

THE STATE BUDGET IN Q3 2013

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According to data released by the RF Federal Treasury, in Q3 2013 the decline in federal budget revenues was occurring at a slightly slower rate than previously. Thus, over the course of January–September 2013, the federal budget's revenue and its oil and gas revenues dropped by 1.7 p.p. of GDP and 0.9 p.p. of GDP respectively on the same period of 2012, while over the course of the first half year of 2013 they had dwindled by 2.1 p.p. of GDP and 1.6 p.p. of GDP respectively on the first half year of 2012. In January–August 2013, the consolidated budget revenue of RF subjects amounted to 12.1% of GDP, which represented a 0.3 p.p. of GDP rise on their consolidated budget revenue in January–June 2013. At the same time, Russia's budget system has very small potential for further growth in revenues, which is especially true of the consolidated budgets of those RF subjects that are not engaged in the export of carbohydrates. Therefore, apart from taking measures designed to optimize federal budget spending, the RF Government must pay special attention to the state of regional budgets and, maybe, to revise its approach to the sphere of inter-budget relations.

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

According to data released by the RF Federal Treasury, federal budget revenues registered over the period of January–September 2013 amounted to Rb 9,603.5bn (or to 74.6% of their planned annual volume) or to 19.6% of GDP, which represented a 1.7 p.p. of GDP drop on the corresponding period of 2012 (Table 1). Over the course of that period, the federal budget's oil and gas revenues dropped by 0.9 p.p. of GDP against the first nine months of 2012. At the same time, oil and gas revenues were growing faster than non-oil and gas revenues: over the course of the first nine months of 2013, the federal budget received 80.6% of the planned annual volume of oil and gas revenues and only 69.9% of that of non-oil and gas revenues.

Over the course of January–September 2013, the volume of federal budget expenditure amounted to Rb 9,010.3bn (with the cash basis execution of the federal budget at 67% of its planned annual volume)

or 18.4% of GDP, which represented a 1.4 p.p. of GDP drop against the same period of 2012.

The RF federal budget for the first nine months of 2013 was executed with a surplus of Rb 593.2bn (or 1.2% of GDP), which represented a 0.2 p.p. of GDP drop on the January–September period of 2012. The volume of the non-oil and gas deficit dwindled by 0.8 p.p. of GDP (or 8.5% of GDP) on the corresponding period of 2012.

The first nine months of 2013 saw a decline in most of the tax and non-tax receipts of the federal budget compared with the same period of 2012. Thus, the shrinkage of federal budget revenues was noted with regard to profits tax (-0.1 p.p. of GDP); VAT on domestically produced goods (-0.4 p.p. of GDP); VAT on imports (-0.2 p.p. of GDP); tax on mineral resources extraction (-0.3 p.p. of GDP); and revenue from external economic activity (-0.8 p.p. of GDP) (Table 2). Revenue growth over the period of January–September 2013 was demonstrated by the receipts of excises on do-

Table 1

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

	January–September 2013		January–September 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	9,603.5	19.6	9,384.5	21.3	-1.7
Oil and gas revenues	4,774.2	9.8	4,739.6	10.7	-0.9
Expenditure, including:	9,010.3	18.4	8,746.7	19.8	-1.4
interest	300.3	0.6	274.2	0.6	0.0
non-interest	8,711.9	17.8	8,472.5	19.2	-1.4
Federal budget surplus (deficit)	593.2	1.2	637.8	1.4	-0.2
Non-oil and gas deficit	-4,182.9	-8.5	-4,101.8	-9.3	0.8
GDP estimate		48,869		44,077	

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

**THE DYNAMICS OF THE RECEIPTS OF THE MAIN TAXES IN THE FEDERAL BUDGET
IN JANUARY–SEPTEMBER 2012–2013**

	January–September 2013		January–September 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
1. Tax receipts, including:					
Tax on profits of organizations	259.4	0.5	286.3	0.6	-0.1
VAT on goods sold in RF territory	1,406.4	2.9	1,438.1	3.3	-0.4
VAT on goods imported into RF territory	1,210.0	2.5	1,206.1	2.7	-0.2
Excises on goods produced in RF territory	334.3	0.7	246.2	0.5	0.2
Excises on goods imported into RF territory	42.2	0.09	37.6	0.08	0.01
Tax on mineral resources extraction	1,870.3	3.8	1,810.6	4.1	-0.3
2. Revenue from external economic activity	3,625.1	7.4	3,625.7	8.2	-0.8

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

mestically produced and imported goods – by 0.2 p.p. of GDP and 0.01 p.p. of GDP respectively against the same period of 2012.

An analysis of federal budget expenditure (*Table 3*) indicates that over the course of the first nine months of 2013 a number of spending cuts (expressed hereby as a percentage of GDP) were applied to the following budget items: 'Nationwide Issues' (-0.1 p.p. of GDP); 'National Economy' (-0.4 p.p. of GDP); 'Health Care' (-0.2 p.p. of GDP); 'Social Policy' (-0.9 p.p. of GDP); and 'Interbudgetary Transfers' (-0.1 p.p. of GDP).

The period of the first nine months of 2013 saw a rise in federal spending (as a percentage of GDP) on a number of budget items compared with the January–September period of 2012. The beneficiaries of that spending rise were as follows: 'National Defense' (+0.1 p.p. of GDP); 'National Security and Law-enforcement

Activity' (+0.1 p.p. of GDP); 'The Housing and Utilities Sector' (+0.1 p.p. of GDP); and 'Physical Culture and Sports' (0.02 p.p. of GDP. Federal spending on the rest of the budget items remained at last year's level.

As of 1 October 2013, the volume of the RF Reserve Fund amounted to Rb 2,795.8bn, and that of the RF National Welfare Fund amounted to Rb 2,847.35bn.

Execution of the Consolidated Budget of RF Subjects in January–August 2013.

As reported by the RF Federal Treasury, the consolidated budget revenue of RF subjects in January–August 2013 amounted to Rb 5,161.6bn, or 12.1% of GDP, which is by 1.6 p.p. of GDP below its level recorded in the same period of 2012 (*Table 4*).

Over the first eight months of 2013, the consolidated budget expenditure of RF subjects dropped by 0.7 p.p. of GDP on the same period of 2012 - to 11.9%

Table 3

FEDERAL BUDGET EXPENDITURE IN JANUARY–SEPTEMBER 2012–2013

	January–September 2013		January–September 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	9,010.3	18.4	8,746.7	19.8	-1.4
including					
Nationwide Issues	557.1	1.1	521.9	1.2	-0.1
National Defense	1,444.7	2.9	1,256.5	2.8	0.1
National Security and Law-enforcement Activity	1,332.7	2.7	1,131.2	2.6	0.1
National Economy	1,049.6	2.1	1,126.1	2.5	-0.4
Housing and Utilities Sector	87.5	0.2	68.7	0.1	0.1
Environment Protection	18.6	0.04	15.9	0.04	0.0
Education	523.6	1.1	475.9	1.1	0.0
Culture and Cinematography	52.7	0.1	54.4	0.1	0.0
Health Care	299.3	0.6	378.6	0.8	-0.2
Social Policy	2,781.1	5.7	2,923.0	6.6	-0.9
Physical Culture and Sports	42.9	0.09	30.6	0.07	0.02
Mass Media	51.9	0.1	57.7	0.1	0.0
Government Debt Servicing	300.0	0.6	274.2	0.6	0.0
Interbudgetary Transfers	468.4 -73.4	0.9	432.0	1.0	-0.1

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

Table 4

**MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF RF SUBJECTS IN JANUARY–AUGUST 2012
AND JANUARY–AUGUST 2013**

	January–August 2013		January–August 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	5,161.6	12.1	5,213.1	13.7	-1.6
- tax on profits of organizations	1,112.4	2.6	1,384.8	3.6	-1.0
- PIT	1,550.6	3.6	1,405.5	3.7	-0.1
- excises, domestic	321.8	0.7	292.5	0.8	-0.1
- tax on aggregate income	219.4	0.5	201.1	0.5	0.0
- tax on property	614.2	1.4	535.0	1.4	0.0
- gratis transfers from other budgets of RF budgetary system	929.1	2.2	989.1	2.6	-0.4
Expenditure, including:	5,080.6	11.9	4,817.8	12.6	-0.7
Surplus (deficit) of consolidated budget of RF subjects	81.0	0.2	395.3	1.0	-0.8
GDP estimate	42,676		38,057		

Source: RF Federal Treasury; Gaidar Institute's calculations.

of GDP, or Rb 5,080.6bn. Their budgets for January–August 2013 were executed with a surplus of Rb 81.0bn, or 0.2% of GDP, which is by 0.8 p.p. of GDP below the surplus recorded in the same period of 2012.

A noticeable decline in the revenue receipts of regional budgets, expressed as a percentage of GDP, over the first eight months of 2013 as compared with the same period of 2012 was demonstrated by tax on profits of organizations (-0.1 p.p. of GDP); PIT (-0.1 p.p. of GDP); excises on domestically produced goods (-0.1 p.p. of GDP); and gratis transfers from other budgets (-0.4 p.p. of GDP). Over the course of the first eight months of 2013, the consolidated budget ex-

penditure of RF subjects dropped against the same period of 2012 with regard to the following budget items: 'Nationwide Issues' (-0.1 p.p. of GDP); 'The National Economy' (-0.1 p.p. of GDP); 'The Housing and Utilities Sector' (-0.2 p.p. of GDP); 'Health Care' (-0.3 p.p. of GDP); 'Social policy' (-0.2 p.p. of GDP); and 'Interbudgetary Transfers' (-0.01 p.p. of GDP). The volume of RF subjects' expenditure on the rest of the budget items remained at last year's level.

As of the end of July 2013, the amount of government debt owed by RF subjects in January 2013 was Rb 1,3522.9bn, or 16.4% of their annual revenue. Government debt servicing accounted for approximately

Table 5

**EXECUTION OF THE CONSOLIDATED BUDGET EXPENDITURE OF RF SUBJECTS IN JANUARY–AUGUST 2012 AND
JANUARY–AUGUST 2013**

	January–August 2013		January–August 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	5,080.6	11.9	4,817.8	12.6	-0.7
including:					
Nationwide Issues	327.7	0.7	307.0	0.8	-0.1
National Defense	0.2	0.0005	0.2	0.0005	0.0
National Security and Law-enforcement activity	53.7	0.1	50.1	0.1	0.0
National Economy	888.1	2.1	825.8	2.2	-0.1
Housing and Utilities Sector	440.1	1.0	462.8	1.2	-0.2
Environment Protection	13.0	0.03	10.6	0.03	0.0
Education	1,432.1	3.3	1,258.4	3.3	0.0
Culture and Cinematography	170.6	0.4	155.1	0.4	0.0
Health Care	777.9	1.8	796.6	2.1	-0.3
Social Policy	806.3	1.9	796.4	2.1	-0.2
Physical Culture and Sports	91.5	0.2	80.0	0.2	0.0
Mass Media	25.0	0.06	22.1	0.06	0.0
Government and Municipal Debt Servicing	48.1	0.1	39.4	0.1	0.0
Interbudgetary Transfers	4.1	0.01	11.1	0.03	-0.01

Source: RF Federal Treasury; Gaidar Institute's calculations.

1.1% of the consolidated budget revenue of RF subjects, obtained from their own sources. Although the consolidated budget revenue of RF subjects, expressed as a percentage of GDP, slightly increased in July and August of 2013 as compared with the first half year of 2013, the current downward trend in their consolidated budget revenue may indeed turn out to be a long-term trend capable of increasing the risks threatening the sustainability of the entire system of regional budgets.

The long-term character of the ongoing decline in the regional budgets' internally generated 'own revenue' makes it necessary for regional authorities to cut budget expenditure in general and investment spending in particular. Therefore, apart from taking measures designed to optimize federal budget spending, the RF Government should find ways to radically improve inter-budget relations. ●