

RUSSIA'S STATE BUDGET IN MAY 2013

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In January–May 2013 the federal budget revenues decreased by 2.2 p.p. of GDP over the same period of the last year due to a reduction of oil and gas revenues by 1.5 p.p. of GDP and non-oil revenues by 0.7 p.p. of GDP. The consolidated revenues of the Subjects of the Russian Federation within the period under review also fell down by 2.0 p.p. of GDP relative to the first four months of 2012, the expenditures of the federal budget and the consolidated budget of the Russian Federation in January–April 2013 have decreased by 2.0 and 0.6 p.p. of GDP against the relevant period of the last year, accordingly. The federal budget surplus amounted to 0.5% of GDP and surplus of the consolidated budget of the Subjects of the Russian Federation – to 1.6% of GDP.

Analysis of key indicators of the federal budget execution in January–May 2013

According to the Federal Treasury, in January–May 2013 the federal budget revenues amounted to Rb 5.1146 trillion or 20.0% of GDP, which is by 2.2 p.p. of GDP lower than in the corresponding period of the previous year (*Table 1*). The reduction in revenues was due to lower oil and gas revenues by 1.5 p.p. of GDP and non-oil revenues by 0.7 p.p. of GDP. The structure of the federal budget also changed: while in January–May of the last year oil and gas revenues accounted for 52.7% of the federal budget, as the result of the first five months of the current year, they made only 49.2%. Herewith, within the first five months of this year, in the federal budget the oil and gas revenues made 44.1% of planned annual volume, and the non-oil revenues amounted only to 36.1%.

Budget expenditures for January–May 2013 amounted to Rb 4.9862 trillion. (19.5% of GDP), which is by 2.0 p.p. of GDP lower than the indicators of the relevant period of the previous year. Herewith, the cash execution of the federal budget for the first five months of the current year amounted to only 37.1% of the annual volume of approved expenses, while as of January–May 2012 results the cash execution of expenditures was slightly higher – 38.8%.

As of five months of 2013, the federal budget was executed with surplus of Rb 128.4bn (0.5% of GDP). Non-oil deficit in absolute terms declined by 1.4 p.p. of GDP (9.7% of GDP) against the corresponding period of the previous year.

Within the five months of the current year revenues to the federal budget have reduced under the most of tax and non-tax incomes against the relevant period of the preceding year including those from income tax – by 0.1 p.p. of GDP, from domestic VAT – by 0.5 p.p. of GDP, from import VAT – by 0.2 p.p. of GDP, from the mining tax – by 0.5 p.p. of GDP and from external economic activity – by 1.0 p.p. of GDP (*Table 2*). Herewith, income from domestic excise taxes in January–May 2013 increased by 0.2 p.p. of GDP against the relevant period of the last year. At the same time, import excise tax revenues to the federal budget within the first five months of the year remained unchanged from January to May 2012 at a rate of 0.09 p.p. of GDP.

As of five months of the current year there was observed a reduction of expenditures (in percentage of GDP) as compared to January–May 2012 in the following budget sectors (*Table 3*): “National Economy” by 0.1 p.p. of GDP, “Education” – by 0.1 p.p. of GDP, “Health Care” – by 0.4 p.p. of GDP, “Social Policy” –

Table 1

THE KEY INDICATORS OF THE FEDERAL BUDGET IN JANUARY–MAY, 2012–2013

	January–May 2013		January–May 2012		Change, p.p. of GDP
	Rb bn	GDP %	Rb bn	GDP %	
Revenues	5114.6	20.0	5 083.3	22.2	-2.2
-including oil and gas	2611.3	10.2	2 688.0	11.7	-1.5
Expenditures	4986.2	19.5	4 951.2	21.5	-2.0
-including percentage expenditures	142.8	0.5	128.6	0.5	0.0
non-percentage expenditures	4843.4	18.9	4822.6	21.0	1.1
Deficit (-) / Surplus (+)	128.4	0.5	132.1	0.7	-0.2
Non-oil and gas deficit (-) / Surplus (+)	-2482.9	-9.7	-2555.9	-11.1	1.4

Source: Ministry of Finance of Russia. RF Federal Treasury. Gaidar Institute assessments.

Table 2

REVENUS FROM BASIC TAXES TO THE FEDERAL TO THE FEDERAL BUDGET IN JANUARY–MAY 2012–2013

	January–May 2013.		January– May 2012.		Change, p.p. of GDP
	Rb bn	GDP %	Rb bn	GDP %	
1. Revenue, including:					
corporate profit tax	134.9	0.5	150.5	0.6	-0.1
VAT on goods sold in the RF territory	730.8	2.8	761.2	3.3	-0.5
VAT on goods imported to the RF territory	635.4	2.5	613.9	2.7	-0.2
Excise duties on goods manufactured in the RF territory	171.5	0.7	122.1	0.5	0.2
Excise duties on goods imported to the RF territory	22.4	0.09	20.1	0.09	0.0
MET	1025.3	4.0	1032.4	4.5	-0.5
2. Revenue from external economic activities	1962.6	7.7	1989.8	8.7	-1.0

Source: Ministry of Finance of Russia. RF Federal Treasury. Gaidar Institute assessments.

Table 3

FEDERAL BUDGET EXECUTION IN TERMS OF EXPENDITURES IN JANUARY–MAY 2012–2013

	January–April 2013		January–April 2012		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Expenditures. total	4986.2	19.5	4 951.2	21.5	-2.0
including					
Federal issues	306.2	1.2	281.2	1.2	0.0
National defense	1006.5	3.9	884.6	3.8	0.1
National defense and law enforcement	693.7	2.7	593.4	2.6	0.1
National Economy	527.7	2.1	517.4	2.2	-0.1
Housing and public utilities	24.6	0.1	24.7	0.1	0.0
Environmental protection	10.1	0.04	8.5	0.04	0.0
Education	285.8	1.1	282.3	1.2	-0.1
Culture and cinematography	27.7	0.1	34.8	0.1	0.0
Healthcare	207.9	0.8	267.0	1.2	-0.4
Social policy	1443.9	5.6	1631.8	7.1	-1.5
Physical training and sports	17.4	0.07	15.5	0.07	0.0
Mass media	30.9	0.1	29.7	0.1	0.0
Public and municipal debt servicing	142.8	0.5	128.6	0.5	0.0
Intergovernmental transfer	260.8	1.0	251.4	1.1	-0.1

Source: Ministry of Finance of Russia. RF Federal Treasury. Gaidar Institute assessments.

by 1.5 p.p. of GDP and the “Intergovernmental transfers” – by 0.1 p.p. of GDP.

The growth of federal budget expenditures over five months of the current year as compared to January–May 2012 in terms of GDP occurred under the following budget lines: “National Defense” – by 0.1 p.p. of GDP and the “National Security and Law Enforcement” – by 0.1 p.p. of GDP. The expenditures in the other sectors of the federal budget over five months in 2013 in regard to GDP remained at the level of January–May 2012.

According to the Federal Treasury, in May 2013 the operations with the accounts of the Reserve Fund and of the National Welfare Fund were not executed. However, due to the difference in exchange rates, the Reserve Fund volume as of 01.06.2013 has grown by Rb

13.0bn and amounted to Rb 2 665,9bn. the volume of the National Welfare Fund increased to Rb 2 739.3bn (+Rb 11.5bn in May 2013).

Execution of the RF Subjects consolidated budget in January–April 2013

According to the Federal Treasury, the consolidated budget revenues of the Subjects of the Russian Federation in January–April 2013 amounted to Rb 2.663.2 trillion or 13.2% of GDP, which is by 0.6 p.p. of GDP lower than indicators of the relevant period of 2012 (Table 4).

Within four months of the current year the expenditures of the consolidated budget have decreased against the relevant period of the preceding year by 0.6 p.p. of GDP and made 11.6% of GDP, or

Table 4

KEY INDICATORS OF CONSOLIDATED BUDGET EXECUTION OF THE RF SUBJECTS IN JANUARY–APRIL 2012–2013

	January–April 2013		January–April 2012		Change, p.p. of GDP
	Rb bn	GDP %	Rb bn	GDP %	
Revenue including	2 663.2	13.2	2 434.4	13.8	-0.6
- corporate profit tax	678.0	3.3	606.7	3.4	-0.1
- individual income tax	725.9	3.6	637.0	3.6	0.0
- domestic excise duties	152.5	0.7	132.2	0.7	0.0
- aggregate income tax	135.5	0.7	119.5	0.7	0.0
- property tax	301.3	1.5	254.8	1.4	0.1
- non-repayable proceeds from other budgets of the RF fiscal system as broken down by the RF Subjects	510.2	2.5	532.1	3.0	-0.5
Expenditures including	2 346.0	11.6	2 148.3	12.2	-0.6
Deficit (–) /Surplus (+)	317.2	1.6	286.1	1.6	0.0
GDP estimates for reference. Rb bn	20 220		17 577		

Source: Ministry of Finance of Russia. RF Federal Treasury. Gaidar Institute assessments.

Rb 2.346.0bn. As a result of the period of January–April 2013 the budgets of the RF Subjects were executed with a surplus of Rb 317.2bn or 1.6% of GDP, which matches the relevant period of the preceding year.

Despite the fact, that for the first four months of the year the volume of revenues in the consolidated budgets of the RF Subjects were reduced in terms of GDP as compared to the relevant period of 2012, the situation with the refund of the regional budgets at the expense of their own tax and non-tax revenues somehow improved against the preceding two months. In particular, if by the results of January–February and January–March of the current year the consolidated budgets of the RF Subjects for income tax decreased by 0.4 and 0.7 p.p. of GDP as compared to the relevant period of the last year as of four months of 2013 the indicator was only 0.1 p.p. of GDP.

A similar situation with the gradual covering of the gap in the budget execution in the current and in the preceding years is observed in incomes of individuals: in January–April 2013 revenues in the consolidated budgets of the Subjects of the Russian Federation for personal income remained unchanged as compared with the four months of the last year at 3.6% of GDP, while the results of the two and three months of this year. revenues from personal income tax decreased by 0.2 and 0.1 p.p. of GDP against the relevant period of the preceding year.

In terms of the other tax and non-tax revenues of budgets of the RF Subjects for the four months of 2013 in percentage of GDP, as compared to the relevant period of the last year. there is noted an increase in revenues from property tax by 0.1 p.p. of GDP and reduction of uncompensated revenues from other issues of

budget system of the Russian Federation by 0.5 p.p. of GDP. The incomes from domestic excise taxes and from total income tax remained at the level of four months of the last year in the volume of 0.7% of GDP for each tax.

Thus, the main reason for the reduction of incomes of consolidated budgets of the Subjects of the Russian Federation) are reduced inter-budgetary transfers .

Expenditures of the consolidated budget of the RF Subjects (*Table 5*) in the first four months of the current year have decreased as compared to the relevant period of 2012 under the following budget lines: “General Questions” by 0.1 p.p. of GDP, “National Economy” – by 0.2 p.p. of GDP, “Housing and communal services” by 0.1 p.p. of GDP, “Health Care” – by 0.2 p.p. of GDP, “Social Policy” by 0.1 p.p. of GDP, “Intergovernmental Transfers” by 0.01 p.p. of GDP. In January–April 2013 expenses in the GDP share against the four months of the previous year have increased in the following sectors: “Education” by 0.2 p.p. of GDP and “State and municipal debt service” by 0.01 p.p. of GDP. In the other sectors of the budget expenditures of the RF Subjects in January–April in the current year remained at the level of the relevant period of 2012 in terms of GDP.

Major developments in the field of fiscal policy

Key challenges and priorities of fiscal policy in the medium term have been formulated in June 2013 in the Budget Message of the President of Russia. There was noted a reduction of the potential growth of the federal budget revenue base at the expense of external sources, as well as a reduction of the opportunities for accelerated compensation of declining oil and gas

**EXECUTION OF THE RF SUBJECTS CONSOLIDATED BUDGET IN TERMS OF EXPENDITURES
IN JANUARY–APRIL 2012–2013**

	January–April 2013		January–April 2012		Change p.p. of GDP
	Rb bn	GDP %	Rb bn	GDP %	
Expenditures including	2 346.0	11.6	2 148.3	12.2	-0.6
Federal issues	153.1	0.7	136.3	0.8	-0.1
National defense	1.0	0.005	0.9	0.005	0.0
National defense and law enforcement	23.3	0.1	21.8	0.1	0.0
National Economy	351.7	1.7	337.5	1.9	-0.2
Housing and public utilities	176.8	0.9	182.3	1.0	-0.1
Environmental protection	5.4	0.03	4.7	0.03	0.0
Education	705.8	3.5	582.2	3.3	0.2
Culture and cinematography	81.6	0.4	73.0	0.4	0.0
Healthcare	362.1	1.8	360.2	2.0	-0.2
Social policy	405.7	2.0	379.1	2.1	-0.1
Physical training and sports	42.0	0.2	37.1	0.2	0.0
Mass media	12.0	0.06	10.3	0.06	0.0
Public and municipal debt servicing	22.1	0.1	16.8	0.09	0.01
Intergovernmental transfers	3.4	0.02	5.8	0.03	-0.01

Source: Ministry of Finance of Russia. RF Federal Treasury. Gaidar Institute assessments.

revenues at the expense of non-oil and gas sources, which requires the detection of reserves and their redistribution in favor of the priority areas and projects, primarily those, providing the solutions of targets identified in the decrees of the President of the Russian Federation on May 7, 2012 and creating the conditions for economic growth.

It should be noted, that already in April, the Russian Ministry of Economic Development has warned that the recession in Russia is expected in autumn of the current year, if necessary measures for the support of the economy are not taken. In June the IMF has sharply lowered the forecast for the growth of Russian GDP in 2013 from 3.4 to 2.5%, and from 3.8 to 3.25%

in 2014 and again advised the Russian government to conduct large-scale reform of economic policy.

The slowdown in economic growth and the reduction of budget revenues are forcing the country leaders to use the National Welfare Fund to implement the infrastructure projects. Without any attempt to analyze all the implications of this decision in the framework of the monthly revue, it should be noted. that the infrastructure projects are supposed to be financed from the NWF on the basis of PPP on a refundable basis are long-term, while at the present time the problem of improvement of efficiency of budget expenses looks more reasonable. ●