

THE STATE BUDGET IN JANUARY–MARCH 2014

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According to the data of the Federal Treasury, in January–March 2014 the federal budget revenues increased by 0.8 p.p. of GDP as compared to the same period of the previous year on account of growth of 1.1 p.p. of GDP in oil and gas revenues due to depreciation of the ruble exchange rate against the US dollar. In the 1st quarter of 2014, federal budget expenditures fell by 0.4 p.p. of GDP as compared to the 1st quarter of 2013 and on the basis of the results of January–March 2014 the federal budget was executed with a surplus of 0.7% of GDP. However, the effect of unfavorable foreign political and economic factors is getting stronger which situation creates additional risks for stability of the budget system of the Russian Federation and may require adjustment of the main parameters of the federal budget in the second half of 2014.

The Analysis of the Main Parameters of Execution of the Federal Budget in the 1st Quarter of 2014

In the 1st quarter of 2014, federal budget revenues amounted to Rb 3,520.8bn or 21.6% of GDP which is 0.8 p.p. of GDP higher than the level of the respective period of the previous year (Table 1). The oil and gas revenues rose by 1.1 p.p. of GDP as compared to three months of 2013. In January–March 2014, budget expenditures amounted to Rb 3,410.8bn (20.9% of GDP), which is 0.4 p.p. of GDP lower than the level of expenditures for the same period of the previous year.

On the basis of three months of 2014, the federal budget surplus amounted to Rb 110.1bn (0.7% of GDP) which is 1.1 p.p. of GDP higher than the level of deficit of the 1st quarter of the previous year when the federal budget was executed with a deficit of 0.4% of GDP. On the basis of the results of January–March 2014, the oil and gas deficit did not change as compared to the same period of the previous year and amounted to 10.5% of GDP.

In the 1st quarter of 2014, profit tax revenues to the revenues side of the federal budget remained at the level of January–March 2013, that is, 0.5% of GDP (Table 2). As regards other items of tax and non-tax revenues, in the 1st quarter of 2014 growth in revenues in fractions of GDP against three months of the previous year was registered from domestic VAT (0.2 p.p. of GDP), domestic excises and import excises (0.1 p.p. of GDP and 0.01 p.p. of GDP, respectively), severance tax (0.2 p.p. of GDP) and foreign economic activities (0.6 p.p. of GDP). In January–March 2014, federal budget revenues from import VAT fell by 0.2 p.p. of GDP as compared to the same period of the previous year.

It is to be noted that in the 1st quarter of 2014 as compared to January–March 2013 a decrease in expenditures in fractions of GDP was observed over 5 sections out of 14 sections (Table 3), including: *Housing and Utilities* (a decrease of 0.14 p.p. of GDP), *Education*

Table 1

THE MAIN PARAMETERS OF THE FEDERAL BUDGET OF THE RUSSIAN FEDERATION IN JANUARY–MARCH 2013–2014

	January–March 2014		January–March 2013		Deviations, p.p. of GDP
	Billion Rb	% GDP	Billion Rb	% GDP	
Revenues, including:	3520.8	21.6	3105.6	20.8	0.8
Oil and gas revenues	1826.7	11.2	1508.2	10.1	1.1
Expenditures, including:	3410.8	20.9	3167.8	21.3	-0.4
interest expenditures	132.9	0.8	120.4	0.8	0.0
non-interest expenditures	3277.9	20.1	3047.4	20.5	0.4
Surplus (Deficit) of the federal budget	110.1	0.7	-62.2	-0.4	1.1
Non oil and gas deficit	-1716.6	10.5	-1570.4	10.5	0.0
GDP estimate	16284		14 889		

Source: The Ministry of Finance of the Russian Federation, the Federal Treasury of the Russian Federation and calculations of the Gaidar Institute.

Table 2

MAIN TAX REVENUES TO THE FEDERAL BUDGET IN JANUARY–MARCH 2013–2014

	January–March 2014		January–March 2013		Deviation, p.p. of GDP
	Billion Rb	% GDP	Billion Rb	% GDP	
1. Tax revenues, including:					
Corporate profit tax	81.7	0.5	73.7	0.5	0.0
VAT on goods sold in the territory of the Russian Federation	565.5	3.5	495.1	3.3	0.2
VAT on goods imported to the Russian Federation	376.9	2.3	369.3	2.5	-0.2
Excises on goods manufactured in the Russian Federation	125.4	0.8	100.8	0.7	0.1
Excises on goods imported to the Russian Federation	14.8	0.09	11.9	0.08	0.01
Severance tax	713.2	4.4	623.4	4.2	0.2
2. Revenues from foreign economic activities	1309.0	8.0	1108.5	7.4	0.6

Source: The Ministry of Finance of the Russian Federation, the Rosstat and calculations of the Gaidar Institute.

Table 3

FEDERAL BUDGET EXPENDITURES IN JANUARY–MARCH 2013–2014

	January–March 2014		January–March 2013		Deviation, p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Total expenditures	3410.8	20.9	3167.8	21.3	-0.4
including					
Federal issues	223.2	1.4	161.2	1.1	0.3
National defense	1019.3	6.2	689.3	4.6	1.6
National security and law-enforcement	438.1	2.7	383.5	2.6	0.1
National economy	355.9	2.2	334.7	2.2	0.0
Housing and utilities	30.5	0.2	8.9	0.06	-0.14
Protection of environment	5.0	0.03	5.0	0.03	0.0
Education	135.5	0.8	178.8	1.2	-0.4
Culture and cinema	18.1	0.1	11.6	0.08	0.02
Healthcare	112.5	0.7	142.1	0.9	-0.2
Social policy	729.3	4.5	936.7	6.3	-1.8
Physical training and sport	6.6	0.04	11.9	0.08	-0.04
Mass media	17.4	0.1	15.5	0.1	0.0
Servicing of state and municipal debts	132.9	0.8	120.4	0.8	0.0
Intergovernmental transfers	186.6	1.1	168.1	1.1	0.0

Source: The Ministry of Finance of the Russian Federation, the Federal Treasury of the Russian Federation and calculations of the Gaidar Institute.

(0.4 p.p. of GDP), *Healthcare* (0.2 p.p. of GDP), *Social Policy* (1.8 p.p. of GDP) and *Physical Training and Sport* (0.04 p.p. of GDP).

In the 1st quarter of 2014 as compared to the same period of the previous year, in the *Social Policy* section the largest reduction of federal budget expenditures took place in the *Pension Security* item (1.4 p.p. of GDP) and the *Social Security* item (0.4 p.p. of GDP).

On the basis of the results of the 1st quarter of 2014, growth in federal budget revenues in fractions of GDP against January–March 2013 took place in four sections: *Federal Issues* (growth of 0.3 p.p. of GDP), *National Defense* (1.6 p.p. of GDP), *National Security and Law Enforcement* (0.1 p.p. of GDP) and *Culture and Cinema* (0.02 p.p. of GDP). As regards the *National De-*

fense section, in the 1st quarter of 2014 expenditures on the item – *the Armed Forces of the Russian Federation* – increased considerably (1.4 p.p. of GDP) against January–March 2013.

In the 1st quarter of 2014, as regards other sections federal budget expenditures remained at the level of January–March 2013. It is to be noted that despite the fact that expenditures related to servicing of the public debt in fractions of GDP remained on the basis of the results of three months of 2014 at the level of January–March 2013 in the volume of 0.8% of GDP, growth rates of cash execution in respect of that item at the level of 31.1% exceeded somewhat the rates of development of the expenditure side of the federal budget, that is, 24.4% of the approved volumes of expenditures

in 2014. Such a situation justified by growth in the exchange rate of a bi-currency basket against the ruble may result in an upwards adjustment of the approved volume of annual budget allocations in respect of the *Servicing of the Public and Municipal Debts* section.

For three months of 2014, as of April 1, 2014, the aggregate volume of funds of the Reserve Fund and the National Welfare Fund in the ruble equivalent rose on account of the exchange rate difference as a result of revaluation by Rb 261.6bn and Rb 221.9bn, respectively and amounted to Rb 3,121.3bn and 3,122.5bn, respectively.

Negative trends in the Russian economy which prevailed from the second half of 2012¹ and the growing pressure of economic sanctions made it topical to revise income forecasts, prospects to increase expenditures and the deficit of the federal budget and expedience of adjustment of the budget rules.

According to the estimate of the Ministry of Finance of the Russian Federation², on the basis of the results of 2014 federal budget revenues will be Rb 100bn short of the planned ones despite the fact that the volume of additional oil and gas revenues from depreciation of the ruble exchange rate are estimated at Rb 900bn. So, in 2014 the federal budget may receive over Rb 1 trillion less than it is due, including Rb 234bn and Rb 250 bn on foreign loans and domestic loans, respectively, for financing the deficit of the federal budget and Rb 180bn from privatization, as well as dividend income.

As regards expenditures, the Ministry of Economic Development of the Russian Federation believes that the ideology of the budget rule permits to spend additional oil and gas revenues on infrastructure projects to ensure economic growth as they have nothing to do with market movement. However, according to the Ministry of Finance of the Russian Federation the assessment of the Ministry of Economic Development of the Russian Federation of the positive effect of additional expenditures of the RF budget on the economic growth rates is largely overestimated³ and in order to

ensure stable economic growth rates the deficit is to be increased every subsequent year by the same value, that is, 0.5% of GDP.

So, the positions of the financial agency and economic agency as regards a feasibility to increase expenditures and the deficit of the federal budget are different. Despite the fact that in mid-April 2014 V. Putin, President of the Russian Federation called not to hurry with amendment of the budget rule⁴ and to take into account global and domestic economic risks, it can be expected that in the second half of the year, the debates on feasibility of relaxation of the budget rule may renew.

Execution of the Consolidated Budget of Constituent Entities of the Russian Federation in January–February 2014

According to the data of the Federal Treasury, in January–February 2014 the *revenues of the consolidated budget of constituent entities of the Russian Federation* amounted to Rb 863.1bn or 8.2% of GDP which is 1.4 p.p. of GDP lower than the value in the same period of 2013 (*Table 4*).

Within two months of 2014, expenditures of the consolidated budget of constituent entities of the Russian Federation decreased by 0.2 p.p. of GDP as compared to the same period of the previous year and amounted to 9.6% of GDP or Rb 1,010.4bn. On the basis of the results of January–February 2014, budgets of constituent entities of the Russian Federation were executed with a deficit in the amount of Rb 147.3bn or 1.4 % of GDP which is 1.2 p.p. of GDP lower than the level of the respective period of the previous year.

Within two months of 2014, the main decrease of 1.0 p.p. of GDP in the revenues to consolidated budgets of constituent entities of the Russian Federation took place in the *Return of Balances of Subsidies, Subventions and Other Inter-Budgetary Transfers* item against the respective period of 2013. In January–February 2014, tax revenues decreased inconsiderably including those from individual income tax (0.1 p.p. of GDP), domestic excises (0.1 p.p. of GDP) and aggregate income tax (0.1 p.p. of GDP) as compared to the first two months of 2013. In January–February 2014, as regards other tax and non-tax revenues of the consolidated budget of the Russian Federation the volume of revenues in fractions of GDP remained at the level of the respective period of the previous year.

On the basis of the results of two months of 2014, expenditures of the consolidated budget of constituent entities of the Russian Federation (*Table 5*) decreased against the respective period of 2013 only in respect of the following two sections – *National Defense* (0.001 p.p. of GDP) and *National Economy*

¹ The Ministry of Finance of the Russian Federation believes that in the second half of 2014 the economy of the Russian Federation may enter a technical recession when for two quarters running GDP cleared of a seasonal factor decreases.

It is to be noted that in the 2nd quarter and the 2nd quarter year on year growth in GDP of the Russian Federation slowed down virtually to the zero level and it is not excluded that it may enter the negative area.

² Here and to the end of the section – source: http://www.minfin.ru/ru/press/speech/index.php?id_4=21535

³ The Ministry of Economic Development of the Russian Federation means growth of 0.5% a year in the deficit with aggregate growth of 2% of GDP in the volume of expenditures within four years which situation permits to increase GDP by 4.4% within the same period. The Ministry of Finance of the Russian Federation believes that the assessment of economic growth is overestimated, particularly, in the mid-term and long-term prospects.

⁴ <http://www.rbcdaily.ru/>

Table 4

**THE MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF CONSTITUENT ENTITIES
OF THE RUSSIAN FEDERATION IN JANUARY–FEBRUARY 2013–2014**

	January–February 2014		January–February 2013		Deviation p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Revenues, including:	863.1	8.2	907.4	9.6	-1.4
corporate profit tax	176.2	1.7	161.9	1.7	0.0
individual income tax	335.8	3.2	313.5	3.3	-0.1
domestic excises	75.4	0.7	74.4	0.8	-0.1
aggregate income tax	35.8	0.3	37.9	0.4	-0.1
property tax	64.1	0.6	60.2	0.6	0.0
revenues from utilization of property which is in state and municipal ownership	32.7	0.3	31.5	0.3	0.0
non-repayable revenues from other budgets of the budgetary system of the Russian Federation	263.8	2.5	240.2	2.5	0.0
repayment of balances of subsidies, subventions and other purpose inter-budgetary transfers of previous years	-188.7	-1.8	-74.4	-0.8	-1.0
Expenditures, including:	1010.4	9.6	923.7	9.8	-0.2
Surplus (deficit) of the consolidated budget of constituent entities	-147.3	-1.4	-16.3	-0.2	-1.2
GDP estimate	10503		9466		

Source: The Federal Treasury and calculations of the Gaidar Institute.

Table 5

**EXECUTION OF THE CONSOLIDATED BUDGET OF CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION
ON THE EXPENDITURE SIDE IN JANUARY–FEBRUARY 2013–2014**

	January–February 2014		January–February 2013		Deviation, p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Total expenditures, including	1010.4	9.6	923.7	9.8	-0.2
Federal issues	65.4	0.6	58.5	0.6	0.0
National defense	0.2	0.002	0.3	0.003	-0.001
National security and law-enforcement	9.9	0.09	8.2	0.09	0.0
National economy	123.5	1.2	131.4	1.4	-0.2
Housing and utilities	74.1	0.7	63.3	0.7	0.0
Protection of environment	1.9	0.02	2.0	0.02	0.0
Education	312.7	3.0	283.0	3.0	0.0
Culture and cinema	36.9	0.3	33.4	0.3	0.0
Healthcare	163.6	1.6	151.6	1.6	0.0
Social policy	183.8	1.7	163.1	1.7	0.0
Physical training and sport	18.4	0.2	16.1	0.2	0.0
Mass media	5.1	0.05	3.1	0.03	0.02
Servicing of state and municipal debts	14.8	0.1	9.5	0.1	0.0
Intergovernmental transfers	0.06	0.0006	0.2	0.002	-0.0014

Source: The Federal Treasury and calculations of the Gaidar Institute.

(0.2 p.p. of GDP) – and increased by 0.02 p.p. of GDP in respect of the *Mass Media* section. On the basis of the results of two months of 2014, as regards most sections expenditures of budgets of constituent entities of the Russian Federation in fractions of GDP remained at the level of the respective period of 2013.

In March 2014, the volume of the state debt of constituent entities of the Russian Federation increased by Rb 13.4bn and as of April 1, 2014 amounted to Rb 1,754.0bn or 22.8% of the forecasted annual volume of the revenues of the consolidated budget of constituent entities of the Russian Federation.