

## RUSSIA'S STATE BUDGET IN JANUARY 2014

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According to data released by the RF Federal Treasury, Russia's federal budget in January 2014 was executed with a surplus of 9.3% of GDP, while the budget for the same period of 2013 had been drawn with a deficit of 1.8% of GDP. The noticeable improvement of federal budget parameters resulted from revenue growth by 2.4 pp. of GDP and expenditure decline by 8.6 pp. of GDP respectively, compared to January 2013. Meanwhile, these changes have not eliminated the looming risks for the budget system's sustainability, posed by the forecasted decline in the economic growth rate and the growth of government debt in the medium-term period.

### Analysis of the Main Parameters of Federal Budget Execution in January 2014

Over the course of January 2014, the volume of federal budget revenue increased on the corresponding period of 2013 by 2.4 p.p. of GDP (Table 1), while that of federal budget expenditure shrank by 8.6 p.p. of GDP. Federal budget surplus for the first month of 2014 amounted to 9.3% of GDP, which is by 11.1 p.p. of GDP above its volume for the same period of last year. As shown by the results of January 2014, the volume of oil and gas revenues amounted to 12.3% of GDP, which represents a 2.0 p.p. rise on its level

achieved over January 2013, while the non-oil and gas deficit declined in absolute terms by 8.1 p.p. of GDP, compared to the same period of 2013.

Over January 2014, federal budget revenue items, in terms of share in GDP, increased on the corresponding period of last year as follows: domestic excises – by 0.4 p.p. of GDP; excises on imports – by 0.01 p.p. of GDP; tax on mineral resources extraction – by 0.2 p.p. of GDP; and revenues from foreign trade – by 0.4 p.p. of GDP (Table 2). The volume of some of the tax-generated receipts over the first month of 2014, in terms of share in GDP, remained at the same level as in January 2013:

Table 1

#### EXECUTION OF FEDERAL BUDGET REVENUE AND EXPENDITURE IN JANUARY 2013 AND JANUARY 2014

	January 2014		January 2013		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue	1,324.4	26.5	1,091.2	24.1	2.4
- including oil and gas revenues	615.0	12.3	465.9	10.3	2.0
Expenditure	858.3	17.2	1,172.5	25.8	-8.6
- including interest	23.5	0.5	28.6	0.6	-0.1
- non-interest	834.8	16.7	1,143.8	25.2	-8.5
Deficit (-) / Surplus (+)	466.1	9.3	-81.3	-1.8	11.1
Non-oil and gas deficit (-) / Surplus (+)	-148.9	-3.0	-547.2	-12.1	-8.1
For reference, GDP estimations, bn Rb	4,988		4,533		

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

Table 2

#### RECEIPTS OF THE MAIN TAXES IN THE FEDERAL BUDGET IN JANUARY 2013 AND JANUARY 2014

	January 2014		January 2013		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
1. Tax receipts, including:					
- tax on profits of organizations	17.0	0.3	15.2	0.3	0.0
- VAT on goods sold in RF territory	192.0	3.8	172.7	3.8	0.0
- VAT on goods imported into RF territory	108.9	2.2	99.0	2.2	0.0
- excises on goods produced in RF territory	81.8	1.6	57.0	1.2	0.4
- excises on goods imported into RF territory	4.0	0.08	3.0	0.07	0.01
- tax on mineral resources extraction	236.6	4.7	203.4	4.5	0.2
2. Revenues from foreign trade	398.7	8.0	346.4	7.6	0.4

Source: RF Federal Treasury; IEP's calculations.

Table 3

## EXECUTION OF FEDERAL BUDGET EXPENDITURE IN JANUARY 2013 AND JANUARY 2014

	January 2014			January 2013			Deviation, p.p. of GDP
	bn Rb	as % of GDP	cash-based execution,%	bn Rb	as % of GDP	cash-based execution,%	
Expenditure, total	858.3	17.2	6.1	1172.5	25.8	8.8	-8.6
including							
Nationwide issues	78.5	1.6	7.8	77.5	1.7	8.4	-0.1
National defense	136.0	2.7	5.5	269.2	5.9	12.8	-3.2
National security and law-enforcement activity	132.8	2.7	6.5	111.5	2.5	5.5	0.2
National economy	57.7	1.1	2.5	77.3	1.7	4.4	-0.6
Housing and utilities sector	0.02	0.0004	0.0	1.0	0.02	0.7	-0.02
Environment protection	2.4	0.05	4.4	0.5	0.01	1.9	0.04
Education	61.4	1.2	10.3	80.3	1.8	12.7	-0.6
Culture and cinematography	4.3	0.09	4.4	7.6	0.2	7.8	-0.11
Health care	19.8	0.4	4.2	17.7	0.4	3.5	0.0
Social policy	252.3	5.0	7.1	410.6	9.1	10.4	-4.1
Physical culture and sports	5.4	0.1	6.7	1.9	0.04	3.6	0.06
Mass media	3.9	0.08	5.7	14.1	0.3	19.4	-0.22
Government debt servicing	23.5	0.5	5.2	28.6	0.6	6.7	-0.1
Interbudgetary transfers	80.2	1.6	12.3	74.6	1.6	11.8	0.0

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

tax on profits – 0.3% of GDP; domestic VAT – 3.8% of GDP; VAT on goods imported into RF territory – 2.2% of GDP.

The volume of federal budget expenditure over January 2014 amounted to Rb 858.3bn (17.2% GDP), which is by Rb 314.2bn below the expenditure figure for the same period of the previous year (Table 3). The decline of federal budget expenditure in 2014 on 2013 in terms of share in GDP is stipulated in the Federal Law 'On the Federal Budget...'<sup>1</sup>, in accordance with the budget rules whereby the budget deficit ceiling is set at 1% of GDP. Another cause of the shrinkage of federal budget expenditure in January 2014 is the low level of its cash-based execution, which amounted to 6.1% of the approved per annum budget allocation target against 8.8% in January 2013. While the general index of the cash-based federal budget expenditure execution in January 2014 points to its decline, some items demonstrated an increased level of budget allocations, for example the level of cash-based budget execution under the items *Education* and *Interbudgetary Transfers* over the first month of 2014 amounted to 10.3% and 12.3% respectively of the corresponding annual targets.

Federal budget expenditure indices in January 2014 changed on January 2013 as follows:

- increased expenditures under the items *National Security and Law-enforcement Activity* – by 0.2 p.p. of GDP; *Environment Protection* – by

0.04 p.p. of GDP; *Physical Culture and Sports* – by 0.06 p.p. of GDP;

- reduced expenditures under the items *Nationwide Issues* – by 0.1 p.p. of GDP; *National Defense* – by 3.2 p.p. of GDP; *National Economy* – by 0.6 p.p. of GDP, *Housing and Utilities Sector* – by 0.02 p.p. of GDP; *Education* – by 0.6 p.p. of GDP; *Culture and Cinematography* – by 0.11 p.p. of GDP; *Social Policy* – by 4.1 p.p. of GDP, *Mass Media* – by 0.22 p.p. of GDP; and *Government Debt Servicing* – by 0.1 p.p. of GDP.

The volume of federal budget expenditure in terms of share in GDP under the items *Health Care* and *Interbudgetary Transfers* in January 2014 remained at the same level as in January 2013 – 0.4% and 1.6% of GDP respectively.

The aggregate volume of the Reserve Fund and the National Welfare Fund (recalculated in accordance with the exchange rate of the ruble), due to the exchange rate's movement in January 2014 increased by Rb 211.0bn and Rb 179.3bn respectively; so, as of 1 February 2014, the Reserve Fund amounted to Rb 2,859.7bn, the National Welfare Fund – to Rb 3,070.7bn. The additional oil and gas revenue receipts for 2013 in the amount of Rb 212.2bn are to be transferred to the Reserve Fund over the period of January–May 2014 in uniformly distributed shares<sup>2</sup>.

Although the results of January 2014 point to a positive movement of federal budget revenue and a considerable federal budget surplus (9.3% of GDP), the

<sup>1</sup> Federal Law of 2 December 2013, No 349-FZ "On the Federal Budget for the Year 2014 and the Planning Period 2015-2016".

<sup>2</sup> [http://www.minfin.ru/ru/press/press\\_releases](http://www.minfin.ru/ru/press/press_releases).

**THE MOVEMENT OF THE CONSOLIDATED BUDGET REVENUE AND EXPENDITURE OF RF SUBJECTS  
IN JANUARY–DECEMBER 2012–2013**

	January–December 2013		January–December 2012		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue	8164.7	12.0	8064.3	12.9	-0.9
including					
- tax on profits of organizations	1,719.7	2.5	1,979.9	3.2	-0.7
- PIT	2,499.0	3.7	2,261.5	3.6	0.1
- excises, domestic	491.4	0.7	441.8	0.7	0.0
- tax on aggregate income	292.8	0.4	271.7	0.4	0.0
- tax on property	900.7	1.3	785.5	1.2	0.1
- revenues from use of state and municipal property	302.1	0.4	277.7	0.4	0.0
- revenues from sale of tangible and intangible assets	138.4	0.2	165.9	0.3	-0.1
- gratis transfers from other budgets of RF budgetary system to budgets of RF subjects	1,576.6	2.3	1,679.6	2.7	-0.4
Expenditure	8,806.7	12.9	8,342.7	13.3	-0.4
including expenditures on servicing of government and municipal debt	91.2	0.1	74.6	0.1	0.0
Deficit (-) / Surplus (+)	-642.0	-0.9	-278.4	-0.4	-0.5
For reference, GDP estimations, bn Rb	67,983		62,599		

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

RF budget system's sustainability is still prone to risks associated with forecasts that the economic growth rate should decline, and the volume of government debt – increase.

Analysis of the Main Parameters of the Execution of the Consolidated Budget of RF Subjects in January–December 2013

Over the course of January–December 2013 (*Table 4*), the consolidated budget revenue of RF subjects amounted to Rb 8,164.7bn (12.0% of GDP), which by 0.9 p.p. of GDP below its level achieved over 12 months of 2012, and by 1.7 p.p. of GDP below its index for 2011.

When set against the period of January–December 2012, the movement of the consolidated budget revenue of RF subjects over 12 months of 2013 reveals the following changes:

- a decline in the amount of receipts under the following items: tax on profits – by 0.7 p.p. of GDP; revenues from sale of tangible and intangible assets – by 0.1 p.p. of GDP; and gratis transfers from other budgets of RF budgetary system by 0.4 p.p. of GDP;
- increased receipts of personal income tax (PIT) and property tax – by 0.1 p.p. of GDP.

The receipts under the following remained at the same level: excises on domestic goods (0.7% GDP), tax on aggregate income (0.4% of GDP), and revenues from the use of state and municipal property (0.4% of GDP).

The consolidated budget expenditure of RF subjects over 12 months of 2013 amounted to Rb 8,806.7bn (12.9% of GDP), having shrunk by 0.4 and 1.1 p.p. of GDP respectively on the periods of January–December 2012 and January–December 2011 (*Table 5*). The cash-based consolidated budget execution over 12 months of 2013 and 12 months of 2012 amounted to 91.2% and 90.8% respectively of the corresponding budget allocation targets. The highest consolidated budget execution indices for 2013 are observed under the items *Mass Media* and *Education* – 97.1 and 95.7% respectively; the worst results are achieved under the items *Interbudgetary Transfers* and *Housing and Utilities Sector* – 51.6 and 83.6% respectively.

The consolidated budget expenditure of RF subjects over 12 months of 2013, in terms of share in GDP, when set against the same period of the previous year reveals the following changes:

- reduced expenditures under the items *National Economy and Housing and Utilities Sector* – by 0.1 p.p. of GDP each; *Health Care* – by 0.4 p.p. of GDP; *Social Policy* – by 0.1 p.p. of GDP; and *Interbudgetary Transfers* – by 0.023 p.p. of GDP;
- increased expenditures under the items *Environment Protection* – by 0.01 p.p. of GDP; and *Education* – by 0.1 p.p. of GDP;
- the volume of expenditure under the following items remained unchanged *Nationwide Issues* –

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

EXPENDITURE	January–December 2013			January–December 2012			Deviation, p.p. of GDP
	bn Rb	as % of GDP	cash-based execution, %	bn Rb	as % of GDP	cash-based execution, %	
Expenditure, total	8,806.7	12.9	91.2	8,342.7	13.3	90.8	-0.4
including							
Nationwide issues	546.1	0.8	86.7	510.4	0.8	89.6	0.0
National defense	4.4	0.006	90.3	4.0	0.006	96.6	0.0
National security and law-enforcement activity	106.6	0.1	90.9	94.6	0.1	90.4	0.0
National economy	1,730.4	2.5	87.3	1,605.8	2.6	86.1	-0.1
Housing and utilities sector	901.9	1.3	83.6	881.2	1.4	85.0	-0.1
Environment protection	24.7	0.04	85.1	21.8	0.03	88.6	0.01
Education	2,333.7	3.4	95.7	2,047.1	3.3	95.8	0.1
Culture and cinematography	288.1	0.4	94.2	257.0	0.4	94.9	0.0
Health care	1250.9	1.8	94.2	1,358.3	2.2	91.8	-0.4
Social policy	1,312.5	1.9	93.7	1,273.7	2.0	93.4	-0.1
Physical culture and sports	170.8	0.2	89.4	156.3	0.2	85.7	0.0
Mass media	40.5	0.06	97.1	38.3	0.06	98.1	0.0
Government debt servicing	91.2	0.1	94.4	74.6	0.1	92.6	0.0
Interbudgetary transfers	4.9	0.007	51.6	19.4	0.03	73.7	-0.023

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

0.8% of GDP; *National Defense* – 0.006% of GDP; *National Security and Law-enforcement Activity* – 0.1% of GDP; *Culture and Cinematography* – 0.4% of GDP; *Physical Culture and Sports* – 0.2% of GDP; *Mass Media* – 0.06% of GDP; and *Government Debt Servicing* – 0.1% of GDP.

As shown by the results of the period of January–December 2013, the consolidated budget of RF subjects is executed with a deficit of Rb 642.0bn (0.9% of GDP), which is by Rb 363.6bn (or 0.5 p.p. of GDP) below the corresponding index for 2012.

According to data released by the RF Ministry of Finance, the volume of government debt of RF subjects as of 1 November 2013 was Rb 1,491.5bn. The total volume of resources attracted over the course of last year by RF subjects against their issued securities amounts to approximately Rb 150bn, of which more

than half belongs to 6 regions, including the city of Moscow. It is assumed that in 2014 the number of RF subjects issuing their own securities will increase from c 28 to 39, and the volume of money thus borrowed will increase threefold — to Rb 450bn. In late January 2014, by way of imposing constraints on the volume of foreign debt of RF subjects, the Government of the Russian Federation issued a decree<sup>1</sup> whereby it is established that the relevant borrowers, in order to be granted entry to international capital markets, should prove that they have a maximum credit ratings, thus bringing to a minimum the risks for regional budgets sustainability. ●

1 Decree of 20 January 2014, No 40 'On the Requirements for the Minimum Level of Credit Ratings of Subjects of the Russian Federation'.