

## THE STATE BUDGET IN JANUARY–JULY 2013

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According to the Federal Treasury's estimates, the volume of federal budget revenue over the first 7 months of 2013 dropped by 2.2 p.p. of GDP on the corresponding period of 2012. As a positive fact, it can be noted that the rate of decline in the volume of federal budget expenditure as a share of GDP over the five recent months of 2013 against its levels recorded over the corresponding periods of last year has not been accelerating, being stable at the level of 2.1–2.2 p.p. of GDP. At the same time, the situation with regard to the dynamics of revenue of the consolidated budget of RF subjects has been aggravating: while the results of the first three months of 2013 pointed to its decline by 1.8 p.p. of GDP on January–March of last year, the volume of revenue for the period of January–July 2013 dropped still further – to 2.1 p.p. of GDP on the first six months of 2012. Thus, the medium-term risks for the Russian budgetary system's sustainability will depend on the ability of the consolidated budgets of RF subjects to remain well-balanced, as well as on the regions' ability to provide financing for their assumed obligations without drawing on additional allocations from the federal budget.

### Analysis of the Main Parameters of Federal Budget Execution in January–July 2013

Over the period of January–July 2013, the volume of federal budget revenue amounted to Rb 7,329.0bn or 19.8% of GDP, which is by 2.2 p.p. of GDP less than its level for the same period of last year (Table 1). Oil and gas revenues in the federal budget shrank by 1.5 p.p. of GDP against the first seven months of 2012. The cash-based execution of federal budget expenditure over the period of January–July 2013 amounted to 53.0% of its approved per annum target, or to Rb 7,092.3bn (19.1% of GDP), which is by 2.0 p.p. of GDP below its volume for the same period of last year (the cash-based execution of federal budget expenditure over the first 7 months of 2012 being 53.3%).

Based on the results of the first seven months of 2013, the federal budget is executed with a surplus of Rb 236.7bn (0.6% of GDP), which represents a drop on

the surplus figure achieved over the period of January–July 2012 by 0.3 p.p. of GDP. The volume of non-oil and gas deficit declined on the same period of 2012 by 1.4 p.p. of GDP (or 9.1% of GDP).

Over the first seven months of 2013, the volumes of the majority of tax-generated and non-tax receipts in the federal budget declined on the corresponding period of last year, including: tax on profits – by 0.1 p.p. of GDP; domestic VAT – by 0.4 p.p. of GDP; VAT on goods imported into RF territory – by 0.3 p.p. of GDP; tax on mineral resources extraction – by 0.5 p.p. of GDP; and revenues from foreign trade – by 1.2 p.p. of GDP (Table 2). The receipts of excises on domestic goods in January–July 2013 rose by 0.1 p.p. of GDP on the same period of last year, while receipts in the federal budget of excises on imports over the first seven months of 2013 remained at the same level as in January–July 2012 (0.09 p.p. of GDP).

Table 1

MAIN PARAMETERS OF THE RF FEDERAL BUDGET IN JANUARY–JULY 2012–2013

	January–July 2013		January–July 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	7,329.0	19.8	7,245.9	22.0	-2.2
Oil and gas revenues	3,635.7	9.8	3,734.5	11.3	-1.5
Expenditure, including:	7,092.3	19.1	6,960.8	21.1	-2.0
interest	201.3	0.5	184.6	0.6	-0.1
non-interest	6,891.0	18.6	6,776.2	20.5	-1.9
Federal budget surplus (deficit)	236.7	0.6	285.1	0.9	-0.3
Non-oil and gas deficit	- 3,399.0	- 9.1	- 3,449.4	-10.5	1.4
GDP estimations	37,079		32,917		

Source: RF Ministry of Finance; RF Federal Treasury; IEP's calculations.

Table 2

## RECEIPTS OF THE MAIN TAXES IN THE FEDERAL BUDGET IN JANUARY–JULY 2012–2013

	January–July 2013		January–July 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
1. Tax receipts, including:					
Tax on profits of organizations	201.9	0.5	207.9	0.6	-0.1
VAT on goods sold in RF territory	1,114.8	3.0	1,134.0	3.4	-0.4
VAT on goods imported into RF territory	921.7	2.5	911.6	2.8	-0.3
excises on goods produced in RF territory	251.8	0.7	197.9	0.6	0.1
excises on goods imported into RF territory	32.2	0.09	28.9	0.09	0.0
Tax on mineral resources extraction	1,420.8	3.8	1,405.7	4.3	-0.5
2. Revenues from foreign trade	2,756.5	7.4	2,847.8	8.6	-1.2

Source: RF Federal Treasury; IEP's calculations.

The results of the first seven months of 2013 (Table 3) demonstrated a decline on the period of January–July 2012 in the volumes of expenditures, in terms of share in GDP, under the following items: *Nationwide Issues* – by 0.1 p.p. of GDP; *National Economy* – by 0.4 p.p. of GDP; *Education* – by 0.1 p.p. of GDP; *Health Care* – by 0.3 p.p. of GDP; *Social Policy* – by 1.2 p.p. of GDP; and *Interbudgetary Transfers* – by 0.1 p.p. of GDP.

The growth on January–July 2012, in terms of share in GDP, of federal budget expenditure over the first seven months of 2013 occurred under the item *National Security and Law-enforcement Activity* – by 0.1 p.p. of GDP; *Housing and Utilities Sector* – by 0.1 p.p. of GDP; and *Physical Culture and Sports* – by 0.01 p.p. of GDP. As for the other federal budget expenditure items, the

figures for the first seven months of 2013 in terms of share in GDP remained at the same level as recorded for the period of January–July 2012.

According to data released by the RF Ministry of Finance, the Reserve Fund's residuals on the accounts with the Central Bank of the Russian Federation (recalculated in accordance with the exchange rate) for January–July 2013 amounted to Rb 207.86bn, and as of 1<sup>st</sup> of August 2013 the Reserve Fund's volume was Rb 2,807.0bn. In July 2013, part of the National Welfare Fund's assets denominated in foreign currency and kept on accounts with the Bank of Russia was realized, and the monies in the amount of Rb 5.9bn were transferred into the federal budget account. The aggregate volume of the National Welfare Fund as of 1<sup>st</sup> of August 2013 was Rb 2,858.0bn. At present, the vol-

Table 3

## EXECUTION OF FEDERAL BUDGET EXPENDITURE IN JANUARY–JULY 2012–2013

	January–July 2013		January–July 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	7,092.3	19.1	6,960.8	21.1	-2.0
including					
Nationwide issues	454.1	1.2	429.6	1.3	-0.1
National defense	1,236.2	3.3	1,102.2	3.3	0.0
National security and law-enforcement activity	1,019.4	2.7	860.1	2.6	0.1
National economy	822.9	2.2	844.7	2.6	-0.4
Housing and utilities sector	67.5	0.2	43.1	0.1	0.1
Environment protection	16.1	0.04	13.5	0.04	0.0
Education	402.0	1.1	397.5	1.2	-0.1
Culture and cinematography	43.6	0.1	48.2	0.1	0.0
Health care	266.7	0.7	333.0	1.0	-0.3
Social policy	2,120.9	5.7	2,281.2	6.9	-1.2
Physical culture and sports	34.3	0.09	25.8	0.08	0.01
Mass media	49.0	0.1	46.4	0.1	0.0
Government debt servicing	201.3	0.5	184.6	0.6	-0.1
Interbudgetary transfers	358.0	1.0	350.9	1.0	0.0

Source: RF Federal Treasury; IEP's calculations.

umes of the two funds are being pushed up exclusively by the exchange rate's differences, while the problem of efficient asset management persists and so, when coupled with the overall shrinkage of the budgetary system's revenues, gives rise to some additional risks that threaten the system's sustainability.

At the 17<sup>th</sup> International Economic Forum recently held in St. Petersburg the RF President pointed out three key directions for possible spending, on a refundable basis, of allocations from the National Welfare Fund in the amount of Rb 450bn. However, quite possibly, the list of projects to be financed from the National Welfare Fund can be further extended in the future, and thus the problem associated with the need to search some new approaches and asset management strategies will be effectively removed from the agenda.

In our opinion, until some adequate mechanisms for managing the implementation of infrastructure projects are created that will minimize the risks of corruption and ensure repayment and profitability of budget-funded investments, any decisions concerning the allocation of resources to project funding from the National Welfare Fund and the RF Pension Fund can only be described as untimely and irresponsible.

#### Execution of the Consolidated Budget of RF Subjects in January–June 2013

According to the Federal Treasury's estimates, the consolidated budget revenue of RF subjects in January–July 2013 amounted to Rb 3,698.5bn, or 11.8% of GDP, which by 2.1 p.p. of GDP below its level achieved over the same period of 2012 (Table 4).

A decline in the amount of receipts in the consolidated budget of RF subjects over the first six months of 2013 on the same period of 2012 was noted with

regard to the following items: tax on profits – by 1.2 p.p. of GDP; PIT – by 0.2 p.p. of GDP; and gratis transfers from other budgets of the RF budgetary system – by 0.7 p.p. of GDP. The revenues in the budgets of RF subjects generated by tax on property over the period of January–July 2013 increased by 0.1 p.p. of GDP on the first six months of last year. The receipts of excises on domestic goods, tax on aggregate income and tax on property in the consolidated budget of RF subjects over the first six months of 2013 in terms of share in GDP remained at the same level as in the period of January–July of last year.

The consolidated budget expenditure of RF subjects over the first six months of 2013 dropped on the same period of last year by 0.7 p.p. of GDP, thus amounting to 11.8% of GDP, or Rb 3,693.2bn (Table 5).

A growth of expenditure in the consolidated budget of RF subjects over the first six months of 2013 on the same period of 2012 was displayed only by the item *Education* (by 0.1 p.p.). The following items of the consolidated budget demonstrated a decline over January–July 2013 on the first six months of 2012 in terms of share in GDP: *Nationwide Issues* – by 0.1 p.p. of GDP; *National Economy* – by 0.1 p.p. of GDP; *Housing and Utilities Sector* – by 0.2 p.p. of GDP; *Health Care* – by 0.2 p.p. of GDP; *Social Policy* – by 0.2 p.p. of GDP; and *Interbudgetary Transfers* – by 0.02 p.p. of GDP. As for the other expenditure items of the consolidated budget of RF subjects, the figures for the first six months of 2013 in terms of share in GDP remained at the same level as recorded for the period of January–July 2012.

The cash-based execution of the consolidated budget of RF subjects over the first six months of 2013 amounted to 39.5% (over the same period of 2012 – 39.9%). One of the reasons for the low level of execution of regional budgets is the delay in adopting, at the

Table 4

#### MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF RF SUBJECTS IN JANUARY–JUNE 2012–2013

	January–June 2013		January–June 2012		Deviation p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	3,698.5	11.8	3,899.6	13.9	-2.1
- tax on profits of organizations	834.8	2.7	1,119.9	3.9	-1.2
- PIT	1,119.3	3.4	1,006.4	3.6	-0.2
- excises, domestic	233.6	0.7	209.7	0.7	0.0
- tax on aggregate income	159.0	0.5	142.3	0.5	0.0
- tax on property	406.1	1.3	351.1	1.2	0.1
- gratis transfers from other budgets of RF budgetary system	671.2	2.1	795.3	2.8	-0.7
Expenditure	3,693.2	11.8	3,496.6	12.5	-0.7
Consolidated budget surplus (deficit)	5.3	0.02	403.0	1.4	-1.4
GDP estimations	31,215		28,062		

Source: RF Federal Treasury; IEP's calculations.

Table 5

## EXECUTION OF THE CONSOLIDATED BUDGET EXPENDITURE OF RF SUBJECTS IN JANUARY–JUNE 2012–2013

	January–June 2013		January–June 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	3,693.2	11.8	3,496.6	12.5	-0.7
including					
Nationwide issues	234.5	0.7	218.9	0.8	-0.1
National defense	1.6	0.005	1.5	0.005	0.0
National security and law-enforcement activity	36.4	0.1	35.1	0.1	0.0
National economy	596.7	1.9	561.7	2.0	-0.1
Housing and utilities sector	291.0	0.9	314.5	1.1	-0.2
Environment protection	8.8	0.03	7.2	0.03	0.0
Education	1,115.6	3.6	985.7	3.5	0.1
Culture and cinematography	123.9	0.4	111.8	0.4	0.0
Health care	563.5	1.8	560.2	2.0	-0.2
Social policy	597.7	1.9	584.8	2.1	-0.2
Physical culture and sports	64.3	0.2	57.6	0.2	0.0
Mass media	17.2	0.05	16.0	0.05	0.0
Government debt servicing	38.2	0.1	33.0	0.1	0.0
Interbudgetary transfers	3.5	0.01	8.5	0.03	-0.02

Source: RF Federal Treasury; IEP's calculations.

federal level, of the relevant normative-legal acts on the allocation of subsidies to the budgets of RF subjects<sup>1</sup>. Such a situation is typically observed every year; it can be explained by the lengthy period during which

<sup>1</sup> Many RF Government decrees on the allocation of subsidies to the budgets of RF subjects in 2013 were actually adopted only as late as the end of July or August 2013.

the actual amounts to be allocated are being coordinated – which, in its turn, happens due to inadequacy of the interbudgetary planning mechanisms.

As seen by the results of the period of January–July 2013, the budgets of RF subjects are executed with a surplus of Rb 5.3bn or 0.02% of GDP, which is by 1.4 p.p. of GDP less than the figure for the corresponding period of 2012. ●