

## STATE BUDGET IN JANUARY–MAY 2014

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According to the data provided by the Federal Treasury of Russia, federal budget revenues increased 1.2 p.p. of GDP in the period of January to May 2014 compared to the corresponding period of the previous year. Consolidated budget revenues of the constituent territories of the Russian Federation in January to April 2014 contracted by 0.2 p.p. of GDP relative to the four months in 2013. At the end of the period of January–May of the current year the federal budget ran a surplus of 1.4% of GDP; in addition, a positive balance was reached as a result of the execution of the consolidated budget of the constituent territories of the Russian Federation as 1.6% of GDP. Late in May 2014 the Government of Russia submitted to the State Duma a draft law<sup>1</sup> providing for the adjustment of the key parameters of the 2014 federal budget. In particular, the forecast of GDP volume was downgraded from Rb 73,315bn to Rb 71.493bn (-Rb 1.822bn) due to the weakening of the investment demand, reduction in inventories at enterprises, slowdown in the consumer spending and export. Nevertheless, accelerated growth in oil and gas revenues whose volume in the federal budget revenues within the first five months of the current year accounted for 48.2% of the projected annual volumes, allowed the forecast of the federal budget revenues to be upgraded from Rb 13570.5bn (18.5% of GDP) to Rb 14238.8bn (19.9% of GDP) (+Rb 668.2bn or 1.4% of GDP). At the end of the current year oil and gas revenues are expected to amount to Rb 7480.2bn (+Rb 952.1bn or 10.5% of GDP), and other than oil and gas revenues are projected to see a reduction of Rb 283.9bn to Rb 6758.6bn (9.5% of GDP) relative to the initially forecasted volume. The volume of federal budget expenditures was not revised, and the federal budget is expected to run a surplus of 0.4% of GDP in 2014.

#### Analysis of the basic execution parameters of the federal budget in January to May 2014

In the period of January to May 2014 federal budget revenues amounted to Rb 5881.8bn or 21.2% of GDP, a growth of 1.2 p.p. of GDP relative to the corresponding period of the previous year (Table 1). Oil and gas revenues increased to 11.4% of GDP or by 1.2 p.p. of GDP relative to the first five months in 2013, while by the end of the first five months in 2014 revenues (other than oil and gas revenues) remained unchanged as percentage of GDP (9.8% of GDP) compared to the corresponding period of the previous year.

Budget expenditures in the period of January to May 2014 amounted to Rb 5486.8bn (19.8% of GDP), gaining 0.3 p.p. of GDP over the corresponding period of the previous year. By the end of the first five months in 2014 the federal budget ran a surplus of 1.4% of GDP, being 0.9 p.p. of GDP higher than the balance of execution of the federal budget in the period of January to May 2013. However, this took place when the volume of oil and gas deficit increased 0.3 p.p. of GDP (10.0% of GDP) against the level observed in the corresponding period of the previous year.

During the first five months of the current year federal budget revenues from profit tax increased Rb 27.6bn or 0.1 p.p. of GDP compared to the corre-

sponding period in 2013 (Table 2), through a growth of revenues:

- by Rb 10.3bn on the corporate profit tax credited to the federal budget at a base rate;
- by Rb 11.3bn on the profit tax in executing production sharing agreements<sup>2</sup>;
- by Rb 1.9bn and Rb 1.8bn on income received as dividends by foreign organizations from Russian organizations and on income received as dividends by foreign organizations from Russian organizations respectively.

“Internal” VAT revenues increased 0.4 p.p. of GDP in the period of January to May 2014 relative to the first five months of the previous year. “Import” VAT revenues saw a reduction of 0.1 p.p. of GDP during the same period compared to the corresponding period in 2013. During the first five months of the current year federal budget revenues from “internal” excises as percentage of GDP remained at the level observed in the period of January to May 2013 (0.7% of GDP) while those from “import” excises saw a small increase of 0.01 p.p. of GDP to 0.1% of GDP.

1 The Draft Law No. 532291-6 ‘On the Amendments to the Federal Law ‘On the Federal Budget of 2014 and the Planning Period of 2015 and 2016’ was submitted to the State Duma on 27.05.14.

2 Profit tax on organizations in executing production sharing agreements which were concluded prior to the effective date of the Federal Law ‘On Production Sharing Agreements’ and made no provision for special taxation rates for crediting the foregoing tax to the federal budget and the budget of the constituent territories of the Russian Federation in accordance to 10101020010000110 code.

Table 1

## RUSSIA'S FEDERAL BUDGET BASIC PARAMETERS IN THE PERIOD OF JANUARY TO MAY IN 2013 AND 2014

	January to May 2014		January to May 2013		Deviations, as p.p. of GDP
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	
Revenues, including:	5881.8	21.2	5114.6	20.0	1.2
Oil and gas revenues	3148.7	11.4	2611.4	10.2	1.2
Revenues (other than oil and gas revenues)	2733.1	9.8	2503.2	9.8	0.0
Expenditures, including:	5486.8	19.8	4985.5	19.5	0.3
interest expense	165.0	0.6	143.0	0.5	0.1
non-interest expense	5321.8	19.2	4842.5	19.0	0.2
Federal budget surplus (deficit)	395.0	1.4	129.1	0.5	0.9
Deficit (other than oil and gas deficit)	-2753.7	-10.0	-2482.3	-9.7	-0.3
GDP evaluation	27728		25590		

Source: Ministry of Finance of Russia, Federal Treasury of the Russian Federation, Gaidar Institute's.

Table 2

## DYNAMICS OF FEDERAL BUDGET BASIC TAX REVENUES IN THE PERIOD OF JANUARY TO MAY IN 2013 AND 2014

	January to May 2014		January to May 2013		Deviation as p.p. of GDP
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	
1. Tax revenues, including:	5420.2	19.5	4682.9	18.3	1.2
corporate profit tax	162.5	0.6	134.9	0.5	0.1
VAT on goods sold on the territory of the Russian Federation	901.8	3.2	730.8	2.8	0.4
VAT on goods imported to the Russian Federation	667.4	2.4	635.4	2.5	-0.1
excises on goods manufactured on the territory of the Russian Federation	200.0	0.7	171.5	0.7	0.0
excises on goods imported to the Russian Federation	27.3	0.1	22.4	0.09	0.01
Mineral extraction tax	1214.5	4.4	1025.3	4.0	0.4
Foreign trade revenues	2246,7	8,1	1962,6	7,7	0,4

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

Table 3

## FEDERAL BUDGET EXPENDITURES IN THE PERIOD OF JANUARY TO MAY IN 2013 AND 2014

	January to May 2014		January to May 2013		Deviation as p.p. of GDP
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	
Expenditures, total	5486.8	19.8	4985.5	19.5	0.3
Including					
Nationwide Issues	362.8	1.3	306.0	1.2	0.1
National Defense	1343.7	4.8	1006.5	3.9	0.9
National Security and Law Enforcement	751.3	2.7	693.7	2.7	0.0
National Economy	608.0	2.2	527.7	2.1	0.1
Public Utilities Sector	38.5	0.1	24.1	0.09	0.01
Environmental Protection	16.5	0.06	10.1	0.04	0.02
Education	273.7	1.0	285.8	1.1	-0.1
Culture and Cinematography	29.0	0.1	27.7	0.1	0.0
Healthcare	177.6	0.6	207.9	0.8	-0.2
Social Policy	1341.5	4.8	1443.9	5.6	-0.8
Physical Culture and Sports	13.3	0.05	17.4	0.07	-0.02
Mass Media	30.8	0.1	30.9	0.1	0.0
Sovereign Debt Servicing	165.0	0.6	143.0	0.5	0.1
Inter-budget Transfers	335.0	1.2	260.8	1.0	0.2

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

During the first five months of the current year federal budget revenues from the mineral extraction tax and foreign trade increased 0.4 p.p. of GDP compared to the corresponding period in 2013, up to 4.4 and 8.1% of GDP respectively.

Within the first five months of the current year federal budget revenues (*Table 3*) increased as percentage of GDP relative to the period of January to May 2013 on the following sections: ‘Nationwide Issues’ by 0.1 p.p. of GDP, ‘National Defense’ by 0.9 p.p. of GDP, ‘National Economy’ by 0.1 p.p. of GDP, ‘Public Utilities Sector’ by 0.01 p.p. of GDP, ‘Environmental Protection’ by 0.02 p.p. of GDP, ‘Sovereign Debt Servicing’ by 0.1 p.p. of GDP, ‘Inter-budget Transfers’ by 0.2 p.p. of GDP.

Federal budget expenditures declined on the following four sections during the first five months of the current year relative to the period of January to May 2013 as percentage of GDP – ‘Education’ by 0.1 p.p. of GDP, ‘Healthcare’ by 0.2 p.p. of GDP, ‘Social Policy’ by 0.8 p.p. of GDP, and ‘Physical Culture and Sports’ by 0.02 p.p. of GDP.

Within the first five months of 2014 the other sections of federal budget revenues as percentage of GDP remained at the level observed in the period of January to May 2013.

In May 2014, the volume of the Reserve Fund and the National Wealth Fund contracted by Rb 113.1bn and Rb 94.7bn because of the foreign exchange difference, and as of 01.06.2014 they amounted to Rb 3026.3bn and Rb 3033.2bn respectively.

In the middle of June of the current year the Government of Russia supplemented the list of self-funding infrastructural projects implemented by legal entities whose financial assets include resources invested from the National Wealth Fund<sup>1</sup> on a repayable basis<sup>2</sup>, in particular:

- the project Construction of the Egegest – Kyzyl – Kuragino Railway and the Coal Marine Terminal in the Far East as part of the development of the mineral base in the Republic of Tyva, Rb 86.86bn;
- the projects Construction of Intellectual Networks, Digital Inequality Liquidation in Underpopulated Areas of Russia implemented jointly with “Russian Direct Investment Fund” “Management Company” LLC, Rb 1.1bn and Rb 27.0bn respectively.

1 The Executive Order of June 16, 2014 No. 1059-r. The Draft Executive Order ‘On the Amendments to the Executive Order of the Government of the Russian Federation of November 5, 2013, No. 2044-r’ was prepared by the Ministry of Economic Development of Russia in compliance with the orders of the President and the Government of the Russian Federation.

2 Minimum return on investment of the National Wealth Fund’s resources on projects is determined at an inflation rate increased by 1 percentage point.

### Execution of the consolidated budget of the constituent territories of the RF in the period of January to April 2014

According to the data provided by the Federal Treasury of Russia, consolidated budget revenues of the constituent territories of the Russian Federation in the period of January to April 2014 amounted to Rb 2840.5bn or 13.0% of GDP, a decline of 0.2 p.p. of GDP relative to the value observed during the corresponding period in 2013 (*Table 4*).

Within the first four months of the current year consolidated budget expenditures of the constituent territories of the Russian Federation declined 0.2 p.p. of GDP relative to the corresponding period of the previous year and accounted for 11.4% of GDP or Rb 2501.7bn. At the end of the January–April 2014 period, the constituent territories of the Russian Federation ran their consolidated budget with a surplus of Rb 338.8bn or 1.6% of GDP, corresponding to the level observed within the first four months of 2013.

During the four months in 2014 the constituent territories of the Russian Federation received less consolidated budget revenues, compared to the corresponding period in 2013, on the personal income tax and non-repayable receipts from other budgets by 0.1 p.p. of GDP for each type of income. At the end of January–April of the current year consolidated budget revenues from the profit tax of the constituent entities of the Russian Federation increased by 0.2 p.p. of GDP relative to the first four months in 2013. In the period of January to April 2014 consolidated budget revenues of the constituent territories of the Russian Federation from internal excises, the aggregate income tax and property tax as percentage of GDP remained at the level observed during the corresponding period of the previous year. Non-tax revenues increased in the period of January to April of the current year, including revenues on income generated from the use of assets owned by the state and municipalities, receivables from penalties. Within the first four months of the current year consolidated budget expenditures of the constituent territories of the Russian Federation (*Table 5*) on most of the sections as percentage of GDP remained at the level observed in the period of January to April of the previous year. In January–April 2014 consolidated budget expenditures of the constituent territories of the Russian Federation as percentage of GDP declined insignificantly on the three sections, namely ‘Environmental Protection’ by 0.01 p.p. of GDP, ‘Education’ by 0.1 p.p. of GDP, ‘Healthcare’ by 0.1 p.p. of GDP. Within the first four months in 2014 expenditures on other sections of consolidated budget expenditures of the constituent territories of the Russian Federation relative to GDP remained unchanged compared to the period of January to April 2013.

Table 4

**BASIC PARAMETERS OF THE CONSOLIDATED BUDGET OF THE CONSTITUENT TERRITORIES  
OF THE RUSSIAN FEDERATION IN THE PERIOD OF JANUARY TO APRIL IN 2013 AND 2014**

	January to April 2014		January to April 2013		Deviation
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	as p.p. of GDP
Revenues including:	2840.5	13.0	2663.1	13.2	-0.2
- corporate profit tax	763.4	3.5	678.0	3.3	0.2
- personal income tax	776.1	3.5	725.9	3.6	-0.1
- internal excises	152.4	0.7	152.5	0.7	0.0
- aggregate income tax	144.3	0.7	135.5	0.7	0.0
- property tax	321.5	1.5	301.3	1.5	0.0
- non-repayable receipts from other budgets of the Russian budgetary system	528.4	2.4	510.2	2.5	-0.1
Expenditures. including:	2501.7	11.4	2346.0	11.6	-0.2
Surplus (deficit) of the consolidated budget of the constituent territories of the Russian Federation	338.8	1.6	317.1	1.6	0.0
GDP evaluation	21843		20220		

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.

Table 5

**CONSOLIDATED BUDGET EXPENDITURES OF THE CONSTITUENT TERRITORIES OF THE RUSSIAN FEDERATION IN  
THE PERIOD OF JANUARY TO APRIL IN 2013 AND 2014**

	January to April 2014		January to April 2013		Deviation
	billions of rubles	as % of GDP	billions of rubles	as % of GDP	as p.p. of GDP
Expenditures, total Including	2501.7	11.4	2346.0	11.6	-0.2
Nationwide Issues	162.9	0.7	153.1	0.7	0.0
National Security and Law Enforcement	25.3	0.1	23.3	0.1	0.0
National Economy	366.8	1.7	351.7	1.7	0.0
Public Utilities Sector	192.6	0.9	176.8	0.9	0.0
Environmental Protection	5.3	0.02	5.4	0.03	-0.01
Education	742.5	3.4	705.8	3.5	-0.1
Culture and Cinematography	88.5	0.4	81.6	0.4	0.0
Healthcare	372.4	1.7	362.1	1.8	-0.1
Social Policy	448.0	2.0	405.7	2.0	0.0
Physical Culture and Sports	47.7	0.2	42.0	0.2	0.0
Mass Media	12.4	0.06	12.0	0.06	0.0
Public and municipal debt servicing	33.1	0.1	22.0	0.1	0.0

Source: Federal Treasury of the Russian Federation, Gaidar Institute's estimates.