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## State budget

According to the Federal Treasury, the federal budget for the first nine months of 2012 was executed with a surplus of Rb 637.8bn, or 1.5% of GDP. The sustained for several months federal budget surplus and the growth rate of non-oil and gas revenues provide grounds to suggest that as of the year outcome, there will be a surplus in the federal budget<sup>1</sup>. In early October, the decision of the Russian Ministry of Finance was disclosed on preparing one more package of amendments to the expenditure part of the federal budget of the current year with about Rb 300bn, which is expected to approve the zero deficit of the federal budget, the redistribution of budget expenditures within budget sections (about Rb 100bn) due to savings in some budget lines and the use of additional revenue from Savings Bank privatization<sup>2</sup> (about Rb 148bn) and "Rosneftgaz" dividends (about Rb 50bn).

### Analysis of key indicators of the federal budget execution over 9 months of 2012

Federal budget revenues in January-September 2012 amounted to Rb 9384.5bn (See Table 1), i.e., decreased by 0,2 p.p. of GDP against the relevant period of 2011, while the increase in oil and gas revenues for the nine months made 0.3 p.p. of GDP, as compared to the relevant period of the last year. Within January-September 2012, budget expenditures increased to Rb 8746.7bn (19.9% of GDP), which is by 1.2 p.p. of GDP more than in nine months of 2011. As a result, the federal budget was executed with a surplus of 1.5% of GDP, which is by 1.4 p.p. of GDP lower than in the relevant period of 2011. Non-oil deficit of the federal budget increased by 1.6 p.p. of GDP and reached the level of 9.3% of GDP.

Table 1

#### Key indicators of the RF federal budget over 9 months of 2011–2012

	January-September 2012		January-September 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenues, including:	9384.5	21.3	8211.1	21.5	-0.2
Oil and gas revenue	4739.6	10.8	4007.9	10.5	0.3
Expenditures, including:	8746.7	19.9	7121.7	18.7	1.2
Percentage expenditures	274.2	0.7	215.2	0.6	0.1
Non-percentage expenditures	8472.5	19.2	6906.5	18.1	1.1
Federal budget surplus (deficit)	637.8	1.5	1089.4	2.9	-1.4
Non-oil and gas deficit	-4101.8	-9.3	-2918.5	-7.7	-1.6
GDP estimates	44077		38209		

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

<sup>1</sup> Source: RIA Novosti, 15.10.2012, the "Ministry of Finance will review the parameters of the RF budget deficit for 2012 from 0.2% of GDP to 0%, the Minister Anton Siluanov said to the journalists.

<sup>2</sup> Earlier, the government decided to credit to the federal budget revenue of the Central Bank from Sberbank package privatization in full.

Dynamics of the federal budget revenues within nine months of the current year (see *Table 2*) shows the increase in revenues as compared to the same period of the last year in terms of MET by 0.3 p.p. of GDP, in internal excise duties - by 0.1 p.p. of GDP against nine months of 2011. There is noted a reduction in the federal budget revenues in January-September of this year in terms of VAT by 0.3 p.p. of GDP and income from foreign trade by 0.2 p.p. of GDP as compared to the relevant period of 2011. Reduction of the federal budget revenue from foreign economic activity in terms of GDP share was due to the decreased revenue from export duties on crude oil by 0.1 p.p. of GDP for the first nine months of the year against nine months of 2011. Revenue for the nine months of 2012 from income tax and excise duties on imported goods in terms of GDP share remained at the same level of the relevant period of the last year.

*Table 2*

**Dynamics of federal budget revenues from basic taxes in January-September 2011–2012**

	January–September 2012		January–September 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
1. Revenue, including:					
corporate profit tax	286.7	0.7	260.8	0.7	0.0
VAT on goods sold in the RF territory	1438.1	3.3	1340.8	3.5	-0.2
VAT on goods imported to the RF territory	1206.1	2.8	1087.9	2.9	-0.1
Excise duties on goods manufactured in the RF territory	246.2	0.6	170.7	0.5	0.1
Excise duties on goods imported to the RF territory	37.6	0.1	31.2	0.1	0.0
MET	1810.6	4.1	1454.6	3.8	0.3
2. Revenue from external economic activities	3625.7	8.3	3224.5	8.5	-0.2

*Source: Ministry of Finance of Russia, Gaidar Institute assessments*

In the first nine months of 2012, the estimated revenue of the federal budget was executed in terms of: corporate income tax - by 77.1%, domestic VAT - by 76.9% on domestic excise duty - by 70.7%, VAT and excise duties on goods imported into the territory of the Russian Federation - by 66.4% and 67.3%, respectively, MET - by 86.8%, export customs duties - by 83.5%. Given the expected in the second half of the year decline in economic growth and, consequently, reduction in corporate income tax and VAT, growth of the revenue part of the federal budget in excess of the projected amounts will be achieved through revenue from MET. Despite the decline in revenues from export duties on crude oil in the first nine months of 2012 in terms of GDP share as compared to the relevant period of the last year, revenues of the federal budget from the export duty for the year may also be higher than estimated level in case of ruble weakening.

The federal budget surplus allowed to adjust plans for privatization. Back in mid-September, the Minister of Finance Anton Siluanov said at the meeting of the Government that the proceeds from privatization of state companies in 2012 may amount to Rb 200bn, rather than the earlier planned Rb 300bn, and the Head of the Ministry of Economic Development of Russia Andrey Belousov noted that the privatization of companies, planned for 2012 can be carried forward to the beginning of 2013. Currently, the proceeds from the sale of shares and land owned by the state for the first nine months of 2012 accounted for only 2.2% of the approved amount. Part of the additional revenue from the sale of 7.6% of Sberbank shares owned by

Central Bank in the amount of Rb 62,6 bn upon approval of amendments to the 2012 budget will be addressed for the capitalization of the Russian Direct Investment Fund (RFDI)<sup>3</sup>.

The dynamics of the federal budget for the first nine months of this year as broken down by sections of functional classification (see *Table 3*) shows the growth of funding under the budget lines "National Defense" by 0,4 p.p. of GDP, "National security and law enforcement" by 0.5 p.p. of GDP, "Education" by 0.2 p.p. of GDP, "Healthcare" by 0,1 p.p. of GDP, "Social Policy" by 0.6 p.p. of GDP as compared to January-September 2011.

Table 3

### Federal budget expenditures in January-September 2011–2012

	January-September 2012			January-September 2011			Change , p.p. of GDP
	Rb bn	GDP%	Cash execution, %	Rb bn	GDP%	Cash execution, %	
Expenditures, total:	8746.7	19.9	68.3	7121.7	18.7	64.3	1.2
Including							
Federal issues	521.9	1.2	61.0	489.4	1.3	57.9	-0.1
National defense	1256.5	2.9	67.5	942.4	2.5	59.1	0.4
National defense and law enforcement	1131.2	2.6	61.2	790.8	2.1	63.4	0.5
National Economy	1126.1	2.6	63.0	968.6	2.6	54.4	0.0
Housing and public utilities	68.7	0.2	48.5	158.0	0.5	67.1	-0.3
Environmental protection	15.9	0.1	71.0	10.3	0.1	58.9	0.0
Education	475.9	1.1	77.0	346.5	0.9	61.8	0.2
Culture and cinematography	54.4	0.2	59.9	47.9	0.2	54.6	0.0
Healthcare	378.6	0.9	61.6	298.9	0.8	59.2	0.1
Social policy	2923.0	6.7	74.9	2298.7	6.1	73.4	0.6
Physical training and sports	30.6	0.1	69.9	51.5	0.2	70.5	-0.1
Mass media	57.7	0.2	76.4	40.3	0.1	65.6	-0.1
Public and municipal debt servicing	274.2	0.7	71.6	215.2	0.6	61.5	0.1
Interbudgetary transfers	432.0	1.0	76.0	481.6	1.3	77.2	-0.3

Source: Federal Treasury, Gaidar Institute assessments.

For some sections expenditures of the federal budget over January-September 2012 in terms of GDP share versus the same period of the last year have declined, including such budget lines as "Housing and public utilities" and "Intergovernmental transfers" by 0,3 p.p. of GDP each, "Physical Training and sports", Federal issues", "Mass media" by 0.1 p.p. of GDP each. In the other sections federal budget expenditures in terms of GDP share for the first nine months of the year remained at the level of the relevant period of the last year.

<sup>3</sup> Apparently, there is an agreed position of the Ministry of Finance and the Central Bank on this issue, as the Ministry of Finance of Russia supported the proposal of A. Ulyukayev, the Head of the Supervisory Board of the Fund, the First Deputy Chairman of the Central Bank of Russia, on allocating Rb 62.6bn annually to the RFDI; otherwise, if the fund donations are not be included in the budget for 2012-2015, the Fund, according to the Central Bank, will be virtually suspended. When creating RFDI in 2011, the decision was made initially on the capital of the Fund in the amount of \$10bn with its further extension by \$2bn per year. Source: Russian Ministry of Finance website.

One reason for the changes of certain budget lines is the difference in cash execution of the federal budget for the first nine months of the current against previous year. For example, if the section "National Defense" cash execution of the budget for January-September accounted to 67.5%, in the first nine months of the last year it made only 59.1% of the approved amount of federal expenditures. The worst situation with cash execution of the federal budget for the first nine months is observed in the section "Housing and public utilities" - only 48.5% of the approved expenditures. Herewith, if the federal budget spending under "Housing" line for the first nine months of the current year at 45.0% of the approved amount can be explained by the transfer of works completion to the end of the year, the reduced disbursement of funds under "Public utilities" budget line at 17.0% of the approved amount, to a greater extent is the result of inefficient administration.

Analyzing the dynamics of cash execution of the federal budget expenditures over the first nine months of this year, we should admit that the Ministry of Finance decision to reallocate budget resources between its sections due to savings was insufficiently substantiated. Refusal to finance certain budget lines gives grounds to assume that not all budget expenditures approved in the federal budget law in 2012, were distributed with due regard to their feasibility, effectiveness and principles of performance-based budgeting. The unutilized budget resources raises a question about the quality of public finance management<sup>4</sup> and the level of responsibility of the heads of ministries and other government agencies for the budget execution.

It is also worth noting that the inflation growth above the level envisaged in the budget 2012<sup>5</sup> may result in the need to extend budget allocations (for housing and public utilities, telecom services, and the acquisition of current assets) in the last quarter of this year.

According to the Russian Ministry of Finance, the balances of the Reserve Fund and the National Welfare Fund have slightly declined in September of this year as compared to late August and totaled to Rb1,900.1bn (- Rb 53bn) and Rb 2,708.6bn (- Rb 64bn), respectively.

Management of the Reserve Fund and National Welfare Fund is executed by the Ministry of Finance of the Russian Federation, and some powers of the sovereign Funds administration can be performed by the Central Bank. Since 2013, it is proposed to transfer these powers to a new body - Rosfinagency<sup>6</sup>. Under the relevant draft law, prepared by the Russian Ministry of Finance, Rosfinagency will not only perform functions of the allocation and accounting of the Reserve Fund and the National Welfare Fund, but those of placement, redemption, exchange, service, accounting and repayment of government debt liabilities on government securities, but will have the right to invest some assets of the sovereign Funds of Russia in shares. Thus, Rosfinagency is provided sufficiently broad authority to manage public funds, while some budget restrictions will not apply to the activities of the new Agency, being founded by the Russian government in the form of an open joint stock company.

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<sup>4</sup> In October 2012 the Ministry of Finance of Russia has estimated that outstanding balances of the federal budget as per the year performance could reach Rb 809bn. Source: Ministry of Finance of Russia.

<sup>5</sup> In the Federal Law on Budget 2012 inflation is set up at 5.5%, while the year-end inflation forecast accounts to 7%.

<sup>6</sup> Ministry of Finance of Russia web-site.

## RF Subjects consolidated budget execution in January-August 2012

According to the Federal Treasury, the *revenues of the consolidated budget of the Subjects of the Russian Federation* for the first eight months of 2012 amounted to 13.8% of GDP, which is by 1.6 p.p. of GDP lower than in the relevant period of 2011 (see *Table 4*). Expenditures of the consolidated budget of the Russian Federation Subjects within January-August of this year have grown as compared with the same period of the last year by 0.1 p.p. of GDP to 12.7% of GDP. As per the first eight months of 2012 performance, the consolidated budget was executed with a surplus of 1.1% of GDP (Rb 395.3bn), which is by 1.7 p.p. of GDP lower than in January-August 2011.

Table 4

### Key indicators of the RF Subjects consolidated budget in January–August 2011–2012

	January-August 2012		January-August 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenues, including:	5213.1	13.8	5079.4	15.4	-1.6
- Corporate profit tax	1384.8	3.7	1379.7	4.2	-0.5
- Individual income tax	1405.5	3.7	1227.5	3.8	-0.1
- Excise duties in the RF territory	292.5	0.8	243.9	0.8	0.0
- Aggregate income tax	201.1	0.6	154.2	0.5	0.1
- Property tax	535.0	1.4	489.3	1.5	-0.1
- Non-repayable proceeds from other budgets of the RF fiscal system	989.1	2.6	1076.6	3.3	-0.7
Expenditures,	4817.8	12.7	4156.7	12.6	0.1
Surplus/Deficit of the RF Subjects consolidated budget	395.3	1.1	922.7	2.8	-1.7
GDP estimates		38057		33055	

Source: Federal Treasury, Gaidar Institute assessments.

Reduction of proceeds to the revenue part of the consolidated budget of the RF Subjects over January-August of this year against eight months of the last year is observed in the majority of taxes: corporate income tax - by 0.5 p.p. of GDP, personal income tax - by 0.1 p.p. of GDP, property tax - by 0.1 p.p. of GDP. Significant reduction is noted in the amount of intergovernmental transfers received by the regional budgets over eight months of 2012 - by 0.4 p.p. of GDP as compared to the same period of the last year.

Within January-August 2012 proceeds to the revenue part of the consolidated budget have somewhat increased from the tax on total income by 0.1 p.p. of GDP against the same period of the last year. Excise duties revenues to the budgets of the Subjects of the Russian Federation for eight months of the year in terms of GDP share remained at the level as in the relevant period of 2011.

In regard to the expenditure part of the consolidated budget of the Russian Federation Subjects, an increase in expenses can be noted over the first eight months of this year (see *Table 5*) as compared to January-August 2011 under the budget lines "Education" - by 0.3 p.p. of GDP, "National Economy" and "Healthcare" - by 0.2 p.p. of GDP each. Reduced expenditures of consolidated budget of the Russian Federation Subjects over 8 months of the year against the same period of the last year were noted in the sections "National Security and Law Enforcement", "Education" - by 0.3 p.p. of GDP each, in "Federal Issues", "Housing and public

utilities" and "Social Policy" - by 0.1 p.p. of GDP each. In the other sections of consolidated budget of the Russian Federation Subjects over the January-August of this year, expenditures in terms of GDP share remained at the same level as in the last year.

Table 5

**RF Subjects consolidated budget execution in terms of expenditures in January-August 2011–2012**

	January-August 2012		January-August 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Expenditures, total:	4817.8	12.7	4156.7	12.6	0.1
<i>Including</i>					
Federal issues	307.0	0.8	278.4	0.9	-0.1
National defense	2.2	0.0	1.9	0.0	0.0
National defense and law enforcement	50.1	0.2	155.0	0.5	-0.3
National Economy	825.8	2.2	653.2	2.0	0.2
Housing and public utilities	462.8	1.3	442.7	1.4	-0.1
Environmental protection	10.6	0.1	8.1	0.1	0.0
Education	1258.4	3.3	982.4	3.0	0.3
Culture and cinematography	155.1	0.4	129.1	0.4	0.0
Healthcare	796.6	2.1	645.8	2.0	0.1
Social policy	796.4	2.1	720.6	2.2	-0.1
Physical training and sports	80.0	0.3	74.1	0.3	0.0
Mass media	22.0	0.1	18.6	0.1	0.0
Public and municipal debt servicing	39.4	0.1	36.4	0.1	0.0
Interbudgetary transfers	11.1	0.1	10.3	0.1	0.0

Source: Federal Treasury, Gaidar Institute assessments.

Public debt of the RF Subjects from the beginning of the year has reduced by nearly Rb 40bn and amounted to Rb1,125.3bn in August of the current year.