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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 42th 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.

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2.2. Russia's Fiscal Policy in 2020¹

2.2.1. The characteristic features of budgets across the RF budget system

The Basic budget parameters of the RF budget system

The budget system revenues of the Russian Federation in 2020 shrank by Rb3.4 trillion in real terms compared to the previous year, or by 8.6% at constant prices (*Table 6*) on the back of reduced oil and gas revenues. For this reason, the proportion of oil and gas revenues in the total budget revenues of the enlarged government declined in 2020 to 13.1% against 20.9% in 2019. For non-oil and gas revenues, there is a slight increase of Rb118.0 bn or by 0.4% in constant prices, which was achieved during the crisis on the back of the transfer to the federal budget of the Bank of Russia profit obtained from the sale of equity stake in Sberbank (reflected under other income). In the total revenue side of the expanded government's budget, the federal budget revenues decreased to 49.4% in 2020, compared to 51.1% in 2019.

Table 6

Basic parameters of the RF enlarged government in 2019–2020

	2019		2020		Deviation, 2020 to 2019		
	Rb bn	% of GDP	Bn Rb	% of GDP	Rb bn (in 2019 prices)	In constant prices*, %	p.p. of GDP
Revenue, including:	39 497	36.0	37 857	35.5	-3 412	-8.6	-0.5
- oil and gas revenue	8 248	7.5	4 950	4.6	-3 530	-42.8	-2.9
-non-oil and gas revenue	31 249	28.5	32 907	30.9	118	0.4	2.4
Expenditure	37 382	34.0	42 151	39.5	2 796	7.5	5.5
Deficit (-) /Surplus (+)	2 115	2.0	-4 294	-4.0	-6 208	–	-6.0
<i>For reference: GDP, billions of rubles</i>	<i>110 046</i>		<i>106 607</i>				

* According to the consumer price index.

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

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Expenditures of the Russian budget system increased by Rb2.8 trillion in real terms or by 7.5% compared to the previous year. In the total expenditure of the enlarged government budget, federal budget expenditures amounted to 56.6% in 2020 against 51.7% in 2019. The budget deficit of the enlarged government for January-December 2020 increased by Rb6.2 trillion in real terms relative to the budget surplus received at the end of 2019 and amounted to around Rb4.3 trillion, mainly due to the negative balance of the federal budget worth of Rb4.1 trillion.

The Main Tax Receipts in the RF Budget system

Revenues from all major taxes and duties dropped, with the exception of personal income tax and excise taxes (*Table 7*). The largest decrease occurred in customs duties and fees (a drop of more than 60% in real terms), the Mineral Extraction Tax (MET) (by almost 40%), and income tax (by 16%). For insurance premiums and VAT, receipts in 2020 declined slightly.

Table 7

The main tax receipts in the enlarged government budget of the Russian Federation in 2019–2020, RB bn

	2019	2020	Deviation, 2020 to 2019 in prices of 2019%
Corporate profit tax	4 541	4 018	-15,6
PIT	3 900	4 253	4,0
Insurance contributions*	7 292	7 329	-4,2
VAT	7 088	7 202	-3,1
Excises	1 363	1 935	35,4
MET	6 106	3 954	-38,3
Customs duties and fees	3 000	1 148	-63,5

* Minus contributions for non-working population.

Sources: MMinistry of Finance of Russia (operational data), Federal Treasury, own calculations.

Oil and gas revenues. The base rate of the mineral extraction tax (MET) on crude oil was maintained at Rb919 per ton, as in 2019. the dollar exchange rate and the oil price were the main factors of the MET dynamic.

On average for 2020, the price of Urals crude oil demonstrated a sharp drop (*Fig. 13*): in particular, in April 2020, it stood at around \$16 bbl, which was due to a drop in oil demand amid the introduction of quarantine measures and an increase in supply owing to the collapse of the OPEC+ deal. Considering the fact that already at \$15 bbl, the MET rate (according to the formula for calculating it) becomes zero, in April 2020, an all-time record was set – the minimum value of the ruble MET rate of Rb334 per ton of oil. The weakening of the ruble, which accompanied the fall in oil prices, somewhat smoothed out the loss of oil and gas revenues.

Corporate profit tax. The decline in income tax receipts was triggered by a general decline in business activity during the crisis. According to Rosstat, the income of profitable enterprises in 2020 in 2019 prices amounted to more than

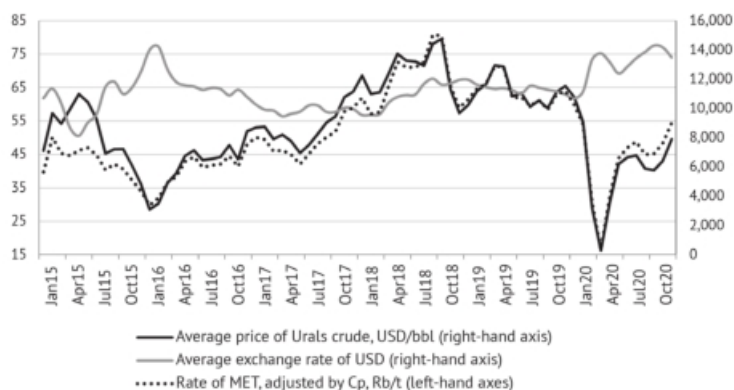


Fig. 13. The dynamic of the actual rate of MET, prices of Urals, and the exchange rate of USD in 2015–2020

80% of the 2019 level. The hardest hit industries in terms of reduced profit volumes were transportation and shipping operations (20-40% of the 2019 profit) and mining (60-80%). This being said, we should not expect a rapid recovery of income tax revenues, since in 2020 there was an accumulation of retained losses of enterprises – its level in constant prices has increased by about 2.5-fold compared to 2019.

Payroll taxes. In 2020, the payroll fund as the main tax base for insurance contributions and personal income tax in 2019 prices did not practically drop. According to the Q1 2020 results, the growth of the payroll fund in comparison with Q1 2019 continued, and the fall in Q2 2020 was recouped in Q3 and Q4 (the payroll fund in these 2 quarters at constant prices was approximately at the level of the previous year).

At end-2020, the payroll fund in construction, tourism and public catering did not fully recover (up to a third of the drop in constant prices), while the payroll fund increased in the sectors related to financial services, information technology and communications, as well as real estate transactions.

Value added tax (VAT). Total VAT receipts in 2020 decreased only slightly relative to the 2019 level. Furthermore, the decrease slightly affected both VAT on imported goods (-1.4% from the level of 2019) and on goods sold in the country (-4.3% from 2019). Retail turnover at comparable prices in Q1 2020 amounted to 104.4% from the level of the corresponding quarter of 2019, in Q2 – 84%, in Q3 – 98.4%. A full recovery in the level of retail turnover did not happen at the end of Q4 (97.2%), so the recovery of VAT receipts should be expected no earlier than the end of 2021.

Excises. Excise tax receipts from tobacco products in 2020 showed a positive trend compared to the previous year, although excise tax rates were increased only by the target inflation rate, and the total market volume continued to decline. In 2018-2019, as a result of a significant increase in the volume and share of the illegal tobacco market (up to 8.5% and 15%, respectively), excise tax receipts decreased for the first time in a decade. In 2020, due to the restrictive

border crossing measures taken to face the COVID-19 pandemic, a significant part of the smuggling channels was “covered up”, as a result of which, according to preliminary estimates, the share of illegal traffic decreased to 7.5%. As a result, budget revenues generated by excises on tobacco products have almost recovered to the 2018 level. At the same time, it is worth noting the increase in the proportion of the heated tobacco segment in the total structure of all tobacco excise taxes: if in 2017 it was less than 1%, then in 2020 it reached 5%. The tax collection rate in this segment is almost 100% owing to the full control of this market segment by major players, which is stemming from the technological complexity of the product.

Total revenues from alcohol products increased in 2020, but not in the same way as projected in the context of the expected deviations in the consumption structure induced by the COVID-19 pandemic. That said, the dynamic broken down by segments is ambiguous.

From the point of view of tax collection, the best situation is in the beer market: the consolidated budget revenues from excise taxes on beer in 2020 amounted to Rb173 bn, and the input of beer to the structure of proceeds from excise taxes on alcoholic beverages exceeded 40%.

In recent years, the input of excise taxes from wine to the total income from excise taxes on alcoholic beverages has been growing: if in 2016 it was 3.5%, then by the end of 2020 it was already 6.2%, while budget revenues amounted to Rb26.5 bn. In 2020, the structure of taxation in the wine market changed: rates for wine beverages increased markedly, while domestic wine producers from homeland grapes gained a relative tax advantage. Despite the general increase in the rate, the collection rate remains at a high level.

Budget revenues from strong alcoholic beverages in 2020 remained almost at the 2019 mark and amounted to Rb224 bn. At the meantime, the excise tax collection in this segment fell slightly, but was offset by an increase in the excise rate and an overall increase in the consumption of strong alcohol products.

The Expenditure Side of the RF Budget system

Expenditures of the budget system of the country markedly increase in real terms in 2020 – up by 7.5% or by Rb2.8 trillion compared to the previous year (Table 8).

The major growth in expenditures in 2020 compared to the previous year is noted in the sections that provide funding for measures to reduce the social and economic risks associated with the pandemic, including (growth in constant prices): *Social policy* (Rb1,055.5 bn, or 8.1%), *Healthcare* (Rb918.5 bn, or 24.2%), *National economy* (Rb586.3 bn, or 11.3%). In real terms, a slight decrease is observed only in expenditures on financing national issues, housing and communal amenities, culture and cinematography. The real budget execution exceeded the annual budget allocations initially approved for 2020 at all levels of the budget system and amounted to (in nominal terms): according to the federal budget Rb2,780.8 bn, according to the state extra-budgetary funds Rb1,147.5 bn, and according to the consolidated budget of the subjects of the Russian Federation Rb767.4 bn.

Enlarged government budget expenditure in 2019–2020

	2019		2020		Deviation, 2020 to 2019		
	Rb bn.	% of GDP	Rb bn	% of GDP	Rb bn (in 2019 prices)	In constant prices, %	p.p. of GDP
Expenditure total, including:	37 382,2	34,0	42 150,9	39,5	2 796,2	7,5	5,5
Nationwide issues	2 234,8	2,1	2 251,6	2,4	-88,6	-4,0	0,3
National defense	2 998,9	2,7	3 170,7	3,0	23,4	0,8	0,3
National security and law enforcement activity	2 233,6	2	2 392,4	2,2	46,8	2,1	0,2
National economy	5 171,8	4,8	6 040,8	5,7	586,3	11,3	0,9
Housing and community amenities	1 574,9	1,4	1 590,5	1,5	-58,8	-3,7	0,1
Environmental protection	250,3	0,2	303,9	0,3	39,4	15,7	0,1
Education	4 050,6	3,7	4 324,0	4,1	71,0	1,8	0,4
Culture, cinematography	587,9	0,5	610,1	0,6	-6,4	-1,1	0,1
Healthcare	3 789,7	3,5	4 939,4	4,6	918,5	24,2	1,1
Social policies	13 022,8	11,9	14 769,5	13,7	1 055,5	8,1	1,8
Physical culture and sports	375,4	0,3	400,7	0,4	6,5	1,7	0,1
Mass media	156,1	0,1	173,7	0,2	9,5	6,1	0,1
Government and municipal debt servicing	835,4	0,8	883,5	0,8	6,8	0,8	0,0

Sources: Finance Ministry of Russia (operational data), Federal Treasury, own calculations.

The Russian government relief package in 2020-2021 is worth almost Rb 4.8 trillion¹ or 4.6% of GDP, which is slightly lower than the level of the stimulus support in the OECD and BRICS countries (*Fig. 14*). The Russian practice of using various instruments of state support, with due regard for the real needs of businesses and households, has proved its effectiveness. Thus, the Russian economy ended 2020 with the least losses: Russian GDP for the year contracted by 3.1%, while in the figures presented in *Fig. 14*, GDP in developed countries shrank from 3.7% to 11.2%, and in India, Brazil and South Africa from 4.5% to 9.6%.

The Russian government approaches to the implementation of the anti-crisis policy are generally consistent with the practice of developed economies in prioritizing support areas and individual decisions, while having a fairly

1 The budget allocations appropriated by the corresponding Decrees of the Government of the Russian Federation as part of the stimulus policy implementation, the maximum amount of state guarantees envisaged, the assessment of tax expenditures, and the off-balance-sheet recapitalization of VEB.RF and Sberbank of Russia (by converting credit obligations into equity); excluding deferred income, as well as measures of the National Plan that are not included in the relief packages.

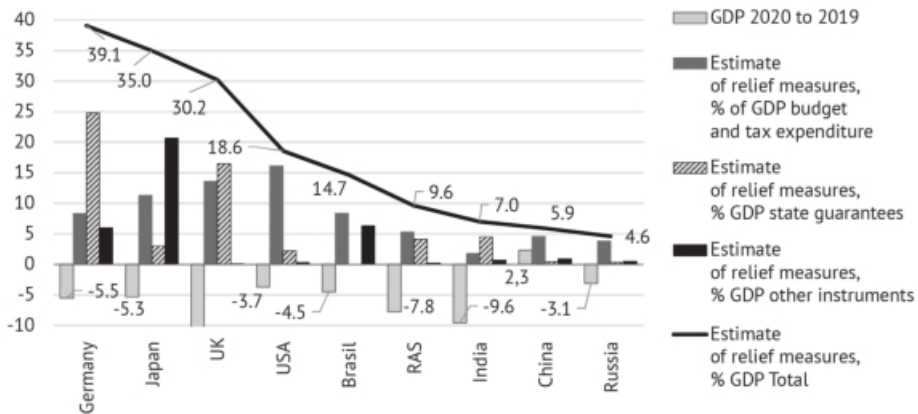


Fig. 14. The volume of relief programs (% of GDP) and GDP growth rates in 2020 in certain countries of the world

Sources: IMF data (January 2021), own calculations.

high social focus of direct budget incentives. A common feature of all national social protection programs is that budget support is provided to a wide range of recipients, not just the unemployed and the needy. In Russia, spending on household income support under the relief measures program accounted for almost half of the total amount of direct budget incentives, and social transfers to households account for one third of the total amount of anti-crisis response tools used by the Government of the Russian Federation. In general, according to the results of the implementation of the enlarged government budget in 2020, expenditures on social security and other payments to the population amounted to Rb16.6 trillion (Rb14.6 trillion in 2019).

No less significant in terms of the amount of budget resources allocated to the anti-crisis policy in Russia was the support of business (slightly less than 30% of the total budget expenditures of all three relief packages). The most “costly” measure of direct assistance to the private sector of the economy in 2020 was the provision of grants to SMEs in the hardest hit sectors for the payment of wages and salaries and other urgent tasks (Rb104 bn). Total expenditures of the enlarged government budget in 2020 for providing subsidies to enterprises of the real sector of the economy¹ and state-owned companies amounted to Rb2.4 trillion and Rb0.8 trillion, respectively (in 2019 – 2.0 and 0.5 trillion rubles, respectively)

Support for the national public health system - an uncharacteristic direction of anti-crisis policy in previous economic crises - was provided in all countries. The main response of the governments was the appropriation of additional budget allocations for the material equipment of public health institutions to combat the spread of COVID-19, the promotion of employees of public health

¹ Legal entities (except non-commercial organization), individual entrepreneurs, individuals – producers of goods, works, and services.

institutions (in monetary and other forms), as well as experimental development and research. The scale of fiscal stimulus in this area is diverse: from 1.5% of GDP in the UK and the US to 0.5% of GDP in Australia or 0.3% of GDP in Sweden and New Zealand. The government of the Russian Federation in the context of the pandemic has allocated almost Rb340 bn to support the public health system. Most of these funds went to additional payments to medical and social workers who work with coronavirus patients. As a result, the budget expenditures of the enlarged government in 2020 rose in real terms compared to the previous year in the following areas of the *Public Health* program: for sanitary and epidemiological well-being by more than 2-fold (up to Rb70.9 bn), for providing emergency medical care by 1.8-fold (up to Rb55.0 bn), for inpatient medical care by 53.2% (Rb43.7 bn); the largest increase occurred in the subsection “other issues in the field of public health” by Rb493.8 bn.

The volume of productive spending of the enlarged government budget in 2020 was to the tune of Rb13.8 trillion in nominal terms, compared to Rb11.9 trillion a year earlier. The growth of productive spending in 2020 compared to the previous year is observed in almost all subsections, including (in nominal terms): *Healthcare* (Rb1,149.7 bn), *Public Roads* (Rb193.2 bn), *Transportation* (Rb123.2 bn). In general, the share of productive spending in the structure of the enlarged government budget expenditures showed an uptick up from 31.8% in 2019, up to 32.7% in 2020, which can be estimated as a continuation of the budget maneuver launched since the implementation of national projects.

The Debt of the RF Budget System

The revenue shortfall and the need to finance additional spending on anti-crisis relief measures led to unprecedented public borrowing, carried out mainly by the federal budget. By itself, the level of the debt burden stays at a safe level (less than 20% of GDP), however in the context of the emerging trend towards a reduction in oil and gas revenues of the budget system, the question of fiscal consolidation inevitably arises, which implies either a reduction in the expenditure side of the budget or an increase in taxes. In the absence of fiscal consolidation and while

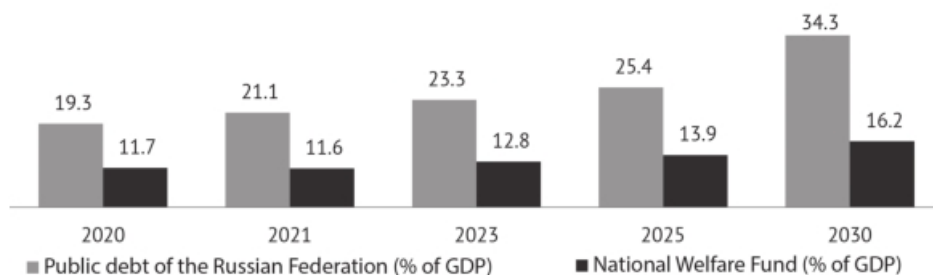


Fig. 15. The volume of public debt of the Russian Federation and the National Welfare Fund

Sources: Finance Ministry of Russia, own calculations.

maintaining the current fiscal policy, the public debt (according to calculations made on the data of the long-term budget forecast of the Ministry of Finance of the Russian Federation as of October 2019) and the “Main directions of budget, tax and customs and tariff policy for 2021 and the planning period of 2022 and 2023” of October 2020) may grow from 19.3% of GDP at the end of 2020 to 34.3% of GDP by the end of 2030 (*Fig. 15*). This being said, there will be an increase in debt service costs from 1.1% of GDP in 2020 to 2.0% of GDP in 2030. Furthermore, the increase in public debt will not be offset by a corresponding increase in the balance of funds in the NWF – the ratio of funds accumulated in the NWF to the amount of public debt will fall from 60% (at end-2020) to 47% (at end-2030).

2.2.2. The Characteristic Features of the Federal Budget

In 2020, in real terms the federal budget revenues decreased by 11.7% at constant prices compared to the corresponding period in 2019 (*Table 9*), and cash execution hit 90.8% of the approved forecast volumes for 2020. The largest reduction (2020 to 2019) in real terms is noted for oil and gas revenues of the federal budget by Rb3.5 trillion, or by 42.8%. At end-2020, the basic volume of oil and gas revenues amounted to Rb4.9 trillion.¹

Table 9

The main parameters of the RF budget system in 2019–2020

	2019	2020			Change, 2020 to 2019	
	Real	Law of FB for 2020*	Law of FB for 2020 with amendments**	Fact	Rb bn (in 2019 prices)	In constant prices, %
Revenue, including:	20 188.8	20 379.3	20 593.6	18 699.3	-2 363.0	-11.7
- oil and gas	8 247.7	7 472.2	7 523.8	4 950.2	-3 528.7	-42.8
- non-oil and gas	11 941.1	12 907.1	13 069.8	13 749.1	1 165.8	9.8
Expenditure, including:	18 214.2	19 503.9	19 666.0	22 812.7	3 532.9	19.4
- interest expense	730.8	896.9	896.9	784.2	16.8	2.3
- non-interest expense	17 483.4	18 607.0	18 769.1	22 028.5	3 516.1	20.1
Budget surplus (deficit)	1 974.6	875.4	927.6	-4 113.4	-5 895.9	–
Non-oil and gas deficit	-6 273.1	–	–	-9 063.6	-2 367.1	–

* Federal Law dated December 2, 2019 No. 380-FZ “On the Federal Budget for 2020 and the planned period 2021 and 2022”.

** Federal Law dated March 3, 2020 No. 52-FZ “On Amendments in the Federal Law ‘On the Federal Law for 2020 and the planned period 2021 and 2022’ ”.

Sources: Finance Ministry of Russia, Federal Treasury, 2020 GDP – Rosstat estimate, own calculations.

In 2020, non-oil and gas revenues of the federal budget went up by Rb1.2 trillion, or by 9.8% in real terms compared to the previous year, mainly in consequence of the aforementioned transfer of the central bank’s profit from the sale of the Sberbank equity stake.

Federal budget expenditures in 2020 rose by Rb3.5 trillion compared to the previous year, or by 19.4% in real terms (*Table 10*). The cash execution of the

1 Including the reimbursement of excise.

federal budget in 2020, taking into account budget assignments distributed without amendments to the federal law, stood at 95.8% (in 2019 – 94.2%).

Table 10

Federal budget expenditure in 2019–2020

	2019		2020		Deviation, 2020 to 2019		
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn (in 2019 prices)	In constant prices, %	p.p. of GDP
Nationwide issues	18 214.2	16.5	22 812.7	21.4	3 532.9	19.4	4.9
National defense	1 363.5	1.2	1 502.4	1.4	68.7	5.0	0.2
National security and law enforcement activity	2 997.4	2.7	3 167.8	3.0	22.4	0.7	0.3
National economy	2 083.2	1.9	2 225.5	2.1	38.3	1.8	0.2
Housing and community amenities	2 827.1	2.6	3 483.8	3.3	494.0	17.5	0.7
Nationwide issues	282.2	0.3	370.0	0.3	70.5	25.0	0.0
Environmental protection	197.5	0.2	260.6	0.2	50.9	25.8	0.0
Education	826.5	0.7	956.7	0.9	85.5	10.3	0.2
Culture and cinematography	122.4	0.1	143.9	0.1	14.8	12.1	0.0
Healthcare	713.0	0.6	1 334.5	1.3	559.2	78.4	0.7
Social policies	4 882.8	4.4	6 991.0	6.6	1 781.6	36.5	2.2
Physical culture and sports	81.4	0.1	75.2	0.1	-9.7	-11.9	0.0
Mass media	103.5	0.1	121.1	0.1	11.9	11.5	0.0
Government debt servicing	730.8	0.7	784.2	0.7	16.8	2.3	0.0
Intergovernmental fiscal transfers	1 003.1	0.9	1 395.9	1.3	327.6	32.7	0.4

Sources: Finance Ministry of Russia (operational data), Federal Treasury, own calculations.

The largest growth (2020 to 2019) is registered in expenditures related to supporting the economy and social sphere in the wake of the pandemic, including the sections (in real terms): “Social policy” by Кн 1,781.6 bn (36.5%), *National economy* by Rb494.0 bn (17.5%), *Healthcare* by Rb559.5 bn (78.4%), and *Intergovernmental fiscal transfers* by Rb327.6 bn (32.7%).

In 2020, Federal budget expenditures on the implementation of national projects in real terms shot up by Rb446.7 bn, or by 27.9% compared to the previous year (*Table 11*). At the same time, the cash execution accounted for 97.4% of the approved annual assignments, which is 6.0 p.p. higher than the cash execution for the same period in 2019, and the improvement in cash execution of national projects is marked for most of them. At the same time, it should be noted that expenditures on national projects in 2020 were disbursed rather erratically: for example, as of December 1, 2020, the level of cash execution of federal budget

expenditures on national projects stood at only 78%. However, at the year-end, the level of disbursement of funds for national projects exceeded the cash execution for the expenditure side of the federal budget as a whole.

Table 11

The main parameters of the federal budget execution across national projects

	2019		2020		Deviation, 2020 to 2019	
	Rb bn	Cash execution, %	Rb bn	Cash execution, %	Rb bn (in 2019 prices)	In constant prices, %
Expenditure, total, including:	18 214.2	94.2	22 812.7	95.8	3 532.9	19.4
<i>Across national projects, total, including:</i>	<i>1601.8</i>	<i>91.4</i>	<i>2149.1</i>	<i>97.4</i>	<i>446.7</i>	<i>27.9</i>
Demography	498.4	95.5	689.6	98.0	158.9	31.9
Healthcare	157.2	98.0	295.7	96.1	124.7	79.3
Education	98.8	91.0	114.9	86.4	10.7	10.9
Culture	14.0	99.0	15.8	98.4	1.1	7.6
Science	37.6	99.1	40.3	99.2	0.8	2.2
Housing and Urban Environment	98.9	93.8	168.7	99.7	61.9	62.6
Ecology	36.9	66.3	63.1	97.6	23.2	63.0
Small and Medium-Sized Businesses and Support for Individual Entrepreneurs	56.4	93.1	61.7	96.9	2.4	4.3
International Cooperation and Exports	78.2	89.1	70.4	97.5	-11.1	-14.2
Digital Economy of the Russian Federation	73.8	73.3	86.3	97.0	8.5	11.5
Productivity and Employment Support	6.2	87.1	4.0	98.7	-2.4	-38.5
Safe and Quality Roads	138.4	97.1	155.7	98.7	10.0	7.2
Modernization of Infrastructure	306.4	88.0	382.6	99.4	58.3	19.0
Share of spending on NP in the overall volume of federal budget expenditure, %	8.8	–	9.4	–	–	–

Sources: Federal Treasury, own calculations

The share of spending on national projects in the total volume of federal budget expenditures in 2020 rose to 9.4% against 8.8% in 2019, which indicates a slight uptick in the proportion of productive expenditures in the federal budget. In real terms, the volume of funding for projects in 2020 increased: *Healthcare* up by 79.3%, *Ecology* up by 63.0%, *Housing and Urban Environment* up by 62.6%. Reduction in funding in 2020 in real terms compared to 2019 is registered solely

for the projects *Productivity and Employment Support* and *International Cooperation and Export* up by 38.5% and 14.2%, respectively, which is mainly owing to the spending planning features.

The federal budget deficit in January-December 2020 hit Rb4,113.4 bn against a surplus of Rb1,974.6 bn for the same period in 2019, respectively, the non-oil and gas deficit spiked from Rb6,273.1 bn Rb9,063.6 bn. As for the federal budget cash flow taken as sources of covering the budget deficit, one should note that in 2020 Rb5,176.3 bn were raised on the domestic market, with the planned volume of bond placement of Rb2,324.8 bn, the volume of borrowings on the foreign market amounted to Rb180.6 bn and the volume of repayment came to Rb 81.2 bn (planned volumes – Rb207.2 and Rb343.1 bn, respectively).

As of January 1, 2021, the volume of public domestic debt amounted to Rb14,751.4 bn (including state guarantees to the tune of Rb695.2 bn), the volume of public foreign debt amounted to \$56.7 bn.

In 2020, the volume of the NWF funds in ruble terms climbed from Rb7.8 trillion (or \$125.6 b) to Rb13.5 trillion (\$183.3 billion), including owing to the transfer of additional oil-and-gas revenues formed at end-2019 and currency revaluation. The amount of the NWF funds allocated to finance the federal budget deficit in 2020 amounted to only Rb289.8 bn. In other words, the NWF funds were unused as part of the Russian Government's anti-crisis relief package

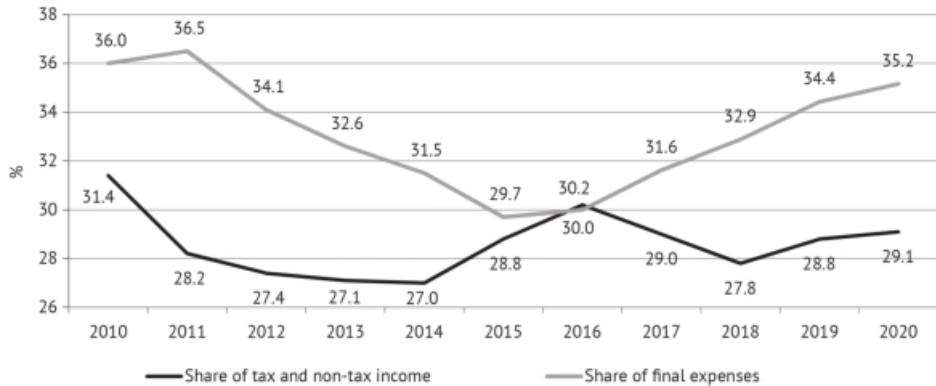
2.2.3. Intergovernmental relations and subnational finance

The Main Parameter of the Consolidated Budgets of the RF subjects

The main trends in relations between different levels of government are reflected in the structure of revenues and expenditures of the consolidated budgets of the subjects of the Russian Federation. *Fig. 16* exhibits the data reflecting the proportion of tax-generated and non-tax revenues and final expenditures of the consolidated budgets of the subjects of the Russian Federation in the total amount of tax-generated and non-tax revenues and expenditures of the consolidated budgets of the Russian Federation and state extra-budgetary funds.

Since 2021, the share of the tax-generated and non-tax revenues of the sub-federal level in the corresponding budget revenues of the enlarged government has varied in the range from 27% to 30%. The relative stability of this index can be explained by the synchronicity of the reaction of federal and regional tax-generated revenues to changes in external and internal factors. The crisis year of 2020 was no exception: the share of tax-generated and non-tax revenues of consolidated regional budgets in the tax-generated and non-tax revenues of the budget system of the Russian Federation in 2020 exhibited a slight uptick compared to 2019 - from 28.8% to 29.1%, which derives from a relatively smaller reduction in regional income compared to the federal one.

The share of final expenditures of regional and local budgets in the expenditures of the budget system of the Russian Federation demonstrated a slight uptick from



Note. In order to ensure comparability of the data for the reviewed period and to avoid double counting, the data on the budget parameters of the budget system of the Russian Federation, as well as the expenditures of the consolidated budgets of the subjects of the Russian Federation, were adjusted granting the insurance premiums for mandatory health insurance of the unemployed population.

Fig. 16. The share of tax-generated and non-tax revenues and subnational budget expenditures in the revenue and expenditure of the budget system of the Russian Federation in 2010–2020

Sources: Federal Treasury, own calculations.

34.4% to 35.2%. This reallocation of expenditures in favor of the regional level stems to the large-scale from an increase in financial assistance to the regions from the federal budget, aimed at mitigating the crisis fallout.

Revenue

The dynamic of the main components of the revenues of the consolidated budgets of the subjects of the Russian Federation in 2020 is presented in *Table 12*.

According to the Federal Treasury data on the regions budgets execution, the total revenue of the consolidated budgets of the RF subjects in 2020 gained 9.8% (up by 4.7% in real terms), amounting to Rb14.9 trillion. In the meantime, the regions own tax-generated and non-tax revenues dipped by 1.8%, and the growth of the total revenue of the consolidated budgets of the subjects of the Russian Federation was secured by fiscal transfers from the federal budget, which soared by 53.9%. It should be noted that the main reduction in tax-generated and non-tax revenues was observed in H1 2020, i.e. during the lockdown period. For the first 6 months of 2020 compared to the first half of the previous year, the reduction in tax-generated and non-tax revenues was 7.2%, while in the second half of the year they increased by 3.2%.

At the year-end, corporate income tax receipts fell the most from large revenue sources of the budgets of the subjects of the Russian Federation, which declined by 12.8%. Tax receipts on total income also dropped by 0.7% and non-tax income – down by 11.7%. Meanwhile, personal income tax revenues increased by 7.5%,

which indirectly indicates that anti-crisis measures helped prevent a reduction in household income and excise taxes (+ 5.6%). Largely due to the positive growth in the transport tax (+6.8%) and the personal property tax (+11.4%), a small final increase was exhibited by the group of property taxes (+ 0.5%).

Table 12

**Revenue of the consolidated budgets of the RF subjects
in 2019–2020**

	Rb bn in nominal terms		Nominal growth, %	Real growth, % [*]
	2019	2020	2020/ 2019	
Revenue, total	13 572	14 901	9,8	4,7
Including:				
Tax-generated and non-tax revenues	10 993	10 798	-1,8	-6,4
<i>Including tax-generated revenues:</i>	<i>10 103</i>	<i>10 120</i>	<i>-0,9</i>	<i>-4,5</i>
Profit tax	3 358	2 927	-12,8	-16,9
PIT	3 956	4 253	7,5	2,5
Excises	755	798	5,6	0,7
Total income tax	596	592	-0,7	-5,3
Property taxes	1351	1 358	0,5	-4,2
Non-tax revenues	890	678	-11,7	-27,4
Fiscal transfers from budgets of other levels	2 453	3 776	53,9	46,7
Other revenues	127	327	157,5	145,4

* Income growth in real terms (adjusted for inflation). According to Rosstat, the value of the consumer price index in 2020 (December to December) stood at 104.91%

Sources: Federal Treasury, own calculations.

The contraction of consolidated budgets revenues in 2020 occurred in 5 subjects of the Russian Federation, of which the Nenets Autonomous District, the Tyumen region, the Yamal-Nenets Autonomous Okrug and the Sakhalin region are among the high-income ones, and the reduction in the income of the Chukotka Autonomous District (by 4.1%) is rather a correction after a spike of 56.2% seen in 2019.

Expenditure

The main indexes dynamic of the structure of the consolidated budgets of the RF subjects in 2020 are presented in *Table 13*.

In 2020, expenditures of the consolidated budgets of the RF subjects went up by 14.8% compared to 2019 and hit Rb15.6 trillion. This significantly exceeded not only the inflation rate (the growth was 9.5% in real terms), but also the revenues growth rate. During the fiscal year, expenditures grew unevenly: in the second half of the year, the growth rate slowed significantly compared to the first half – 12.0% versus 18.9%, which was due to the completion of a number of anti-crisis measures, as well as to the regional budgets growing deficit.

Table 13

**Expenditure of the consolidated budgets of the subjects
of the Russian Federation**

	% to total		Nominal growth, %	Real growth, %
	2019	2020	2020/ 2019	
Expenditures, total	100.0	100.0	14.8	9.5
Nationwide issues	6.2	6.0	11.5	6.2
National security and law enforcement activity	1.1	1.1	10.5	5.3
National economy, including:	21.8	20.5	8.0	3.0
Agriculture and fisheries	1.9	1.7	0.1	-4.6
Transportation	5.1	4.9	10.5	5.3
Motor road system (road funds)	9.5	9.1	10.9	5.7
other national economy issues	5.3	4.8	3.7	-1.2
Housing and community amenities	10.1	8.5	-3.4	-8.0
Environmental protection	0.5	0.4	-0.6	-5.3
Education, including:	24.7	22.8	5.8	0.9
pre-school education	7.1	6.3	2.3	-2.5
supplementary education of children	11.9	11.5	10.6	5.4
general education	1.9	1.6	2.0	-2.7
vocational training	1.8	1.6	4.0	-0.9
other education issues	2.1	1.8	-4.0	-8.4
Culture, cinematography	3.5	3.1	1.2	-3.6
Healthcare	8.6	12.9	71.5	63.5
Social policies	19.8	21.3	23.6	17.8
Physical culture and sports	2.4	2.3	13.4	8.1
Mass media	0.4	0.3	0.0	-4.7
Government and municipal debt servicing	0.8	0.6	-5.0	-9.4
Other expenditure	0.0	0.0	8.5	3.4

Sources: Federal Treasury, own calculations.

The reduction in spending was observed solely in two regions – the Sakhalin region (-1.7%) and the Chukotka Autonomous Okrug (-11.4%), but in both cases, this reduction was not the result of fiscal policy rigidity, but a technical correction after a surge in spending in 2019 – by 23.4% and 57.1%, respectively. In two other regions (the Nenets Autonomous Okrug and the Tyumen Region), the increase in budget expenditures in real terms was negative, but given the high level of budget security in these regions, and, as a result, the possibility of reducing a number of lower-priority expenditures, this also did not prevent the implementation of a set of relief measures.

In the structure of expenditures of the consolidated budgets of the RF subjects at end-2020, we can note a substantial increase in the share of spending in the

healthcare sector (from 8.6 to 12.9%) and social policy (from 19.8 to 21.3%), which is due to the implementation of a set of relief measures at the regional level. One should particularly highlight the increase in expenditures under the item *Protection of family and childhood* from 0.9% in 2011 to 4.8% in 2020. The proportion of expenditures in all other sections fell, and in some of them it reached the lowest values since 2011: expenditures on national issues (6.0% with an average of 6.2% for the period 2011-2020), agriculture and fisheries (1.7% with an average of 2.7%), housing and utilities (8.5% with an average of 10.0%) and general education (11.5% with an average of 13.4%).

It is important to note that the share of expenditures of the consolidated regions budget in the sphere of national economy in 2020 (20.5%) remained at a higher level than the average for 2011-2020 (19.9%), which indicates the orientation of the regions' anti-crisis budget policy not only to address social issues, but also to support the economy.

Financial Assistance from the Federal Budget

In 2020, the crisis situation resulted in a significant change in the federal intergovernmental fiscal policy: the volume of fiscal transfers rose markedly, and many requirements for their provision, especially in terms of subventions and subsidies, were temporarily suspended. The total volume of fiscal transfers surged compared to 2019, both in nominal terms (+54.9%) and in real terms (+47.7%) (*Table 14*). All types of intergovernmental fiscal transfers increased, and the increase in subsidies was on the back of additional allocation of equalization transfers. At the same time, subsidies and not equalization transfers were the basis of the federal anti-crisis intergovernmental fiscal policy, as a result of which the percent of non-targeted financial assistance in 2020 decreased by 3.5 p.p. compared to 2019 and amounted to merely 35.2%.

In 2020, 38 subventions were extended,¹ which is 1 subvention more than a year earlier. The volume of subventions spiked (+52.9% in nominal terms and +45.7% in real terms), but the increase was mainly owing to subventions for social payments to the unemployed, so in general, the dependence of regional budgets on the federal budget in terms of delegated powers has not changed.

The increase in subsidies came to 81.7% (+73.2% in real terms), while subsidies for the national economy increased by merely 2.0% (and fell by 2.8% in real terms). The number of subsidies has increased substantially: from 113 in 2019 to 140 in 2020. Similarly, the real growth of other intergovernmental fiscal transfers constituted 45.2%, and the number of such transfers rose from 108 in 2019 to 120 in 2020. For the second year in a row, other intergovernmental fiscal transfers account for about a fifth of the total volume of federal intergovernmental assistance to the regions. Although the increase in subsidies and other intergovernmental fiscal transfers was due to the need to implement anti-crisis measures, it is undesirable in itself, since it reduces the fiscal autonomy of the regions. This being said, the

¹ The number of transfers is determined by the number of unique expenditure directions (13-16 numbers of the budget expenditure classification code) provided for in the federal budget execution report.

federal level had another tool at its disposal (equalization transfers), which is more suitable for providing relief support and does not rise the dependence of regions upon the federal level.

Table 14

**Federal budget fiscal transfers to the budgets of the subjects
of the Russian Federation**

	2019		2020			Прирост в 2020 г. к уровню 2019 г.	
	Nominal volume, Rb bn	% to total	Nominal volume, Rb bn	Real volume, Rb bn	% to	nominal, %	real, %
Transfers to regions, total	2 387.2	100.0	3 698.4	3 525.3	100.0	54.9	47.7
Grants	924.0	38.7	1 303.7	1 242.6	35.2	41.1	34.5
Including:							
Equalization transfers	675.3	28.3	717.9	684.3	19.4	6.3	1.3
transfers to support measures designed to ensure well- balanced budgets	237.6	10.0	575.6	548.7	15.6	142.3	131.0
Subsidies	556.6	23.3	1 011.5	964.2	27.4	81.7	73.2
Including:							
subsidies to sustain national economy's development	209.9	8.8	214.0	204.0	5.8	2.0	-2.8
Subventions	396.6	16.6	606.2	577.9	16.4	52.9	45.7
Other intergovernmental fiscal transfers	510.0	21.4	777.0	740.6	21.0	52.4	45.2
Including:							
Other intergovernmental fiscal transfers for development of national economy	305.5	12.8	329.4	314.0	8.9	7.8	2.8

Sources: Federal Treasury, Rosstat, own calculations.

In 2020, as a year earlier, an extensive amount of fiscal transfers was directed to the implementation of national projects at the regional and municipal levels: 44% of the volume of subsidies, 20% of subventions and 32% of other intergovernmental fiscal transfers, and in general - 22% of all fiscal transfers from the federal budget to the regions. Excluding fiscal transfers allocated for the implementation of national projects, the structure of financial assistance in 2020 is as follows: grants – 45.2%, subsidies – 19.7%, subventions – 16.8%, other intergovernmental fiscal transfers -18.3%.

The effectiveness of transfers for the national projects implementation can be indirectly judged by the rhythm of the provision of appropriate funds during the financial year, i.e. by the ratio of the amount of funds transferred for the first

three quarters and the annual amount of funds transferred (*Table 15*). Transfers for the implementation of national projects were extended less evenly during the year than other transfers, which can be explained by the need to prioritize the provision of other transfers in the wake of the crisis.

Table 15

The movement of incoming transfers for the implementation of the national projects

Transfers	Movement, %
Transfers, total	64.0
Transfers for implementation of national projects	54.1
Including:	
Culture	62.0
The Digital Economy of the Russian Federation	69.8
Education	54.8
Housing and Urban Environment	50.3
Ecology	49.4
Small and Medium-Sized Enterprises and Support of Individual Entrepreneurship	86.0
Productivity and Employment Support	71.6
Healthcare	43.6
Demography	64.6
Safe and Quality Roads	47.5
International Cooperation and Roads	32.9
Comprehensive Plan of Modernization of Trunk Infrastructure	18.4
Other transfers	66.8

Source: Federal Treasury, own calculations.

The 2020 crisis had a positive impact on the reduction of the disparity of the fiscal capacity of the regions, which grew during 2017-2019. The growth rates of tax-generated and non-tax revenues of the regions with low fiscal capacity (these can be conditionally attributed to 31 subjects of the Russian Federation, the estimated level of fiscal capacity in accordance with the method of distribution of equalization transfers from the federal budget in 2019 was less than 0.6) exceeded the corresponding indexes of the regions with high fiscal capacity. For example, the correlation coefficient between the growth rates of tax-generated and non-tax revenues of regions for 2020 and the level of their calculated fiscal capacity was equal to -0.4, and due to the fact that the provision of additional financial assistance to the regions from the federal budget in 2020 was primarily focused on regions with low fiscal capacity, the reduction in disparity in total income was even more pronounced: the correlation coefficient between the level of fiscal capacity of the regions and the growth rate of income of their consolidated budgets is equal to -0.63.

The reduction in interregional disparity can also be illustrated by the dynamics of the coefficient of variation of per capita income (*Table 16*). So, if after the equalization in 2020, the discrepancy decreased by the expected 25% (by 23%

in 2019), then after the provision of grants and subsidies – by a notable 45% (by 35% in 2019). This is due to a sharp increase in grants for fiscal equilibrium and subsidies, the distribution of which takes into account the level of calculated fiscal capacity.

Table 16

**The variance coefficient of the consolidated regional budget revenues
(per capita, with due regard for the budget expenditure index)**

Year	Tax-generated revenue	Tax-generated revenue and equalization transfers	Tax-generated revenue, transfers, 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
2020	0.561	0.420	0.308

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

Deficit and Debt at the Regional Level

In 2020, the consolidated budgets of the subjects of the Russian Federation were executed with a deficit of Rb676.5 bn (in 2019 - with a surplus of Rb4.7 bn). Furthermore, the number of regions with a budget surplus decreased to 28 compared to 2019 (*Table 17*). 18 regions had a consolidated budgets deficit of more than 10% of tax-generated and non-tax revenues, of which 7 regions had 20%. Thus, the balance of the consolidated regional budgets for 2020 has deteriorated markedly.

Table 17

**Execution (deficit/surplus) of the consolidated budgets
of the Russian Federation in 2014–2020**

Год	Number of RF subjects that have executed the budget	
	With deficit	With surplus
2014	74	11
2015	76	9
2016	56	29
2017	47	38
2018	15	70
2019	35	50
2020	57	28

Sources: Federal Treasury, own calculations.

In 2020, the volume of RF the subjects' public debt increased from Rb2.1 to Rb2.5 trillion, and in relation to the volume of tax-generated and non-tax

revenues of the budgets of the subjects of the Russian Federation - from 22.5 to 27.3%.

The debt burden on the budgets of certain regions has also changed: the ratio of debt to tax-generated and non-tax revenues decreased over the year in 32 regions, remained unchanged in one subject, and increased in 52. In 15 regions, the growth of the debt burden exceeded 10 p.p. By the end of 2020, the public debt exceeds 100% of tax-generated and non-tax revenues in 3 regions (in 2019, this situation was typical only for 1 region).

The structure of the state debt of the regions changed slightly over the year: the share of budget loans by the end of the year stood at 44.2%, increasing by 2.2 p.p. compared to the end of 2019 (*Fig. 17*), which is owing to the additional allocation of budget loans to the regions to the tune of Rb224 bn. Thus, at the end of 2020, the Russian Federation temporarily gave up policy of not providing budget loans to the regions, which it had adhered to since 2016. The share of securities also increased by 3 p.p., while the share of loans from credit institutions decreased by 4.5 p.p. In general, nominal debt increased on budget loans (by 24.5%) and on securities (by 30.8%).

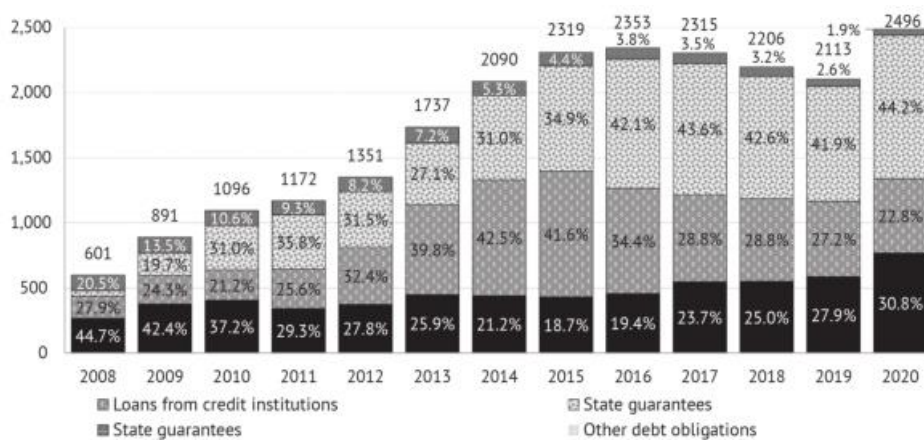


Fig. 17. Nominal volume (Rb bn) and structure (%) of public debt of RF subjects in 2008–2020

Sources: Finance Ministry of Russia, own calculations.

In 2020, the high growth rates of intergovernmental fiscal transfers to the regions, the additional allocation of budget loans to them to the tune of Rb224 b, as well as the reduction in disparity of the level of fiscal capacity of the regions as a result of the distribution of additional volumes of intergovernmental fiscal transfers in 2020 demonstrate that the budget policy of the Russian Federation in relation to the regions in 2020 was countercyclical, aimed at priority support for the worst-off subjects. This made it possible not only to offset for the decline in the regions' own tax-generated and non-tax revenues, but also to ensure the

implementation of relief measures aimed at strengthening the public health system, as well as supporting the economy and the social sphere.
