

## THE STATE BUDGET IN JANUARY–APRIL 2014

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According to the data of the Federal Treasury, in January–April 2014 the federal budget revenues rose by 0.9 p.p. of GDP as compared to the respective period of the previous year due to accelerated growth of 1.2 p.p. of GDP in oil and gas revenues. In January–March 2014, revenues of the consolidated budget of constituent entities of the Russian Federation fell by 0.7 p.p. of GDP against the first months of 2013. On the basis of the results of January–April 2014, the federal budget is executed with surplus of 0.3% of GDP; there was surplus of 0.7% of GDP on the basis of the results of execution of the consolidated budget of constituent entities of the Russian Federation in January–March 2014, too. In May, a regular cycle of budget planning begins; within the frameworks of the above cycle the Government of the Russian Federation announced the first estimates of execution of the federal budget in 2014 and forecast scenarios for formation of the main parameters the 2015–2017 federal budget. According to the assessment of the Ministry of Economic Development of the Russian Federation, in 2014 the surplus of the federal budget at the level of 0.5% of GDP is expected, while in 2015–2016 and 2017 a deficit of 0.4–1% of GDP and 0.8–1.8% of GDP, respectively, depending on a scenario option of the forecast.

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

In January–April 2014, the federal budget revenues amounted to Rb 4,753.7bn or 21.8% of GDP which is 0.9 p.p. of GDP higher than in the respective period of the previous year (Table 1). Oil and gas revenues rose to 11.5% of GDP or by 1.2 p.p. of GDP against the four months of 2013. In January–April 2014, budget expenditures amounted to Rb 4,685.8bn (21.4% of GDP), which is 0.2 p.p. of GDP higher as compared to the same period of the previous year.

On the basis of the results of four months of 2014, the federal budget is executed with surplus of 0.3% of GDP which is 0.7% of GDP higher than the negative balance of execution of the federal budget in January–April 2013. The volume of non-oil and gas deficit rose by 0.5 p.p. of GDP (11.2% of GDP) against the level of the respective period of the previous year which

situation points to greater dependence of the federal budget on global oil prices and higher risks related to its equilibrium in the mid-term prospect.

Within four months of 2014, there was growth in federal budget revenues from the profit tax (0.1 p.p. of GDP), domestic VAT (0.4 p.p. of GDP), severance tax (0.3 p.p. of GDP) and foreign economic activities (0.4 p.p. of GDP) as compared to the same period of 2013 (Table 2). In January–April 2014, revenues from import VAT fell by 0.1 p.p. of GDP as compared to the same period of 2013. Within four months of 2014, federal budget revenues in fractions of GDP from domestic and import excises remained at the level of January–April 2013 (0.7% and 0.09% of GDP, respectively).

On the basis of the results of four months of 2014 against January–April 2013, there was growth in federal budget expenditures in fractions of GDP (Table 3) as regards the following items: Federal Issues (0.2 p.p. of

Table 1

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

	January–April 2014		January–April 2013		Deviation, p.p. of GDP
	Billion RB	% of GDP	Billion Rb	% of GDP	
Revenues, including:	4753.7	21.8	4 223.4	20.9	0.9
Oil and gas revenues	2516.6	11.5	2 087.6	10.3	1.2
Non-oil and gas revenues	2237.1	10.3	2135.8	10.6	-0.3
Expenditures, including:	4685.8	21.4	4 298.2	21.2	0.2
Interest expenditures	155.4	0.7	140.5	0.7	0.0
Non-interest expenditures	4530.4	20.7	4157.7	20.5	0.2
Surplus (deficit) of the federal budget	67.9	0.3	-74.8	-0.4	0.7
Non-oil and gas deficit	-2448.7	-11.2	-2162.4	-10.7	-0.5
GDP estimate	21843		20220		

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

Table 2

## DYNAMICS OF REVENUES FROM THE MAIN TAXES TO THE FEDERAL BUDGET

	January–April 2014		January–April 2013		Deviation, p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Total tax revenues, including.	4398.2	20.1	3847.5	19.0	1.1
Corporate profit tax	135.5	0.6	112.2	0.5	0.1
VAT on goods sold in the territory of the Russian Federation	771.3	3.5	636.7	3.1	0.4
VAT on goods imported to the Russian Federation	529.3	2.4	520.1	2.5	-0.1
Excises on goods produced in the Russian Federation	160.2	0.7	136.1	0.7	0.0
Excises on goods imported to the Russian Federation	21.5	0.09	17.4	0.09	0.0
Severance tax	971.3	4.4	832.2	4.1	0.3
Revenues from foreign economic activities	1809.1	8.3	1592.8	7.9	0.4

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

Table 3

## FEDERAL BUDGET EXPENDITURES

	January–April 2014		January–April 2013		Deviation, p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Total expenditures	4685.8	21.4	4298.2	21.2	0.2
including					
Federal issues	305.6	1.4	252.9	1.2	0.2
National defense	1214.0	5.5	901.9	4.5	1.0
National security and law enforcement	600.7	2.7	552.6	2.7	0.0
National economy	507.2	2.3	461.2	2.3	0.0
Housing and public utilities	34.9	0.1	10.7	0.05	0.05
Protection of environment	10.2	0.04	9.1	0.04	0.0
Education	249.9	1.1	268.5	1.3	-0.2
Culture and cinema	26.8	0.1	21.7	0.1	0.0
Healthcare	156.0	0.7	191.6	0.9	-0.2
Social policy	1107.1	5.0	1226.9	6.1	-1.1
Physical culture and sport	10.7	0.04	16.4	0.08	-0.04
Mass media	30.3	0.1	30.6	0.1	0.0
Servicing of the state debt	155.4	0.7	140.6	0.7	0.0
Inter-budgetary transfers	276.8	1.3	213.3	1.0	0.3

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

GDP), National Defense (1.0 p.p. of GDP), Housing and Public Utilities (0.05 p.p. of GDP) and Inter-Budgetary Transfers (0.3 p.p. of GDP).

A decrease in the federal budget expenditures in fractions of GDP within four months of 2014 as compared to January–April 2013 took place as regards the following 4 items: Healthcare and Education (0.2 p.p. of GDP each), Social Policy (0.1 p.p. of GDP) and Physical Culture and Sport (0.04 p.p.). As regards other items, within four months of 2014 federal budget expenditures in fractions of GDP remained at the level of January–April 2013.

As of May 1, 2014, the volume of the Reserve Fund and the National Welfare Fund amounted

to Rb 3,139.5bn (+Rb 18.2bn in April 2014) and Rb 3,127.9bn, respectively (+Rb 5.4bn in April 2014).

#### Utilization of the consolidated budget of constituent entities of the Russian Federation in January–March 2014

According to the data of the Federal Treasury, in January–March 2014 the revenues of the consolidated budget of constituent entities of the Russian Federation amounted to Rb 1,790.6bn or 11.0% of GDP which is 0.7 p.p. of GDP lower than that in the respective period of 2013 (Table 4).

Within three months of 2014, expenditures of the consolidated budget fell by 0.1 p.p. of GDP against the

Table 4

## The main parameters of the consolidated budget of constituent entities of the Russian Federation

	January–March 2014		January–March 2013		Deviation p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Revenues, including:	1790.6	11.0	1736.8	11.7	-0.7
corporate profit tax	497.9	3.0	474.7	3.2	-0.2
individual income tax	546.8	3.3	506.8	3.4	-0.1
domestic excises	113.7	0.7	109.1	0.7	0.0
taxes on the aggregate income	69.4	0.4	66.5	0.4	0.0
property taxes	159.2	1.0	127.3	0.8	0.2
non-repayable receipts from other budgets of the budgetary system of the Russian Federation	373.2	2.3	383.5	2.6	-0.3
Expenditures, including:	1683.2	10.3	1543.0	10.4	-0.1
Surplus (deficit) of the consolidated budget of constituent entities	107.4	0.7	193.8	1.3	-0.6
GDP estimate	16284		14 889		

Source: The Federal Treasury of the Russian Federation and calculation of the Gaidar Institute.

Table 5

## EXPENDITURES OF THE CONSOLIDATED BUDGET OF CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION

	January–March 2014		January–March 2013		Deviation, p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Total expenditures, including	1683.2	10.3	1543.0	10.4	-0.1
Federal issues	108.2	0.7	98.5	0.7	0.0
National defense and law enforcement	16.4	0.1	14.6	0.1	0.0
National economy	239.4	1.5	223.4	1.5	0.0
Housing and public utilities	127.7	0.8	111.4	0.7	0.1
Protection of the environment	3.4	0.02	3.6	0.02	0.0
Education	499.2	3.1	475.5	3.2	-0.1
Culture and cinema	58.0	0.3	51.5	0.3	0.0
Healthcare	264.0	1.6	240.8	1.6	0.0
Social policy	301.9	1.8	271.3	1.8	0.0
Physical culture and sport	31.0	0.2	26.6	0.2	0.0
Mass media	8.7	0.05	8.0	0.05	0.0
Servicing of state and municipal debt	24.5	0.1	16.7	0.1	0.0

Source: Federal Treasury of the Russian Federation and calculations of the Gaidar Institute.

respective period of 2013 and amounted to 10.3% of GDP or Rb 1,683.2bn. On the basis of the results of January–March 2014, consolidated budgets of constituent entities of the Russian Federation were executed with surplus of Rb 107.4bn or 0.7% of GDP which is 0.6 p.p. of GDP lower than the level of the respective period of 2013.

Within three months of 2014, as compared to the respective period of 2013 reduction of the volume of revenues to consolidated budgets of constituent entities of the Russian Federation took place as regards

the profit tax (0.2 p.p. of GDP), individual income tax (0.1 p.p. of GDP) and non-repayable receipts from other budgets of the budgetary system of the Russian Federation (0.3 p.p.). On the basis of three months of 2014, there was growth in revenues only from property taxes (0.2 p.p. of GDP as compared to three months of 2013). In January–March 2014, revenues of the consolidated budget of constituent entities of the Russian Federation in fractions of GDP from domestic excises and aggregate income taxes remained at the level of the respective period of the previous year.

On the basis of three months of 2014, consolidated budget expenditures of constituent entities of the Russian Federation (*Table 5*) in fractions of GDP as regards most items remained at the level of January–March 2013. In January–March 2014, consolidated budget expenditures of constituent entities of the Russian Federation decreased insignificantly as regards the Education item (0.1% p.p. of GDP), while increased only as regards the Housing and Public Utilities item (0.1 p.p. of GDP as compared to January–March 2013).

As of April 1, 2014, the volume of the state debt of constituent entities of the Russian Federation amounted to Rb 1,754.0bn<sup>1</sup> (+Rb16.5bn within three months of 2014).

In the last ten days of May, the Government of the Russian Federation returned to consideration of measures aimed at securing of equilibrium of consolidated budgets of constituent entities of the Russian Federation<sup>2</sup>. On the basis of the results of 2013, the deficit of regional budgets increased nearly two-folds to Rb 650bn (0.9% of GDP) as compared to the previous year, while the volume of the state debt of constituent entities of the Russian Federation, by over 25% from Rb 1,355.0bn as of the beginning of 2013 to Rb 1,737.5bn as of the beginning of 2014.

In 2013, it can be stated that among factors behind growth in imbalances of regional budgets was the need to fulfill the May Decrees of the President (primarily, as regards growth in labor remuneration in the social sphere) and reduction of federal transfers in a situation of a decrease in tax and non-tax revenues of budgets of constituent entities of the Russian Federation. Also, a disturbing factor is a reduction of investment expenditures of regional budgets during the 2012–2013 period. However, inefficiency of regional authorities as regards improvement of the investment climate, their own tax

potential, quality of budget/debt planning and property management should not be underestimated. In a number of constituent entities of the Russian Federation, in a situation of budget problems federal law enforcement agencies are still financed by regions though it is not within their competence<sup>3</sup>.

The problem of imbalances on the regional level is expected to be solved by means of financial support measures, in particular, through allocation of additional Rb 25bn to secure equilibrium of budgets and growth of Rb 100bn<sup>4</sup> in the volume of budget lending for replacement (refinancing) of expensive commercial loans with less expensive budget loans<sup>5</sup>. For commercial banks which extend loans to constituent entities of the Russian Federation, it is proposed to set a ceiling of the interest rate at the level of the refinancing rate plus 1.25% provided that such loans are refinanced by means of budget loans.

The proposed measures aimed at securing of equilibrium and reduction of a debt burden on consolidated budgets of constituent entities of the Russian Federation do not motivate regional authorities to upgrade the quality of public administration and create an additional burden on the expenditure side of the federal budget which experienced a certain deficit of funds in 2013 (a shortfall of non-oil and gas revenues was actually compensated by means of oil and gas revenues due to which situation the mere Rb 212bn was transferred to the Reserve Fund instead of Rb 1 trillion).

3 <http://большоеправительство.рф/events/5510136/>

4 Values can be adjusted in consideration of the draft law at the State Duma and the Council of Federation and with taking into account the position of senators who have been pressing for the past few years the Ministry of Finance with requests to write off regions' debts to the federal budget.

5 At present, it amounts to one third of the rate of refinancing; the Ministry of Finance of the Russian Federation suggests that it should be less than 1%.

1 [http://www.minfin.ru/ru/public\\_debt/subdbt/index.php](http://www.minfin.ru/ru/public_debt/subdbt/index.php)

2 <http://government.ru/news/>