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The review “Russian Economy. Trends and Outlooks” has been published by the Gaidar Institute since 1991. This is the 44th issue. This publication provides a detailed analysis of main trends in Russian economy, global trends in social and economic development. The paper contains 5 big sections that highlight different aspects of Russia’s economic development, which allow to monitor all angles of ongoing events over a prolonged period: the 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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Russia's fiscal policy in 2022¹

1.2.1. Characteristics of the budgets of the budget system of the Russian Federation

In 2022, the nominal growth of all the main parameters of the enlarged government budget (hereinafter — EGB) led to their dynamics in shares of GDP in relation to the previous year to have a multidirectional nature: revenues decreased by 0.6 p.p. of GDP to its lowest level in recent years of 35.0% of GDP, while expenditures rose by 1.6 p.p. of GDP to 36.4% of GDP (*Table 6*).

Table 6

Main parameters of the enlarged government budget of the Russian Federation in 2019—2022

	2019		2020		2021		2022		Change, 2022 to 2021		
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	p.p. of GDP	In real terms, % ⁶
Revenue	39 498	36.0	38 206	35.5	48 118	35.6	53 074	35.0	4 956	-0.6	-1.5
Including:											
Oil and gas**	7 924	7.2	5 235	4.9	9 056	6.7	11 586	7.6	2 530	0.9	14.3
Non-oil and gas	31 574	28.8	32 971	30.6	39 062	28.9	41 488	27.4	2 426	-1.5	-5.1
Expenditure	37 382	34.1	42 503	39.5	47 073	34.8	55 182	36.4	8 109	1.6	4.7

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	2019		2020		2021		2022		Change, 2022 to 2021		
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	p.p. of GDP	In real terms, %*
Deficit (-)/ Surplus (+)	2 116	1.9	-4 297	-4.0	1 045	0.8	-2 108	-1.4	-3 153	-2.2	-2.8 fold
<i>For reference only: GDP, Rb bn</i>	109 608		107 658		135 295		151 456				

* Hereinafter the recalculation in real terms (in real prices) is based on the consumer price index, which, according to Rosstat, was 111.94% in 2022 (December 2022 to December 2021). URL: https://rosstat.gov.ru/storage/mediabank/186_09-11-2022.html

** Including excise tax on crude oil sent for refining.

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

Revenues of the RF budget system

In 2022, revenues of the EGB dropped by 1.5% in real terms, that is, even a significant increase in oil and gas revenues (by 14.3%) did not compensate fully the decline in the volume of non-oil revenues (by 5.1%). The increase in oil and gas revenues resulted in their share in total revenues to the budget system - up to 21.8% vs. 18.8% in 2021. In 2022, the federal budget revenues' share in total revenues to the EGB remained unchanged vs. 2021 and accounted for 52.4%.

The level of tax burden in the past year was the lowest in recent years, while for some taxes the dynamic of revenues was multidirectional (*Table 7*).

Table 7

Receipts of main taxes to the RF enlarged government budget in 2019—2022, % of GDP

	2019	2020	2021	2022	Change, 2022 to 2021	
					p.p. of GDP	In real terms, %
Revenue, total*	35.4	34.9	35.0	34.5	-0.5	-1.4
Corporate profit tax	4.1	3.7	4.5	4.2	-0.3	-6.6
PIT	3.6	4.0	3.6	3.8	0.2	4.8
Insurance contributions*	6.8	7.0	6.1	5.7	-0.4	-6.9
VAT	6.5	6.7	6.8	6.3	-0.5	-7.4
Excises	1.2	1.8	0.6**	-0.6**	-1.2	-197.4
MET	5.6	3.7	5.4	7.0	1.6	29.6
Customs duties and fees	2.1	1.1	1.9	1.9	-0.1	-2.8

* Insurance premiums and total income are given without double counting insurance premiums for the non-working population, the values of total revenues differ from the official by the amount of insurance premiums.

** Decrease in the total volume of excise duties is associated with the implementation of the mechanism of refundable excise duty on oil raw materials in the framework of the completion of the tax maneuver in the oil industry.

Sources: Federal Treasury, Rosstat, own calculations.

MET. MET receipts reached their local maximum for the last few years, amounting to 7.0% of GDP. Given that the prime rate of mineral extraction tax on oil was maintained at the rate of Rb 919 per one ton as in 2018—2021, the main

factors for a significant rise in ruble revenues from mineral extraction tax on oil in 2022 were a significant increase in the exchange rate in Q1, as well as the continued relatively high oil price in H1 of the reporting year (*Fig. 9*)

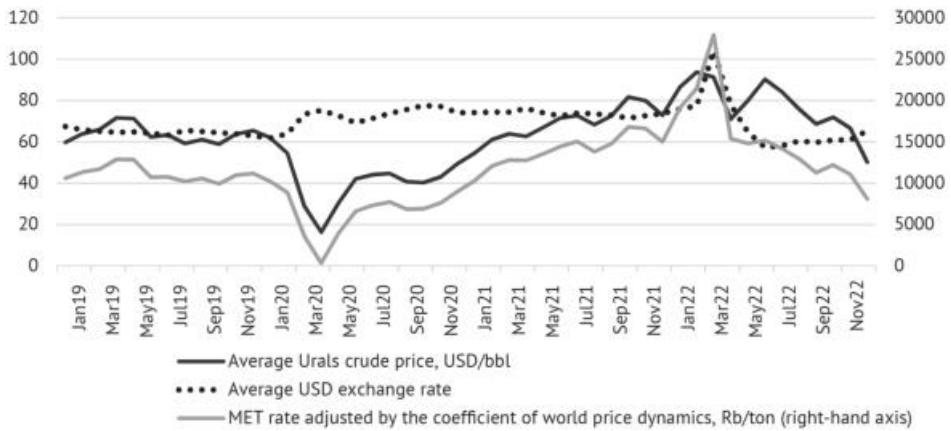


Fig. 9. Dynamic of the actual MET tax rate, Urals oil prices and the value of the dollar exchange rate in 2019—2022

Sources: Ministry of Finance of Russia, Rosstat, RF CB, own calculations.

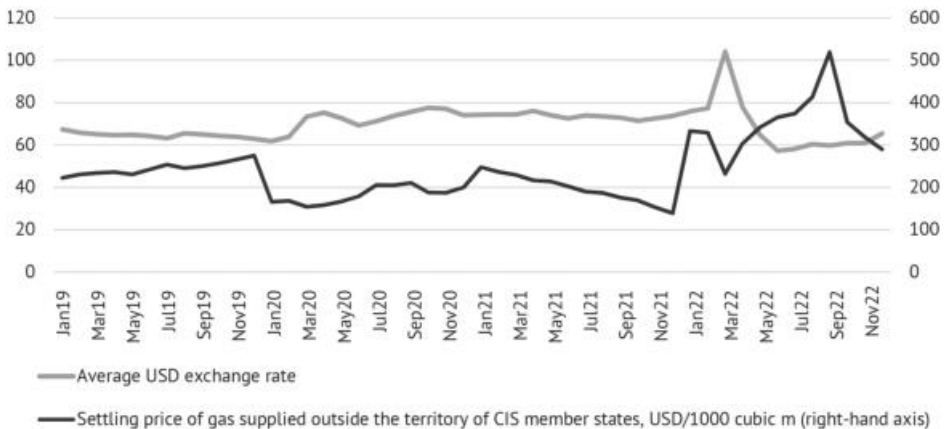


Fig. 10. Dynamic of the settling price of natural gas and the value of the dollar exchange rate in 2019—2022

Sources: Ministry of Finance of Russia, Rosstat, RF CB, own calculations.

However, the ruble strengthened in Q2 amid a decline in foreign trade relations, restrictions on foreign exchange transactions with requirements to convert foreign currency earnings remained until the end of 2022. The oil price also began to fall in H2 2022 against the backdrop of growing sanction pressure, which led to the return of MET revenues on oil to the level of 2019 and still lower by the end of 2022.

This being said, according to Rosstat, oil production in 2022 went up by only 2.1% compared to 2021, which made an insignificant contribution to the increase in revenues from MET on oil.

A significant contribution to the growth in total MET receipts was made by an increase in MET receipts from natural gas. Against the backdrop of sanction restrictions, the price of natural gas sales rose substantially in H1 2022 (*Fig. 10*). However, as the sanctions took effect by the end of 2022, the price of natural gas fell to the late 2021 values.

Corporate profit tax. Contraction of corporate profit tax receipts by 0.3 p.p. of GDP or by 6.6% in real terms at the year-end 2022 was owing to the impact of sanction restrictions on the activities of Russian companies, as well as the termination by a number of foreign companies of their economic activities in the Russian Federation. According to Rosstat, incomes of profitable organizations declined by 8.9% in real terms in 2022 vs. 2021.

The fall was observed in most industries. Among the industries contributing most to the total amount of incomes of profitable organizations, businesses of the wholesale and retail trade sector accounted for 19.3% of income drop, enterprises of the minerals extraction sector accounted for 16.1% of income drop, and processing industries accounted for 4.8% income drop. The biggest increase in profits was observed in such sectors as transportation and storage (by 28%) and construction (by 38%).

The largest drop in incomes of profitable organizations occurred in H2 2022, which diverges significantly from the 2021 intra-annual dynamic (*Fig. 11*).

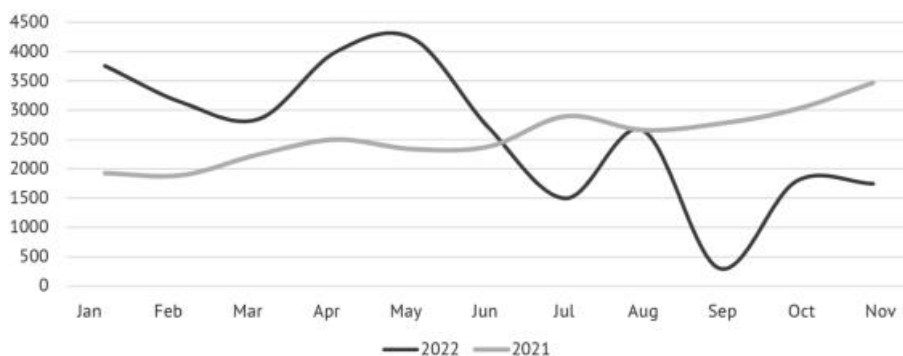


Fig. 11. Performance of profitable organizations, Rb bn

Sources: Rosstat, own calculations.

Insurance contributions and PIT. Despite the fact that over the last year the share of the payroll fund in GDP remained virtually unchanged, personal income tax receipts increased by 0.2 p.p. of GDP and insurance premiums, on the contrary, decreased by 0.4 p.p. of GDP compared to 2021. This is mainly owing to the current taxation policy: the growth of personal income tax receipts is explained by the introduction of a progressive tax rate (15% of income above Rb5 mn). The emergence of a progressive taxation scale brought additional Rb149 bn to the budget in 2022. In turn, a 6.9% drop in insurance premiums in real terms is associated with the reduction of the aggregate rate for small and medium-sized enterprises. Besides, 78 industries were entitled to defer insurance contributions in Q2 and Q3 2022, which resulted in the fall of budget revenues of around Rb770 bn, or about 0.5% of GDP. It is expected that this decrease in insurance contributions receipts will be made up by May 2023.

VAT. At the year-end 2022, budget revenues from VAT increased by 3.7% in nominal terms, but showed a fall of 7.4% in real terms. This was worse than the result observed at the end of 2020, when the fall of revenues by 6% in real terms was caused by the pandemic. However, while in 2020 the real decline in the base was flat (both import and domestic sales revenues declined), then in 2022, the decline in tax revenues in real terms was mainly due to a drop in receipts from import levy (by 26.7% in real terms compared to 2021), while the VAT increase from taxation of domestic sales of goods and services came to 5.8%.

Excises. The total proceeds from excises on additive products amounted to Rb1.2 trillion in 2022. The proceeds from excises on traditional tobacco products at the end of the reporting year decreased by 0.7% in nominal terms, whereas at the beginning of 2022 growth in revenues was projected from 5 to 8% compared to the 2021 results. The reason for this decline is a strong position of illegal products in the market. According to preliminary estimates, in 2022 the share of illegal sales in the cigarette market did not decrease compared to 2021 and still exceeds the level of 12%. At the same time, it is worth noting the increase in excise tax collection from nicotine-containing liquids, which is associated with the introduction of mandatory labeling in March 2022. Revenues from disposable ENDS (electronic nicotine delivery systems) also surged by 77%. As for heated tobacco, revenues did not change significantly, which is due to the following factors: the stabilization of this market, the outflow to the disposable ENDS segment, a more than twofold drop in imports of this product, as well as the suspension of innovation and investment activities of a number of tobacco companies in Russia. It is worth noting that in 2023 there is still a big potential to increase revenues from nicotine-containing liquids and disposable ENDS due to the fact that although collection rate has increased but still remains quite low and does not exceed 50%.

As for the alcoholic beverages market, consumption of spirits increased by almost 6.5% in volume terms, while consumption of wine and wine-based beverages dropped by 5%. At the same time, consumption of beer remained virtually unchanged. At the same time, there was a change in the structure of imports with a shift from European suppliers to Asian and BRICS countries. This is

also partly due to the observed switch to spirits. This dynamic, which continued the 2021 trend, had a corresponding impact on budget revenues: the revenues from excise duties on spirits rose by more than 11%, while the revenues from excise duties on wine continued to decline. Also, the contribution from excises on weak alcoholic beverages increased. In total, the EGB received Rb496 bn from excises on alcoholic beverages.

Expenditures of the RF budget system

In 2022, the EGB expenditures amounted to 36.4% of GDP, but their volume, despite new challenges to the budget system from unprecedented sanctions and special military operation (SMO), did not exceed the level of 2020 (39.5% of GDP). The increase in expenditures of the budget system in 2022 vs. the previous year amounted to Rb8.1 trillion or 4.7% in 2021 prices. The increase in expenditures occurred mainly at the federal budget level in the amount of Rb6.4 trillion, which was used to finance the government decisions to expand social support to individual categories of citizens, territorial development programs and the expenditures on social security. At the regional level it was generally possible to restrain the growth of expenditures, which allowed to significantly reduce the risks of public finances stability amid the “slowdown” of the budget revenues dynamic. The share of federal budget expenditures in total EGB expenditures in 2022 increased to 56.4% vs. 52.6% in 2021.

Given a general increase in expenditures of the budget system in 2022 by 1.6 p.p. of GDP against the previous year, growth of expenditures as a share of GDP is observed only across five functional sections, while other sections show no significant changes (*Table 8*).

The growth of the enlarged government budget expenditures in 2022 relative to 2021 is fixed in the following sections:

– “National defense” – by 1.1 p.p. or by Rb2.0 trillion in 2021 prices, an increase of 39.1%, which was due to the need to finance the SMO. Mainly the expenditures under this section passed through the federal budget. At the same time, there was an increase in volumes of budget appropriations of the consolidated budgets of the RF Subjects under the item “National defense” from Rb4.6 bn in 2021 to Rb58.1 bn in 2022 for the mobilization and non-military training, as well as other related measures;

– “Housing and community amenities” – by 0.3 p.p. of GDP or Rb0.6 trillion and 15.7% in 2021 prices. An increase in expenditures on the section “Housing and community amenities” by 2022 vs. 2021 is noted both in the federal budget and the consolidated budget of the RF subjects;

– «Nationwide issues” and “Education” – by 0.1 p.p. of GDP mainly due to an increase in federal budget expenditures;

– “National economy” – by 0.1 p.p. of GDP due to an increase in expenditures of the consolidated budgets of RF subjects, primarily in the direction of “Road facilities (road funds)”.

In absolute terms, the EGB expenditures on social policy went up by Rb1.8 trillion in 2022 against the previous year, but in terms of shares of GDP no change

Table 8

Dynamics and structure of expenditures of the enlarged government budget in 2019–2022

	2019		2020		2021		2022		Change, 2022 to 2021		
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	P-p. of GDPi	In real terms, %
Expenditure total, including:	37 382	34.1	42 503	39.5	47 073	34.8	55 182	36.4	8109	1.6	4.7
Nationwide issues	2 335	2.1	2 552	2.4	2 852	2.1	3 310	2.2	458	0.1	3.7
National defense	2 999	2.7	3 171	2.9	3 575	2.6	5 567	3.7	1992	1.1	39.1
National security and law enforcement activity	2334	2.1	2 392	2.2	2 504	1.9	2 851	1.9	347	0.0	1.7
National economy	5 172	4.7	6 041	5.6	7 225	5.4	8 369	5.5	1144	0.1	3.5
Housing and community amenities	1 575	1.4	1 590	1.5	2 172	1.6	2 813	1.9	641	0.3	15.7
Environmental protection	250	0.2	304	0.3	438	0.3	393	0.3	-45	0.0	-19.8
Education	4 051	3.7	4 324	4.0	4 691	3.5	5 459	3.6	768	0.1	4.0
Culture, cinematography	588	0.5	610	0.6	652	0.5	798	0.5	146	0.0	9.3
Healthcare	3 790	3.4	4 939	4.6	5 167	3.8	5 553	3.7	386	-0.1	-4.0
Social policies	13 023	11.9	15 122	14.0	16 002	11.8	17 807	11.8	1805	0.0	-0.6
Physical culture and sports	375	0.3	401	0.4	437	0.3	537	0.3	100	0.0	9.8
Mass media	156	0.1	174	0.2	171	0.1	203	0.1	32	0.0	6.1
Government and municipal debt servicing	835	0.8	883	0.8	1 185	0.9	1 409	0.9	224	0.0	6.2

Sources: Federal Treasury, Electronic budget portal, own calculations.

was observed, while in 2021 prices expenditures even dropped by 0.6%. The federal budget funds allocated to the budgets of extrabudgetary funds in the section “Social policy” in 2022 amounted to Rb6.3 trillion against Rb4.5 trillion in 2021. Apart from indexation for higher inflation, such a marked difference is due to the volume of funds which the RF Ministry of Finance compensated to the state extrabudgetary funds as a result of deferral of insurance premiums in Q2 and Q3 2022. In fact, the federal budget financed most of the EGB expenditures on additional social obligations to certain categories of citizens and their family members, as well as the funds under-received by extrabudgetary funds as a result of the deferral granted.

The enlarged government spending structure is characterized by an increase in the share of “law and order” expenditures (defense and law enforcement) in the total volume of spending from 12.9% in 2021 to 15.2% in 2022 against the background of a decline in the proportion of spending that is conditionally productive (investment in human capital — education, culture, health care, physical education) from 23.3% to 22.4%, respectively.

By the end of 2022, the enlarged government budget was executed with a deficit of 1.4% of GDP, or Rb2.1 trillion, which is markedly better than the budget

balance in the crisis year of 2020. The EGB deficit is directly associated with the negative balance of the federal budget, which amounted to 2.2% of GDP, or Rb3.3 trillion. Herewith, the consolidated budget of the RF subjects and the budgets of extra-budgetary funds were executed with a surplus of Rb50.6 bn and Rb1,106.0 bn, respectively.

On the whole, in 2022, the country's budget system was quite successful in coping with external challenges, primarily due to the favorable situation with hydrocarbon prices and the availability of liquid assets in the National Wealth Fund. Separately, we should note the stability of regional finances, which made it possible to free up some funds from the federal budget to address priority tasks. That said, given the trend towards expanding support measures for servicemen — participants of the special military operation and members of their families, one should expect further growth of expenditures on social policy at all levels of the budget system, which can strengthen the substitution, outlined in 2022, of conditionally productive expenditures, ensuring institutional development of the economy, support to the quality of human capital, infrastructure and science, by non-productive directions of financing.

1.2.2. Characteristics of the federal budget

Federal budget revenues

In 2022, the federal budget revenues amounted to Rb27.8 trillion, which is by Rb2.8 trillion or 11.2% higher than originally approved.¹ In terms of percentage of GDP, the federal budget revenues in 2022 relative to 2021 decreased by 0.4 p.p. of GDP to 18.3% of GDP (*Table 9*) and by 1.7% in real terms.

The share of oil and gas revenues in the total volume of federal budget revenues in 2022 amounted to 41.6% vs. 35.8% in 2021. This being said, the volume of actual oil and gas revenues to the federal budget in 2022 was even higher than indicated in *Table 9* — by Rb3.25 trillion (the amount of refundable excise tax on oil products is an instrument of incentives for Russian oil refiners to supply oil products to the domestic market in a situation when the profitability of oil product exports exceeds the domestic sales margin (by the amount of the refundable excise tax on oil raw materials, which is an instrument of incentives for Russian oil refineries to supply to the domestic market in a situation when the profitability of export of oil products exceeds the marginality of domestic sales).

At year-end 2022, oil-and-gas revenues to the federal budget surpassed both the 2021 level by 0.9 p.p. of GDP, as well as forecast expectations laid down in the law on the budget (in the original version), by Rb2.0 trillion. According to the RF Ministry of Finance, the average price of Urals oil in 2022 was \$76.1/bbl, compared to \$69.0/bbl a year earlier. Given a 10% increase in the average price and a 7.2% strengthening of the ruble against the dollar in 2022 compared to 2021, it can be argued that Russia has managed to partially redirect its crude oil

¹ Federal Law No. 390-FZ of 06.12.2021 “On the Federal Budget for 2022 and for the Planning Period of 2023 and 2024” (original version).

Table 9

Main parameters of the federal budget in 2019–2022

	2019		2020		2021		2022		Change, 2022 to 2021		
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	p.p. of GDP	In real terms, %
Revenues	20 189	18.4	18 719	17.4	25 286	18.7	27 824	18.3	2 538	-0.4	-1.7
Oil and gas	7 924	7.2	5 235	4.9	9 056	6.7	11 586	7.6	2 530	0.9	14.3
Including basic	4 967	4.5	5558	5.2	5889	4.4	6509	4.3	620	-0.1	-1.3
Non-oil and gas	12 265	11.2	13 484	12.5	16 230	12.0	16 238	10.7	8.0	-1.3	-10.6
Expenditures	18 214	16.6	22 821	21.2	24 762	18.3	31 119	20.5	6 357	2.2	12.3
Deficit (-) / surplus (+)	1975	1.8	-4 102	-3.8	524	0.4	-3 295	-2.2	-3819	-2.6	-661.7
Non-oil and gas deficit	-5949	-5.4	-9 337	-8.7	-8532	-6.3	-14 881	-9.8	-6349	-3.5	55.8

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

exports to China, India and Turkey; otherwise oil and gas revenues to the federal budget from export duties would have been more modest.

However, since December 2022, Western sanctions on Russian oil supplies, including the establishment of a price ceiling, began to take effect, as a result of which the price of Urals oil fell quite dramatically, making only \$50.5/barrel in December, while the Urals discount to Brent rose to nearly 40%. It can be assumed that if such a significant difference between the prices of Russian Urals oil and international Brent continues throughout 2023, budget revenues will remain under rather strong pressure: the actual oil and gas revenues will hardly exceed the base ones without a significant weakening of the ruble.

In addition to oil companies, Gazprom became an important “donor” to the federal budget in 2022. In addition to increased export duties on pipeline gas, which amounted to more than Rb1.6 trillion (45% more than in 2021), Gazprom transferred to the treasury Rb1.25 trillion of temporarily increased severance tax and paid record dividends (more than Rb0.6 trillion). Taking into account the revenues to the budget system from other taxes, Gazprom is likely to become the largest taxpayer by the year-end 2022 after the completion of settlements with the budget.

The negative dynamics of the federal budget revenues in 2022 relative to 2021 is associated with a decline of non-oil and gas revenues by 1.3 p.p. of GDP to a minimum value for the period under review in *Table 9* (10.7% of GDP). The main factor behind the reduction of non-oil and gas revenues were taxes on imported goods, but even amid sanctions their actual volume amounted on average to about 78% of the planned values, that is, we are talking about less than Rb0.9 trillion of lost revenues. This decrease in tax revenues was compensated by the excess of actual volumes over the planned ones for taxes from domestic production, as a result of which the total volume of non-oil and gas revenues in nominal terms practically remained at the 2021 level, but decreased in real terms and as a share of GDP.

Federal budget expenditures

The volume of federal budget spending in 2022 amounted to Rb31.1 trillion or 20.5% of GDP, which is by Rb6.3 trillion more than the volume of the previous year. In real terms and as a share of GDP growth was also positive and quite significant (*Table 10*). Actual performance in 2022 exceeded forecast expectations by Rb7 trillion.

The largest deviation of actual federal budget expenditures from initially approved amounts is noted in the sections “Social policy”, “National defense” and “National economy” — by Rb3.0 trillion, Rb1.9 trillion and Rb1.3 trillion, respectively, which is associated with the conduct of the SMO, the expansion of social support measures for certain categories of citizens and business support. For other sections, the actual volume of budget allocations changed less significantly in nominal terms relative to the initially approved amounts.

Funding for the national projects that will ensure the achievement of national development goals until 2030¹ has increased: the actual volume of spending on the implementation of the national projects in 2022 amounted to Rb3.27 trillion. The actual volume of spending on the implementation of the national projects in 2022 amounted to Rb3.27 trillion, against the initially approved amount of Rb2.79 trillion.

In real terms, the “leaders” in terms of increase in spending were “National defense” (37.8%), “Housing and community amenities” (37.0%), “Culture and cinematography” (30.1%), “Social policy” (20.1%). In real terms, only expenditures in two functional sections decreased: “Environmental protection” (-31.9%) and “National economy” (-3.9%).

The volume of expenditures on closed items of the federal budget in 2022 increased to a maximum value for the entire period under consideration amounting to Rb6.0 trillion or 3.9% of GDP. As a consequence, the share of closed spending in the total volume of the federal budget’s expenditure in 2022 increased to 19.2%, vs. 15.1% in 2021. The following changes were noted in the structure of closed federal budget expenditures: “National defense” — Rb3.8 trillion in 2022 against Rb2.4 trillion in 2021, “National security and law enforcement” — Rb0.8 trillion and Rb0.7 trillion, “Nationwide issues” — Rb0.5 trillion and Rb0.4 trillion, “Social policy” — Rb0.3 trillion and Rb0.05 trillion, respectively.

A peculiar feature of cash execution of the federal budget was the unprecedented volume of spending in December 2022, which amounted to nearly Rb7 trillion or 22.5% of annual expenditures (as compared with the average level of 17% in the previous few years). This is partly due to the transfer to 2022 of certain expenditures, which emerged in the course of consideration by the State Duma of the draft law on the federal budget for 2023—2025, i.e. a kind of early funding, which has not been observed in the practice of the federal budget’s cash execution before.

1 Executive Order of the President of the Russian Federation “On National Development Goals of the Russian Federation for the period until 2030” of 21.07.2020 No. 474.

Table 10

Dynamic and structure of the federal budget expenditures in 2019–2022

	2019 (actual)		2020 (actual)		2021 (actual)		2022 (plan) ¹⁾		2022 (actual)		Change, 2022 to 2021	
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	p.p. of GDP
Expenditure total,	18214.5	16.6	22821.5	21.2	24762.0	18.3	24089.9	31119.0	20.5	6357.0	2.2	12.3
including:												
Nationwide issues	1363.5	1.2	1507.7	1.4	1759.5	1.3	2026.4	2052.4	1.4	292.9	0.1	4.2
National defense	2997.4	2.7	3168.8	3.0	3573.6	2.6	3595.6	5512.2	3.6	1938.6	1.0	37.8
National security and law enforcement activity	2083.2	1.9	2226.6	2.1	2335.9	1.7	2818.0	2617.8	1.7	281.9	0.0	0.1
National economy	2827.1	2.6	3483.9	3.3	4356.6	3.2	3353.2	4685.9	3.1	329.3	-0.1	-3.9
Housing and community amenities	282.2	0.3	371.5	0.3	593.7	0.4	463.9	910.4	0.6	316.7	0.2	37.0
Environmental protection	197.6	0.2	260.6	0.2	405.1	0.4	482.3	308.7	0.2	-96.4	-0.2	-31.9
Education	826.5	0.8	956.9	0.9	1064.4	0.8	1268.7	1312.3	0.9	247.9	0.1	10.1
Culture, cinematography	122.4	0.1	144.5	0.1	146.7	0.1	187.3	213.6	0.1	66.9	0.0	30.1
Healthcare	713.0	0.6	1334.4	1.2	1473.9	1.1	1302.9	1728.0	1.1	254.1	0.0	4.7
Social policies	4882.8	4.4	6990.3	6.5	6675.8	4.9	5943.2	8973.6	5.9	2297.8	1.0	20.1
Physical culture and sports	81.4	0.1	75.3	0.1	70.9	0.1	82.5	84.9	0.1	14.0	0.0	7.0
Mass media	103.5	0.1	121.1	0.1	114.0	0.1	115.6	143.8	0.1	29.8	0.0	12.7
Government and municipal debt servicing	730.8	0.7	784.2	0.7	1084.2	0.8	1403.3	1330.8	0.9	246.6	0.1	9.7
Intergovernmental fiscal transfers	1003.1	0.9	1395.8	1.3	1107.7	0.8	1047.0	1244.3	0.8	136.6	0.0	0.4
<i>Reference:</i>												
Volume of closed items of FB spending	3018.2	2.7	3580.0	3.3	3752.2	2.9	3732.8	5961.9	3.9			
Share of closed spending in the total volume of FB spending, %	16.6		15.7		15.1			19.2				

Sources: Federal Treasury, own calculations.

1 Revised consolidated budget quarterly breakdown as of January 2022.

Federal deficit and debt

In 2022, the federal budget deficit amounted to Rb3.3 trillion or 2.2% of GDP, however, if we do not take into account the funds that were compensated to the state extra-budgetary funds as a result of the deferral of insurance contributions and will be reimbursed to the National Welfare Fund in 2023, the budget deficit was about 1.8% of GDP.

In 2022, the main sources of deficiency payments:

– operations with securities denominated in the currency of the Russian Federation for placement to the tune of Rb3.1 trillion and redemption — Rb1.6 trillion, the initially planned volumes being Rb3.2 trillion and Rb1.1 trillion. However, the suspension of OFZ auctions in the period from February to August inclusive did not prevent the RF Ministry of Finance from meeting the annual plan of placement;

– change in balances in the amount of Rb4.5 trillion as the balanced result of transactions related to receipts and expenditures of the federal budget, including assets of the National Welfare Fund.

The amount of funds allocated to redeem government securities denominated in foreign currency and accounted as external sources of financing of the federal budget deficit in 2022 constituted Rb201.7 bn, the original planned amount being Rb190.9 bn; no borrowings in foreign currency were made in 2022.

As a result, the volume of domestic public debt by the end of 2022 rose from Rb16.5 trillion (12.2% of GDP) to Rb18.8 trillion (12.4% of GDP), while the volume of foreign debt was reduced by \$2.3 bn to \$57.4 bn. According to the Russian Ministry of Finance, the volume of the National Welfare Fund has decreased from Rb13.6 trillion to Rb10.4 trillion over January — December 2022, that is, by almost a quarter.

In general, given the level of public debt, the size of sovereign assets in the NWF and the dynamics of the main parameters of the budget system of the Russian Federation, it can be recognized that the RF Ministry of Finance managed to relatively painlessly buy out budget risks, including through the use of previously created reserves. However, as the oil and gas revenues decline, this strategy can be effective only on the short-term horizon, and therefore to ensure the long-term stability of the federal budget, it will be necessary to use other mechanisms, including budget consolidation.

1.2.3. Interbudgetary relations and subnational finances

Revenues of the consolidated budgets of the RF subjects

The dynamics of main revenues to the consolidated budgets of the RF subjects in 2022 vs. 2021 is presented in the *Table 11*.

According to the data released by the Federal Treasury on regional budgets execution, total revenues to the RF subjects' consolidated budgets in 2022 increased in nominal terms by 12.1% on a year-on-year basis to Rb19.7 trillion. In real terms (CPI adjusted), revenues went up by 0.2 p.p. The regions' tax and

Table 11

**Revenues of the consolidated budgets of the constituent entities
of the Russian Federation in 2022 compared to 2021**

Revenues of the consolidated budgets of RF subjects in 2022 against 2021	In current prices			In real prices, change
	Rb bn		increment, %	%
	2022	2021	2022 / 2021	2022 / 2021
Revenues, total	19 676.9	17 546.3	12.1	0.2
Including:				
Tax-generated and non-tax revenues	15 432.8	13 651.8	13.0	1.0
<i>Including tax-generated revenues:</i>	14 173.5	12 675.8	11.8	-0.1
Corporate income tax	4 686.5	4 529.3	3.5	-7.6
PII	5 580.1	4 793.2	16.4	4.0
Excises	1 116.9	950.1	17.5	5.0
Total income tax	980.6	808.9	21.2	8.3
Property taxes	1 632.2	1 444.5	13.0	0.9
<i>Non-tax revenues</i>	<i>1 259.4</i>	<i>976.0</i>	<i>29.0</i>	<i>15.3</i>
Fiscal transfers from budgets of other levels	3 921.3	3 676.4	6.7	-4.7
Other revenues	322.8	218.1	48.0	32.2

Sources: Federal Treasury, own calculations.

non-tax revenues moved up both in nominal and real terms (by 13.0% and 1.0% respectively). It was personal income tax, whose receipts rose by Rb0.8 trillion (16.4% and 4.0%, respectively), which made the biggest contribution to the growth in tax revenues. One should also note the non-tax revenues hike by 29.0% and 15.3%. Profit tax revenues to regional budgets increased by 3.5% in nominal terms but dropped by 7.6% in real terms, which resulted both from a high base in 2021 and reduced results in some sectors in 2022. Intergovernmental fiscal transfers increased by 6.7%, but decreased by 4.7% in real terms as well. So, generally speaking, the positive dynamics of consolidated budgets revenues of the subjects of the Russian Federation in 2022 was due to growth in their own tax and non-tax revenues.

In 2022, the biggest increase in consolidated budget revenues in nominal terms was shown by the Sakhalin region (+51.0%), Yamal-Nenets autonomous national area (+37.8%), the city of St. Petersburg (+37.7%), the Republic of Crimea (+30.1%) and Kemerovo region — Kuzbass (+29.2%). All of the above regions saw an increase in revenues mainly from corporate income tax. It should be noted that the Republic of Ingushetia, whose budget revenues went up by 22.8% thanks to an almost two-fold rise in personal income tax revenues.

The decline in consolidated budget revenues in nominal terms in 2022 vs. 2021 was noted in 12 subjects of the Russian Federation, including the Lipetsk region (-12.8%), the Belgorod Region (-9.4%), the Murmansk region (-9.2%), the Magadan region (-6.5%), the Chelyabinsk region (-6.2%), the Vologda region (-5.8%), the Krasnoyarsk region (-4.3%), the Jewish autonomous region (-3.0%) and the Kaliningrad region (-2.7%). In a number of cases, the decline in revenues

can be explained by the effect of international sanctions on export products and transit. The maximum reduction in corporate income tax revenues occurred in the Lipetsk region (-53.3%), as well as in bordering Belgorod and Kursk regions (-45.2% and -46.3%, respectively).

Thus, the dynamic of regional budgets' own revenues in 2022 is generally positive. However, in some regions (those bordering Ukraine, export-oriented for non-hydrocarbon supplies, specializing in international transit) there was a greater impact of the geopolitical crisis on budget revenues.

Expenditures of the consolidated budgets of RF subjects

The movement of the main indicators of the volume and structure of expenditures of the consolidated budgets of the RF subjects in 2022 is presented in the *Table 12*.

Table 12

**Expenses of the consolidated budgets of the constituent entities
of the Russian Federation**

	In nominal terms, Rb bn		Nominal growth, %	Real growth (CPI adjusted), %	Spending structure, % to total		Share change in structure, %
	2022	2021	2022 / 2021	2022 /2021	2022	2021	2022 / 2021
Expenditures, total	19 626.3	16 885.6	16.2	3.8	100	100	—
Nationwide issues	1 117.7	966.7	15.6	3.3	5.7	5.7	0.0
National security and law enforcement activity	245.0	170.0	44.1	28.7	1.2	1.0	0.2
National economy Including:	4 491.4	3 523.1	27.5	13.9	22.9	20.9	2.0
<i>Agriculture and fisheries</i>	<i>308.3</i>	<i>284.8</i>	<i>8.2</i>	<i>-3.3</i>	<i>1.6</i>	<i>1.7</i>	<i>-0.1</i>
<i>Transportation</i>	<i>1 093.5</i>	<i>891.9</i>	<i>22.6</i>	<i>9.5</i>	<i>5.6</i>	<i>5.3</i>	<i>0.3</i>
<i>Motor road system (road funds)</i>	<i>2 047.1</i>	<i>1 571.4</i>	<i>30.3</i>	<i>16.4</i>	<i>10.4</i>	<i>9.3</i>	<i>1.1</i>
<i>Other national economy issues</i>	<i>1 042.6</i>	<i>775.0</i>	<i>34.5</i>	<i>20.2</i>	<i>5.3</i>	<i>4.6</i>	<i>0.7</i>
Housing and community amenities	2 035.7	1 687.6	20.6	7.8	10.4	10.0	0.4
Environmental protection	154.1	71.5	115.5	92.5	0.8	0.4	0.4
Education Including:	4 532.6	3 897.6	16.3	3.9	23.1	23.1	0.0
<i>Preschool education</i>	<i>1 125.9</i>	<i>1 026.8</i>	<i>9.6</i>	<i>-2.0</i>	<i>5.7</i>	<i>6.1</i>	<i>-0.3</i>
<i>General education</i>	<i>2 408.7</i>	<i>1 996.2</i>	<i>20.7</i>	<i>7.8</i>	<i>12.3</i>	<i>11.8</i>	<i>0.5</i>
<i>Additional education of children</i>	<i>300.3</i>	<i>276.4</i>	<i>8.6</i>	<i>-3.0</i>	<i>1.5</i>	<i>1.6</i>	<i>-0.1</i>
<i>Secondary vocational education</i>	<i>310.1</i>	<i>268.7</i>	<i>15.4</i>	<i>3.1</i>	<i>1.6</i>	<i>1.6</i>	<i>0.0</i>
<i>Other education issues</i>	<i>387.7</i>	<i>329.4</i>	<i>17.7</i>	<i>5.1</i>	<i>2.0</i>	<i>2.0</i>	<i>0.0</i>
Culture, cinematography	620.1	531.9	16.6	4.1	3.2	3.2	0.0

	In nominal terms, Rb bn		Nominal growth, %	Real growth (CPI adjusted), %	Spending structure, % to total		Share change in structure, %
	2022	2021	2022 / 2021	2022 /2021	2022	2021	2022 / 2021
Health care	1 952.1	2 027.3	-3.7	-14.0	9.9	12.0	-2.1
Social policies	3 776.0	445.0	9.6	-2.1	19.2	20.4	-1.2
Physical culture and sports	500.4	398.8	25.5	12.1	2.5	2.4	0.2
Mass media	59.3	57.4	3.2	-7.8	0.3	0.3	0.0
Government and municipal debt servicing	82.9	102.2	-18.9	-27.5	0.4	0.6	-0.2

Sources: Federal Treasury, own calculations.

Expenditures of consolidated budgets of the RF subjects in 2022 increased in nominal terms by 16.2% relative to the level of 2021 (a 3.8% increase with inflation adjusted) and reached Rb19.6 trillion. Thus, expenditures grew faster than revenues.

In nominal terms, there was an increase in spending in all areas, with the exception of health care and debt service. Spending on health care fell in 2022 from the previous year by 3.7% in nominal terms and by 14.0% in real terms. This trend can be attributed to the scaling back of measures aimed at combating coronavirus pandemic. State and municipal debt service costs declined by 18.9%, which was due to the reduction of commercial debt, which in turn was a consequence of substitution of bank loans with cheaper budget loans in terms of service. Expenditures of regions in the field of national security and law enforcement (+44.1%), environmental protection (+115.5%) and national economy (+27.5%) grew the most. Consolidated budgets expenditures of the subjects of the Russian Federation on the national economy increased by Rb1 trillion in 2022 and contributed most to the nominal growth in total expenditures. Meanwhile, expenditures on preschool education (-2.0%), additional education for children (-3.0%) and social policy (-2.1%) were down in real terms.

Major changes in the structure of expenditures in 2022 were associated with an increase in the share of spending on the national economy from 20.9% to 22.9%, as well as a decrease in the share of health care from 12.0% to 9.9% and social policy from 20.4% to 19.2%. Thus, in 2022, there is a slight shift in the structure of expenditures towards measures to support the economy.

Analysis of the dynamics of budget expenditures by region shows that only one region, the Udmurt Republic (-0.3%), saw a decline in nominal expenditures in 2022. Tatarstan (+32.5%), Yamal-Nenets autonomous national area (+31.9%) and St. Petersburg (+30.8%) demonstrated the biggest growth in expenditures. In these regions, the growth in expenditures was possible due to high growth rates of budget revenues. Significant growth in expenditures was also observed in regions hit hardest by the geopolitical crisis (the Belgorod region — by 29.6%, the Kursk region — by 21.4%), which combined with a drop in revenues resulted in significant budget deficits in these regions and resulted in additional financial assistance from the federal center.

Federal budget financial assistance¹

The amount of transfers to the regions in 2022 increased by 8.8% in nominal terms, and decreased by -2.8% in real terms (*Table 13*). Subsidies grew most significantly (+39.8% in nominal terms, or +24.9% in real terms), and the largest reduction was for other intergovernmental fiscal transfers (-19.5% and -28.1%, respectively). Total amount of grants increased in nominal terms (+10.6%) and decreased in real terms (-1.2%), while grants for fiscal capacity increase were down noticeably in real terms (-5.7%) and grants for ensuring balanced growth (+9.3%). Around 35% of subsidies to ensure fiscal balance were allocated to support new regions. As a result, the share of untargeted financial assistance (grants) increased by 0.5 p.p. vs. 2021, constituting only 28.7% of the total amount of fiscal transfers to regions, which is the second lowest value over the period 2000 through 2022.

Table 13

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

	2020		2021		2022		Increment in 2022 on 2021	
	Rb bn	% to total	Rb bn	% to total	Rb bn	% to total	nominal, %	real, %
Transfers to regions, total	3 698.4	100.0	3 627.2	100.0	3 944.9	100.0	8.8	-2.8
Grants	1 303.7	35.2	1 021.9	28.2	1 130.3	28.7	10.6	-1.2
Including:								
Equalization transfers	717.9	19.4	718.3	19.8	758.6	19.2	5.6	-5.7
To support measures designed to ensure fiscal balance	569.6	15.4	257.6	7.1	315.2	8.0	22.4	9.3
Subsidies	1 011.5	27.4	1 193.0	32.9	1 668.3	42.3	39.8	24.9
Including:								
To sustain national economy's development	214.0	5.8	150.6	4.2	327.5	8.3	117.5	94.3
Subventions	606.2	16.4	519.6	14.3	427.5	10.8	-17.7	-26.5
Other interbudgetary fiscal transfers	777.0	21.0	892.8	24.6	718.8	18.2	-19.5	-28.1
Including:								
for development of national economy	329.4	8.9	394.2	10.9	392.0	9.9	-0.6	-11.2

Sources: Federal Treasury, Rosstat, own calculations.

¹ According to preliminary data on the execution of the federal budget and consolidated budgets of 85 subjects of the Russian Federation in 2022.

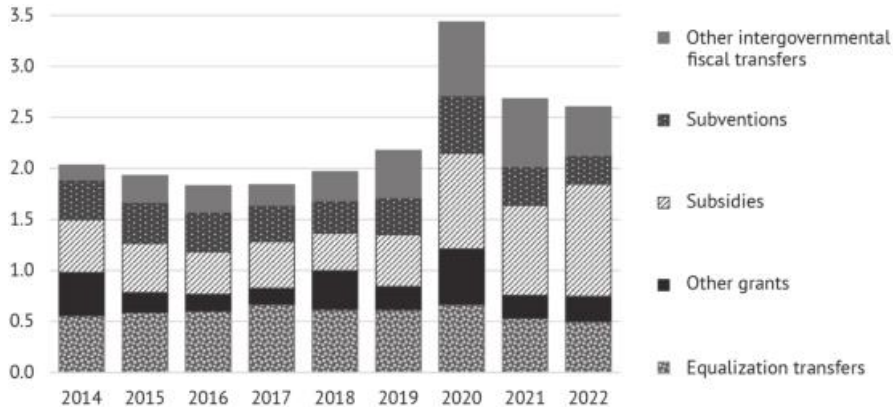


Fig. 12. Intergovernmental fiscal transfers to regions from the federal budget, % of GDP

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

As a share of GDP, the total volume of fiscal transfers from the federal budget to the regions decreased from 2.7% to 2.6%, but remains significant: as compared to 2014—2019 (*Fig. 12*). The volume of certain types of intergovernmental fiscal transfers changed markedly over the period 2014—2022. Thus, in 2022, the volume of equalization grants reached its minimum (0.5% of GDP); the volume of other grants in 2022 is significantly lower than in 2020, which is explained by a return to the use of budget loans as an anti-crisis interbudgetary instrument instead of grants for balancing. In addition, there was a substantial increase in subsidies between 2019 and 2022, which peaked at 1.1% of GDP in 2022. In the same years, there was a significant increase in the volume of other intergovernmental fiscal transfers, but there is a noticeable tendency for its gradual reduction. The volume of subventions in 2022 reached the minimum for the period 2014—2022, amounting to 0.28% of GDP.

In 2022, 35 subventions were originated,² one less than a year earlier. The volume of subventions also decreased (-17.7% in nominal terms, or -26.5% in real terms).

The nominal increase in subsidies in 2022 came to 39.8%, with subsidies for the national economy increasing by 117.5%. The number of subsidies went up substantially: from 148 in 2021 to 180 in 2022 (140 in 2020). For other intergovernmental fiscal transfers, a 19.5% reduction in their nominal size was accompanied by a 19.5% increase in the number of transfers (from 153 to 161).

¹ However, the base effect should be taken into account, as real GDP declined in 2015, 2020, and 2022, which gives overestimates of the volume of transfers as a share of GDP.

² The number of transfers is determined by the number of unique areas of expenditures (the 13th—16th digits of the budget expenditure classification code) provided for in the report on the execution of the federal budget.

In general, subsidies and other intergovernmental fiscal transfers in 2022, compared to 2021, were characterized by a general growth in their real amount (+2.24%), a reorientation towards using subsidies as the main instrument (the share of subsidies in total subsidies and other intergovernmental fiscal transfers moved up from 57 to 70%) and a stronger targeting nature of financial assistance (the number of transfers increased by 40). These changes are caused by the need to provide targeted support to the regions in 2022.

As before, a substantial amount of transfers in 2022 was earmarked for the implementation of national projects at the regional and municipal levels: 45% of the amount of grants (36% in 2021), 38% of subventions (29% in 2021), 32% of other intergovernmental fiscal transfers (31% in 2021), and 29% of the total amount of transfers from the federal budget to the regions (21% in 2021). Thus, targeted financial assistance is tied, to a greater extent, to priorities of socio-economic development. Excluding transfers for national projects, the structure of financial assistance in 2022 is as follows: grants — 40.3%, subsidies — 32.9%, subventions — 9.4%, other intergovernmental fiscal transfers — 17.5%.

Interregional differentiation of average per capita tax revenues estimated through the coefficient of variation, increased in 2022 (*Table 14*). At the same time, equalization transfers in 2022 were slightly less effective than in the previous year: if in 2021, after equalization, differentiation decreased by 21.8%, then in 2022 — by 19.6%. The overall equalizing effect of grants and subsidies also declined insignificantly, from 39.7% in 2022 to 41.0% in 2021.

Table 14

**The variance coefficient of the consolidated regional budgets 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
2021	0.560	0.438	0.330
2022	0.607	0.488	0.366

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

Deficit and regional debt

In 2022, the consolidated budgets of the subjects of the Russian Federation¹ were executed with a surplus of Rb39.5 bn (in 2021 — with a surplus of

¹ According to preliminary data on the execution of the federal budget and consolidated budgets of 85 subjects of the Russian Federation in 2022.

Rb660.6 bn). At the same time, the number of regions with a budget surplus declined from 66 to 35 as compared to 2021 (*Table 15*). In 2022, the deficit of the consolidated budget in 12 regions exceeded 10% of tax and non-tax revenues (in 2021 — in 3 regions). Thus, the balance of consolidated regional budgets over 2022 somewhat worsened.

Table 15

Execution (deficit/surplus) of the consolidated budgets of the Russian Federation in 2014–2022

Year	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
2021	19	66
2022	50	35

Sources: Federal Treasury, own calculations.

The amount of government debt of the subjects of the Russian Federation by the year 2022 increased from Rb2.47 trillion to Rb2.79 trillion, but even slightly decreased in relation to the volume of tax and non-tax revenues of the budgets of the subjects of the Russian Federation: from 21.0% to 20.9%. The debt load on the budgets of some regions changed in 2022: the ratio of debt to tax and non-tax revenues decreased in 36 regions during the year, remained unchanged in one region, and increased in 48 regions. Debt load grew by more than 10 p.p. in eight regions. Five regions saw both significant growth in their debt burdens and high deficits of their consolidated budgets. Twenty-five regions had a high debt load (over 50%) (vs. 23 regions in 2021), while one had a super-high debt load (over 100%) (also one region in 2021). A high level of both debt burden and budget deficit was noted in three regions.

The structure of government debt has changed significantly: the share of budget loans in 2022 increased by 15.6 p.p. and accounted for 71.0% (the maximum value over the period of 2008—2022), while the share of loans from credit institutions decreased to 4.5% (the minimal value over the period of 2008—2022) (*Fig. 13*). The increment of budget loans in the structure of regional debt during 2022 amounted to Rb608 bn (+44.4%), and the reduction of loans from credit institutions amounted to Rb131 bn (-51.0%). The debt in the form of securities of the RF subjects also decreased markedly — by Rb148 bn (-18.5%). The changes in the structure of the regional public debt were caused by the implementation of the federal policy of substituting “market” debt of the regions with budget loans

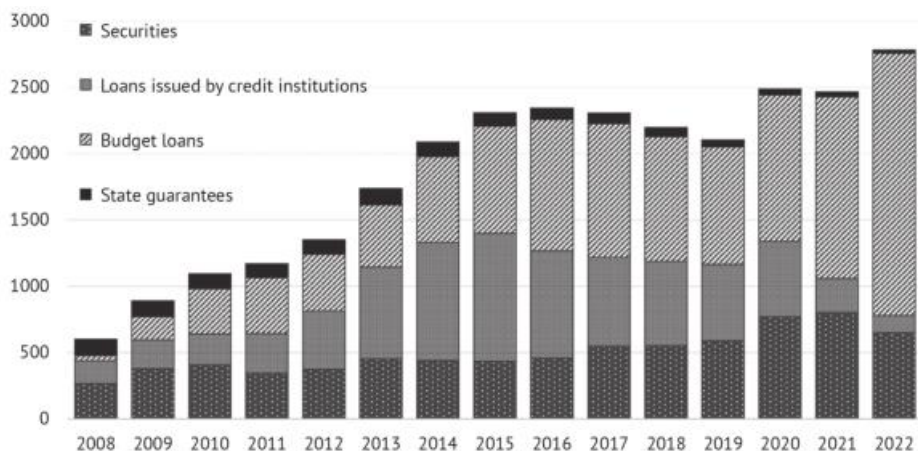


Fig. 13. Nominal volume (Rb bn) and structure (%) of public debt of RF subjects in 2008–2022

Sources: Finance Ministry of Russia, own calculations.

at 0.1% annual interest rate (Rb386.4 bn were allocated from the federal budget for that purpose), which significantly reduced the debt service costs and thereby improved the balance of regional budgets. Moreover, federal budget loans in the amount of Rb250 bn were allocated to finance infrastructure projects, i.e. the growth in the volume of debt and the share of budget loans was conditioned not only by implementation of measures aimed at budget balancing, but also by investment support to regional economies.

Thus, by the end of 2022, the surplus of consolidated regional budgets declined and the volume of regional public debt increased. meanwhile, the growth of tax revenues and federal inter-budget policy, including the replacement of regional “market” debt with budget loans, allowed to reduce the debt burden on regional budgets.