	1 501.3	1.4

Cont'd

1	2	3	4	5	6	7	8	9
IV. Balanced regional development	1 311.7	1.3	96.2	1 172.3	1.1	90.2	-139.4	-0.2
V. Effective state	1 614.6	1.6	92.5	1 738.7	1.6	96.7	124.1	0.0

* According to Portal of state programs, “National security provision” embraces the following SP financed in 2018-2019: “National defense provision”, “National security provision”, “Peacekeeping and combating crime”, “Protection of population and territories from emergency situations, ensuring fire safety and water safety.”

** In 2018, the open part of the program structure of the federal budget excluded spending on SP “National defense provisions”, and in 2019 actual spending on this program amounted to RUB 1,475.0 billion.

Sources: Finance Ministry of Russia, Federal Treasury; <https://programs.gov.ru/>; own calculations.

Cash execution of the program part of the federal budget expenditures constituted 91.5 percent against 93.6 percent seen in 2018. For a number of state programs the actual amount of execution relative to the approved annual volume comes to 85 percent: state programs – “Environmental conservation” (74.9 percent), “Implementation of state national policy” (78.8 percent), “Development of ship building and machines for the development of the offshore fields” (56.8 percent), “Development of pharmaceutical and medical industry”, “Social and economic development of the Arctic zone of the Russian Federation” (84.2 percent), “Public finance management and regulation of financial markets” (83.4 percent).

Deficit and debt at the federal level

Regarding flow of funds taken as a source of the federal budget deficit financing the following dynamic has been noted (*Table 16*):

- the amount of borrowing on the domestic market constituted in 2019 RUB 2,083 billion against 1,037 billion in 2018;
- the volume of budget funds allocated for the repayment of obligations on bonds placed on the domestic market moved up from RUB 529 billion in 2018 to RUB 705 billion in 2019;
- the volume of receipts obtained from the sale of shares and other forms of equity participation in the state ownership came to RUB 11.5 billion in 2019 (RUB 12.8 billion in 2018);
- returns from repayment of budget loans hit RUB 53 billion 2019 against RUB 70 billion in 2018;
- balanced result on the amount of placed and redeemed state bonds on the external market constituted in 2019 RUB 260 billion against the negative value seen in 2018 to the tune of (-) RUB 50 billion.

Table 16

Sources of financing the federal budget deficit in 2015–2019

	RUB billion					percent of GDP				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Sources of financing deficit, total	1 961	2 956	1 331	-2 742	-1 974	2.4	3.4	1.4	-2.7	-1.8
<i>Financing of deficit from internal sources</i>	<i>1 242</i>	<i>-684</i>	<i>2 091</i>	<i>1 396</i>	<i>919</i>	<i>1.5</i>	<i>-0.8</i>	<i>2.3</i>	<i>1.3</i>	<i>0.8</i>
State securities	15	492	1 123	507	1 378	0.0	0.6	1.2	0.5	1.3
Other sources	1 227	-1 176	968	889	-459	1.5	-1.4	1.1	0.8	-0.4
<i>Financing of deficit from external sources</i>	<i>-296</i>	<i>43</i>	<i>-126</i>	<i>-135</i>	<i>289</i>	<i>-0.4</i>	<i>0.0</i>	<i>-0.1</i>	<i>-0.2</i>	<i>0.3</i>
State bonds	-183	110	41	-50	260	-0.2	0.1	0.0	-0.1	0.2
Other sources	-113	-67	-167	-85	29	-0.1	-0.1	-0.2	-0.1	0.1
<i>Change in remaining balance</i>	<i>1 015</i>	<i>3 597</i>	<i>-634</i>	<i>-4 003</i>	<i>-3 182</i>	<i>1.3</i>	<i>4.2</i>	<i>-0.8</i>	<i>-3.8</i>	<i>-2.9</i>

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

According to the information released by the Ministry of Finance of Russia, as of January 1, 2020, the volume of public debt hit RUB 14.2 trillion (or 13.0 percent of GDP against 12.0 percent seen in 2018) including domestic debt – Rub 10.2 trillion (growth over 2019 by RUB 1,002.3 billion), and external – USD 54.8 billion (up by USD 5.8 billion in 2019).

Total amount of the National Wealth Fund (NWF) in ruble terms for January-December 2019 increased from RUB 4,036.0 billion (3.9 percent of GDP) to RUB 7,773.1 billion (7.1 percent of GDP). During 2019 the following operations with NWF funds were performed:

- cash outflow to the tune of RUB 4.7 billion (RUB 5.1 billion in 2018) for co-financing of pensions savings for insured individuals who paid additional insurance contributions for funded pension;
- receipts to the tune of RUB 4,122.2 billion. (RUB 906.7 billion in 2018) within the amount of additional oil and gas revenues of the federal budget in 2018¹.

The NWF funds for securing balanced (covering deficit) budget of the Pension Fun of Russia in 2019 were untouched (in 2018 for these purposes RUB 1,108.2 billion were spent). Switch rate from the revaluation of the NWF funds hit RUB 380.4 billion in 2019.

¹ Order of the Finance Ministry of Russia of July 17, 2019 No. 364 “On the Use of Additional Oil and Gas Revenues of the Federal Budget appropriated in 2018 for the National Wealth Fund”.

Judging by the dynamics of the federal budget deficit, public debt, and sovereign funds (Reserve Fund and National Wealth Fund prior 2018) in shares of GDP in 2015-2019 (*Fig. 18*) we should note the return in 2019 of the public debt volume to the 2015 level and commencement of the federal budget surplus in recent two years and growth of the sovereign reserves (during 2015–2018 the volume of the sovereign funds was constantly shrinking in shares of GDP).

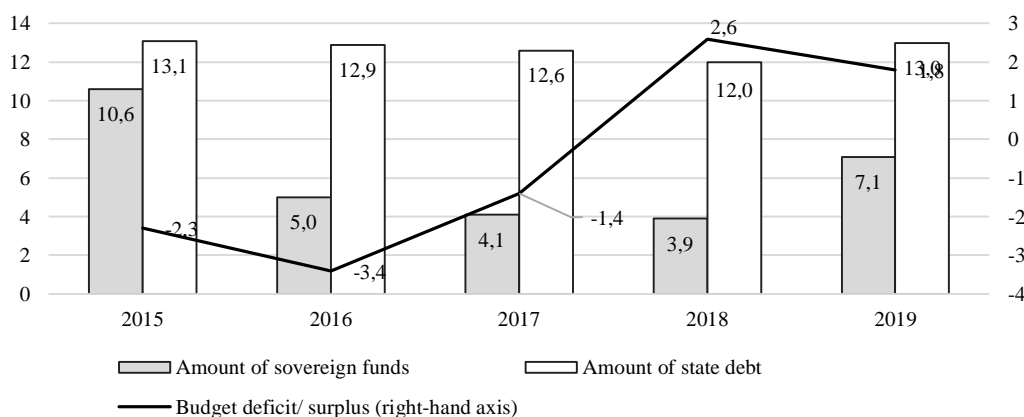


Fig. 18. Dynamics of the federal budget deficit, public, and sovereign funds in 2015–2019, percent of GDP

Sources: Federal Treasury, own calculations.

While analyzing the dynamic and the structure of the main parameters of the federal budget for 2019 both relative to the 5-year period and compared to the previous year, one should note the development of upward trends regarding increment of non-oil and gas fiscal revenues as well as keeping the public debt and the NWF volume at the level acceptable for securing budget sustainability.

Observed from early 2020 decline of the oil prices will be some sort of a stress test for the budgetary system. Implementation of the national projects and 2020 additional long-term social obligations adopted in March have led to the fact that the federal budget can be balanced under the oil price not lower than USD 53/bbl and the exchange rate around RUB 67 per USD. Under a prolonged stay of the oil price below that target one should expect a postponement of the budget investment costs. From our point of view, it is not expedient in the short run to conduct a new expenditure consolidation or other tightening of the fiscal policy because there will be sufficient funds in the NWF and the market capacity will suffice for offsetting the shortfall in budget revenues. However, when deterioration of macroeconomic conditions will have medium-term, it will become inevitable both to review the volumes and the structure of the federal budget expenditures.

2.2.3. Interbudgetary relations and subnational finances

Analysis of the 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. 19* exhibits 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. In order to ensure compatibility of the data for the period under review and exclude double count data on parameters of the budgetary system of the Russian Federation as well as expenditures of the consolidated budgets of the RF subjects have been adjusted taking into account insurance contributions for mandatory medical insurance of the non-working population.

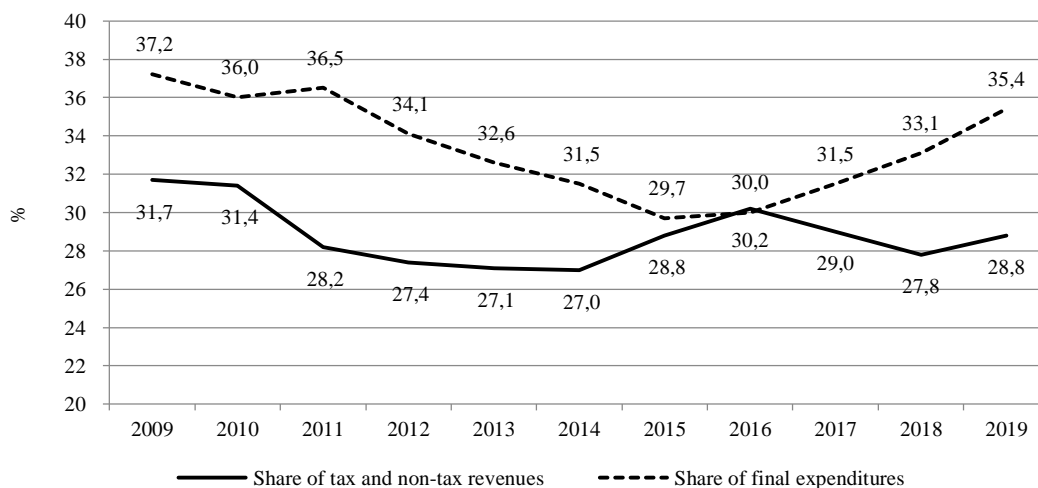


Fig. 19. Share of tax and non-tax revenues and expenditures of budgets of the budgetary system of the Russian Federation in 2009–2019, percent

Sources: Federal Treasury, own calculations.

Fig. 19 demonstrates that in 2015–2016 there was a certain decentralization of tax and non-tax revenues, which not due to the transfer of the revenue sources from the federal to the regional level, but with a lower growth rates of tax and non-tax revenues of the federal budget compared to the regional ones. Later on trends changed: 2017–2018 saw an increase of centralization of tax revenues at the federal level with simultaneous growth of the share of regional expenditure liabilities. The share of tax and non-tax revenues of the regions' consolidated budgets in tax and non-tax revenues of the budgetary system of the Russian Federation decreased from 30.0 percent seen in 2016 to 27.8 percent in 2018 and a corresponding share of regional spending in the expenses of the budgetary system went up from 30.2 percent to 33.1 percent over the period.

2019 saw an upward trend of expenditure obligations of subnational budgets (this indicator went up by 2.3 percentage points compared to the previous year and constituted 35.4 percent), and the share of regional and local budgets in tax and non-tax revenues moved up by 1 percentage points and came to 28.8 percent. Despite a certain growth of regional share of revenues, the imbalance between the level of decentralization of revenues and expenditures of the regions' budgets in 2019 continued growing. On the whole, regions' share in the structure of revenues and expenditures of the budgetary system in 2019 is comparable to the 2011 situation.

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 17*.

The right-hand side of the table demonstrates revenues in real terms (adjusted for inflation), which according to Rosstat came to 3.0).

Table 17
Revenues of the consolidated budgets of the RF subjects in 2015–2019

	In nominal terms, RUB billion.					Real increase, percent			
	2015	2016	2017	2018	2019	2016/ 2015	2017/ 2016	2018 / 2017	2019 / 2018
Revenues, total	9 308	9 924	10 758	12 392	13 572	1.2	5.8	10.5	6.3
Including:									
Tax and non-tax revenues	7 625	8 289	8 986	10 222	10 993	3.2	5.8	9.1	4.4
<i>Including tax revenues:</i>	<i>6 925</i>	<i>7 574</i>	<i>8205</i>	<i>9 429</i>	<i>10 103</i>	<i>3.8</i>	<i>5.7</i>	<i>10.2</i>	<i>4.0</i>
Corporate income tax	2 108	2 279	2528	3 105	3 358	2.6	8.2	17.8	5.0
PIT	2 808	3 019	3252	3 654	3 956	2.0	5.1	7.8	5.1
Excises	487	662	612	632	755	29.1	-9.8	-0.8	16.0
Taxes on aggregate income	348	388	447	520	596	6.0	12.2	11.6	11.3
Property taxes	1 069	1 117	1 250	1 397	1 351	-0.8	9.2	7.2	-6.1
<i>Non-tax revenues</i>	<i>700</i>	<i>715</i>	<i>781</i>	<i>794</i>	<i>890</i>	<i>-3.0</i>	<i>6.5</i>	<i>-2.5</i>	<i>8.9</i>
Transfers from other budgets	1 617	1 578	1 703	2 085	2 453	-7.4	5.3	17.4	14.2
Other revenues	66	56	69	85	127	-19.2	18.7	18.2	-44.5

Sources: Federal Treasury, own calculations.

As is seen from *Table 17*, the growth of the subfederal budgets revenues in real terms observed from 2016 continued in 2019, although its rates decreased vis-à-vis 2018. The total amount of tax and non-tax revenues adjusted to CPI in 2019 went up by 4.4 percent in comparison with 2018. Furthermore, the growth rate of actual returns from the corporate income tax hit 5 percent, from PIT – 5.1 percent. One should note the increase of returns from excises by 16.0 percent and from the aggregate income tax by 11.3 percent. Returns from the property tax contracted by 6.1 percent, however, due to a small their share in the revenue structure of the regions' consolidated budgets this reduction did not reflect on the total revenue dynamic. The volume of intergovernmental fiscal transfers received by the regions has gone up by 14.2 percent, i.e. the growth rates of financial assistance have exceeded the growth rates of tax and non-tax revenues of regional and municipalities.

Let us analyze the changes which occurred in the expenditure part of the consolidated budgets of the RF subjects in 2019 (*Table 18*).

Table 18
Expenditures of the consolidated budgets of the RF subjects

	percent to total		pp. of GDP		Deviation	
	2018	2019	2018	2019	In nominal terms, %	pp. of GDP
Expenditures, total	100.0	100.0	11.47	12.41	14.2	0.94
General state issues	6.3	6.2	0.72	0.77	12.1	0.05
National security and law enforcement	1.2	1.1	0.13	0.14	8.7	0.01
National economy, including:	20.8	21.8	2.38	2.70	19.7	0.32
Agriculture and fisheries	2.3	1.9	0.26	0.24	-3.4	-0.02
Transport	4.7	5.1	0.54	0.63	22.7	0.09
Public road system (road funds)	8.9	9.5	1.02	1.17	21.9	0.15
Other issues in the sphere of national economy	4.9	5.3	0.56	0.66	23.7	0.10
Housing and utility sector	10.2	10.2	1.17	1.26	13.6	0.09
Environmental conservation	0.3	0.5	0.04	0.06	67.7	0.02
Education, including:	25.4	24.7	2.91	3.07	11.3	0.16
Pre-school education	7.1	7.1	0.81	0.88	14.7	0.07
General education	12.2	11.9	1.4	1.48	11.6	0.08
Second vocational education	1.9	1.8	0.21	0.22	7.7	0.01
Other issues in sphere of education	4.2	4.0	0.49	0.49	6.3	0.00

	percent to total		pp. of GDP		Deviation	
					In nominal terms, %	pp. of GDP
	2018	2019	2018	2019		
Culture, cinematography	3.7	3.5	0.43	0.44	8.8	0.01
Healthcare	8.0	8.6	0.92	1.07	22.8	0.15
Social policy	20.3	19.8	2.33	2.46	11.2	0.13
Physical fitness and sports	2.4	2.4	0.27	0.29	13.2	0.02
Mass media	0.4	0.4	0.05	0.05	9.5	0.00
Servicing state and municipal debt	0.9	0.8	0.11	0.10	-5.1	-0.01

Sources: Federal Treasury, own calculations.

Table 18 exhibits that the functional structure of the regional expenditure in 2019 changed slightly compared to the previous year. Among major structural changes, one should note an increase of spending on national economy (by 1.0 percentage points mainly due to increased spending on transportation and public road system), as well as on healthcare (up by 0.6 percentage points). This being said, a reduction of spending on social policy by 0.5 percentage points and education by 0.7 percentage points.

Practically all functional components of regional expenses increased in 2019 in nominal terms except expenses on assistance to agriculture and servicing of public and municipal debt. The same conclusion can be made regarding expenses in shares of GDP: the highest rates of spending accounted for assistance to the economy (except agriculture) and healthcare.

The total share of expenditure of the consolidated budgets of RF subjects in GDP in 2019 increased by 0.94 percentage points of GDP in comparison with 2018 and constituted 12.41 percent of GDP, which was the highest indicator since 2012.

Let us analyze dynamics of the main parameters of the consolidated budgets of the RF subjects in shares of GDP (Table 19).

Table 19 exhibits that 2019 demonstrated an ongoing upward trend of the real revenues of the regions' consolidated budgets. Increased both the total amount of revenues and the main components – returns from the corporate income tax and PIT. Having said that, the volume of transfers from the federal budget was growing at outstripping rates in comparison with the tax revenues of the subjects, which to a large extent was due to provision of additional financial assistance allocated on the implementation of national projects. The real level of regions' expenditure in 2019 also increased in a greater degree than the revenues. Summarizing the results of the budget execution a small surplus has popped up to the tune of 0.004 percentage points of GDP (a year earlier surplus amounted to 0.49 percentage points of GDP).

Table 19

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

	2015	2016	2017	2018	2019
Revenues	11.16	11.54	11.68	11.96	12.41
including:					
Corporate income tax	2.53	2.65	2.74	3.00	3.07
PIT	3.37	3.51	3.53	3.53	3.62
Transfers from Federal budget	1.94	1.83	1.85	2.01	2.18
Expenditures	11.37	11.55	11.74	11.47	12.41
Deficit (-) / Surplus (+), pp. of GDP	-0.21	-0.01	-0.06	0.49	0.004

Sources: Federal Treasury, own calculations.

Therefore, the sphere of interbudgetary relations, on one side, demonstrated rise of proportion of the regions in the structure of the budgetary system and growth of real revenues, and on the other – outstripping growth of budget expenses. In the event, when external shocks

(fall of oil prices, coronavirus pandemic) result in the contraction of financial backstop from the federal budget, these trends can adversely impact the regions' budgets sustainability in the medium term.

Financial assistance from the federal budget

The total amount of intergovernmental fiscal transfers from the federal budget significantly increased in 2019 in comparison with 2018 both in nominal terms (16.7 percent) and in shares of GDP (2.2 percentage points of GDP) (*Table 20*). The increment was, first of all, due to an increase on other intergovernmental fiscal transfers (+1.8 percentage points of GDP) and subsidies (+1.4 percentage points of GDP, which was due to the need of the implementation of national projects at the regional and municipal levels by way of granting to corresponding budgets of federal targeted transfers.

Changes related to grants for securing balance: their sharp rise in 2018 relative to 2017 (2.2 percentage points of GDP) was offset by a notable contraction seen in 2019—1.5 percentage points of GDP relative to 2018. Change in the transfers amount has led to a change in the structure of financial assistance from the federal budget: the share of subventions (non-target financial assistance) in 2019 decreased by 1.5 percentage points of GDP in comparison with 2018 and amounted to 38.7 percent which is below the 2017 level.

Table 20

Fiscal transfers to the budgets of the subjects of the Russian Federation from the federal budget

	2017		2018		2019		Increment in 2019 to 2018	
	RUB bn.	% to total	RUB bn.	% to total	RUB bn.	% to total	Nominal, %	pp. of GDP
1	2	3	4	5	6	7	8	9
Transfers to regions, total	1 690.1	100.0	2 044.8	100.0	2 387.2	100.0	16.7	2.2
Grants	759.0	44.9	1 035.5	50.6	924.0	38.7	-10.8	-1.5
Including:								
Grants for equalization of fiscal capacity	614.5	36.4	644.5	31.5	675.3	28.3	4.8	0.0
Grants for ensuring fiscal balance	133.8	7.9	380.4	18.6	237.6	10.0	-37.5	-1.5

Cont'd

Subsidies	419.8	24.8	381.8	18.7	556.6	23.3	45.8	1.4
Including:								
Subsidies for development of national economy	242.4	14.3	190.0	9.3	209.9	8.8	10.5	0.1
Subventions	326.1	19.3	331.7	16.2	396.6	16.6	19.6	0.4
Other intergovernmental fiscal transfers	185.1	11.0	295.8	14.5	510.0	21.4	72.4	1.8

Sources: Federal Treasury, Rosstat, own calculations.

The amount of subventions has gone up (by 0.4 percentage points of GDP) together with their number¹: from 32 seen in 2018 to 37 in 2019. This can demonstrate somewhat growth of

¹ 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.

dependence of subnational budgets from the federal budget regarding the execution of delegated powers.

As was already mentioned, increment of subsidies volume amounted 1.4 percentage points of GDP. Alongside this their number sharply increased: from 74 seen in 2018 to 113 in 2019. Without subsidies diverted for the implementation of priority programs, national and (or) federal projects, the number of subsidies hit 70, meanwhile 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 2019 down to 55. Thus, plans for optimization of the number of subsidies were unfulfilled.

The real volume of other intergovernmental fiscal transfers seen in 2019 went up by 1.8 percentage points of GDP in comparison with 2018 (up by 2.6 percentage points of GDP in comparison with 2017), meanwhile their number was increasing: 77 in 2017, 93 in 2018, and 108 in 2019. At end-2019 other intergovernmental fiscal transfers accounted for a fifth of the total amount of fiscal transfers from the federal budget diverted to regions.

The increment of targeted fiscal transfers is partly due to the implementation of national projects at the regional and municipal levels. For example, the share of subsidies allocated for the implementation of national projects comes to 53.1 percent and other intergovernmental fiscal transfers – 42.4 percent (*Table 21*). Without fiscal transfers diverted for the implementation of national projects, the structure of financial assistance in 2019 is as follows: grants – 50.9 percent,¹ subsidies – 14.4 percent, subventions – 18.5 percent, and other intergovernmental fiscal transfers – 16.2 percent. Proportion of other intergovernmental fiscal transfers exceeds the proportion of subsidies, which suggests the imbalance of interbudgetary policy to the reduction of the least formalized and transparent (i.e. other intergovernmental) fiscal transfers.

Table 21

**Transfers from the federal budget to the budgets of the RF subjects
for the implementation of national projects**

	Amount in 2019	
	RUB bn	% to total amount of transfers of this type
1	2	3
Total	572.2	24.0
Grants	295.7	53.1
Including:		
Current grants	91.9	59.3

Cont'd

1	2	3
Investment grants	16.4	12.0
Consolidated grants	187.4	70.7
Subventions	60.1	15.2
Other intergovernmental fiscal transfers	216.4	42.4

Sources: Federal Treasury, own calculations.

The effectiveness of transfers assigned for the implementation of national projects as a separate instrument can indirectly be assessed according to regularity of provision of corresponding funds in the course of the financial year, i.e. according to the ratio of the amount of funds assigned for the first three months to the annual amount of allocated funds (*Table 22*).

¹ This corresponds targeted value of corresponding indicator of SP “Development of federative relations...”

On the whole, transfers assigned for the implementation of national projects were allocated in the course of the year less regularly than other transfers, which can partly be explained by the novelty of this instrument and the need to the tuning of interaction procedures between the stakeholders of the interbudgetary relations.

Table 22

Regularity of transfers allocation on the implementation of national projects

Transfers	Regularity, percent
All transfers	61.9
Transfers on the implementation of national projects	49.8
Including:	
“Culture”»	55.7
“Digital economy of the Russian Federation”	0.0
“Education”	54.1
“Housing and urban environment”	37.0
“Ecology”	28.3
“Small and medium-sized enterprises and support of individual entrepreneurship”	58.4
“Productivity and employment support”	35.3
“Healthcare”	37.2
“Demography”	56.6
“Sage and quality roads”	56.4
“International cooperation and exports”	23.8
Complex plan “Modernization of infrastructure”	38.3
Other transfers	65.7

Sources: Federal Treasury, own calculations.

From 2016 onwards, the interregional inequality of tax returns has been gradually increasing (*Table 23*). In this regard, 2019 saw a stronger income spread on the back of receiving transfers than it was in 2016–2018. However, equalization effect obtained from these types of transfers remains. For example, against the backdrop of equalization seen in 2019, inequality contracted by 23 percent (in 2018 – by 24 percent), and on the back of grants and subsidies it fell by 35 percent (in 2018 – by 34 percent).

Table 23

**Coefficient of income inequality of the regions’ consolidated budgets
(per capita inclusive index of budget expenditure)**

Year	Tax revenues	Tax revenues and grants for equalization of fiscal capacity	Tax revenues, grants, 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	0.586	0.444	0.387
2019	0.603	0.464	0.390

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

Regional deficit and debt

In 2019, the consolidated budgets of the RF subjects were executed with a surplus to the tune of RUB 4.7 billion (in 2018 with a surplus to the tune of RUB 510.3 billion). This being said, the number of regions boasting of the budget surplus against 2018 has decreased 1.4-fold and has come to 50 (*Table 24*). Thus, the fiscal balance of the regions’ consolidated budgets somewhat decreased during 2019.

Table 24

**Execution (deficit/surplus) of the consolidated budgets
of the RF subjects in 2014–2019**

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
2019	35	50

Sources: Federal Treasury, own calculations.

The nominal amount of public debt of the RF subjects at end-2019 contracted from RUB 2.21 to 2.11 trillion. It contracted during the year from 25.3 to 19.2 percent in relation to the amount of tax and non-tax revenues of the RF subjects.

Budgets of certain regions exhibited a reduction of debt burden: at end-2018 forty-two regions reported debt exceeding 50 percent of tax and non-tax revenues of their budgets, and at end-2019 the number of such regions hit 26 (i.e. the number of regions with conditionally safe level of the debt burden went up from 43 to 59). By the period-end results for 2019, solely Republic of Mordovia reported public debt in the amount exceeding 100 percent of tax and non-tax revenues (in 2018 such situation was typical for the Kostroma regions).

The structure of the regions' public debt somewhat changed during the year: the share of budget loans by the end of the year amounted to 41.9 percent falling against late 2018 by 0.7 percentage points (*Fig. 20*).

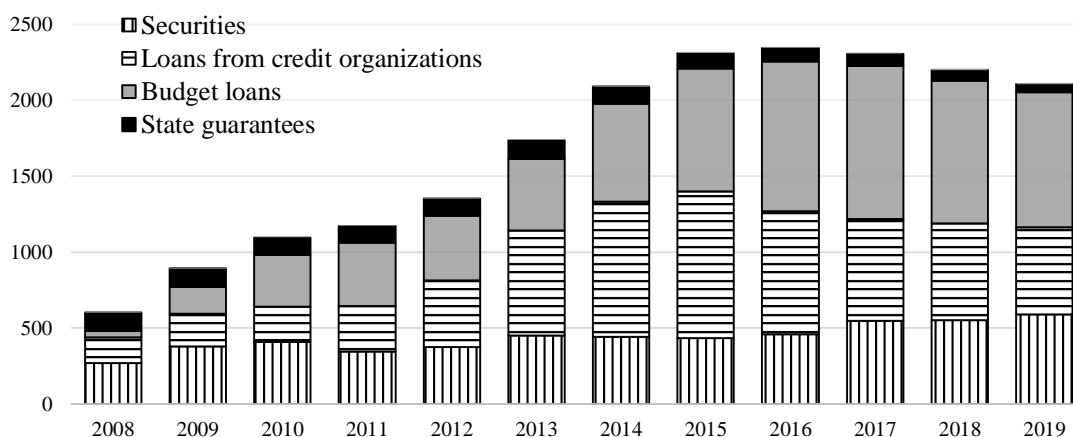


Fig. 20. Nominal amount (RUB billion) and structure (percent) of public debt of RF subjects in 2008–2019

Sources: Finance Ministry of Russia, own calculations.

The proportion of loans from the credit institutions has also decreased by 1.6 percentage points and the amount of securities has gone up by 2.9 percentage points. At the same time, the nominal amount of securities has increased by 6.7 percent, budget loans have decreased by 5.7 percent, and credit institutions loans contracted by 9.5 percent against the 2018 amount. Thus, the regions' public debt demonstrates a downward trend across all sources minus securities.

However, taking into account the reduction of oil prices amid coronavirus pandemic, one should expect a significant contraction of revenues and expenditures of the regions (first of all for the assistance to economy and social expenses) in 2020, which finally will end up to increasing budget imbalance and growth of public debt. At the same time, the high current level

of regional fiscal sustainability will allow (at least, in the short-run) to avoid a critical situation with the budgets of the subjects of the Federation.