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The State Budget

As of 1 November 2012, the federal budget was executed with a surplus of 1.4% of GDP. The size of federal budget revenue over the period of January – October 2012 amounted to Rb 10,455.4bn, or 20.9% of GDP, that of federal budget expenditure – to Rb 9,735.8bn, or 19.5% of GDP. On 30 October 2012, the RF Government submitted to the RF state Duma a draft law on introducing alterations in the 2012 federal budget, whereby the expected GDP volume by the year's results was to increase from Rb 60,590.0bn to Rb 61.238.0bn, the expected volume of federal budget revenue was to be increased by Rb 237.6bn, and that of federal budget expenditure - by Rb 212.,2bn; the forecasted federal budget deficit was to be decreased to Rb 42.7bn. Meanwhile, the increase in the size of budget expenditure planned for 2012 may turn out to be higher than that of the federal budget's revenue base, because the movement of federal budget revenue in the second half-year of 2012 points to a steady decline in the revenue volumes as a share of GDP displayed by nearly all the indices of tax-generated and other types of revenues.

Analysis of the Main Parameters of Federal Budget Execution in January-October 2012

Federal budget revenue as a share of GDP over the period of January-October 2012 dropped by 0.4 pp. of GDP on the same period of 2011, while the size of oil and gas revenues increased by 0.1 pp. of GDP. The size of federal budget expenditure as a share of GDP rose by 1.5 pp. of GDP. Revenue growth in absolute terms amounted to Rb 1,214.2bn, whereas the size of expenditure increased by Rb 1,896.1bn. As a result, the federal budget was implemented with a surplus of Rb 719.6bn, which is by 1.8 pp. of GDP below the level recorded in the same period of 2011. The volume of the non-oil and gas deficit amounted to Rb 4,556.6bn (9.1% of GDP), which is by 1.9 pp. of GDP above the level registered in the first 10 months of last year (*Table 1*).

Table 1

Main Parameters of the RF Federal Budget in January-October 2011–2012

	January-October 2012		January-October 2011		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	10,455.4	20.9	9,241.2	21.3	-0.4
Oil and gas revenues	5,276.2	10.5	4,535.3	10.4	0.1
Expenditure, including:	9,735.8	19.5	7,839.7	18.0	1.5
interest	293.3	0.5	226.4	0.5	0.0
non-interest	9,442.5	19.0	7,613.3	17.5	1.5
Federal budget surplus (deficit)	719.6	1.4	1,401.5	3.2	-1.8
Non-oil and gas deficit	-4,556.6	-9.1	-3,133.8	-7.2	-1.9
GDP estimate		49,799		43,314	

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

The movement of federal budget revenue over January–October 2012 (see *Table 2*) displays an increase in of PIT receipts (by 0.3 pp. of GDP) and a slight growth of receipts of domestic excises – by 0.1 pp. of GDP on the same period of last year. The receipts of domestic VAT and federal budget revenues from foreign trade, expressed as shares of GDP, demonstrate a decline over the first 10 months of 2012 on the period on January–October 2011 – by 0.2 pp. and 0.4 pp. respectively.

Table 2

Receipts of the Main Taxes in the Federal Budget in January–October 2011–2012

	January–October 2012		January–October 2011		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
1. Tax receipts, including:					
Tax on profits of organizations	322.5	0.6	287.9	0.6	0.0
VAT on goods sold in RF territory	1,602.8	3.2	1,485.1	3.4	-0.2
VAT on goods imported into RF territory	1,360.5	2.7	1,195.9	2.7	0.0
Excises on goods produced in RF territory	277.3	0.5	191.9	0.4	0.1
Excises on goods imported into RF territory	42.2	0.0	36.0	0.0	0.0
Tax on mineral resources extraction	2,016.7	4.0	1,637.7	3.7	0.3
2. Revenues from foreign trade	4,036.5	8.1	3,683.2	8.5	-0.4

Source: RF Federal Treasury; Gaidar Institute's estimates

It can be noted that the downward trend displayed by the movement of federal budget receipts of tax and non-tax revenues as shares of GDP became evident already on the basis of the results of the first 8 months of 2012 (*see Table 3*). Its manifestations were the somewhat lower receipts of the tax on mineral resources extraction, export customs duties, domestic VAT (no more than by 0.1–0.2 pp. of GDP each). By the results of the period of January – October 2012, this trend became more prominent.

Table 3

Movement of Federal Budget Revenue in 2012, % of GDP

Index	Results of year's first 7 months	Results of year's first 8 months	Results of year's first 9 months	Results of year's first 10 months
federal budget revenue, including:	22.1	22	21.3	20.9
- tax on profits of organizations	0.7	0.8	0.7	0.6
- VAT on goods sold in RF territory	3.5	3.3	3.3	3.2
- VAT on goods imported into RF territory	2.8	2.9	2.8	2.7
- excises on goods produced in RF territory	0.6	0.6	0.6	0.5
- excises on goods imported into RF territory	0.1	0.1	0.1	0.0
- tax on mineral resources extraction	4.3	4.2	4.1	4.0
2. Revenues from foreign trade	8.7	8.6	8.3	8.1
Percentage of forecasted volume of federal budget revenue for 2012, %	57.1	65.9	74.0	82.5

Source: Gaidar Institute's estimates.

Over the last four months of 2012, the federal budget receipts from all the main tax and non-tax sources demonstrated a decline, including revenues from foreign trade - by 0.6 pp. of GDP; revenues from tax on mineral resources extraction and domestic VAT – by 0.3 pp. of GDP; revenues from tax on profit, VAT on imports, excises - by 0,1 pp. of GDP. By the results of the first 10 months of 2012, federal budget received 82.5% of the forecasted amount of revenues, while this index for the same period of 2011 was 89.7%.

According to the forecast published by the RF Ministry of Finance¹, the amounts of federal budget revenue received in November and December 2012 are going to be Rb 1,134.2bn and 1,325bn respectively. However, these estimates were not confirmed by the monthly reports on tax and non-tax receipts (in July, receipts amounted to Rb 1,045.5bn; in August – to Rb 1,107.9bn; in September – to 1,032.4bn; in October - to 1,070.0bn), while no further potential exists for increasing tax receipts and revenues from foreign trade. Possibly, some additional revenue may be generated by property privatization or by sale of assets, but no relevant information concerning such transactions has been released so far.

Thus, it is highly probable that the RF Government's expectations of receiving an additional revenue in the amount of Rb 237.6bn in the year's last two months will prove to be unrealistic. The result will be an increase of federal budget deficit as demonstrated by the year's results to a level above the forecasted value stipulated in the draft law on the 2012 federal budget.

Growth of expenditure (see Table 4) over the January through October period of 2012 on the same period of last year was displayed by the item 'National Defense' – by 0.4 pp. of GDP; 'National Security and Law-enforcement Activity' – by 0.5 pp. of GDP; 'Education' – by 0.2 pp. of GDP; 'Health Care' – by 0.1 pp. of GDP; and 'Social Policy' – by 0.6 pp. of GDP. The federal budget expenditure items 'Housing and Utilities Sector' and 'Interbudgetary transfers' declined, as demonstrated by the results of the first 10 months of 2012, by 0.2 pp. of GDP each on the period of January – October 2011. The other items of federal budget expenditure over the first 10 months of 2012 remained at the same level as in January - October of last year. The cash-based execution of the federal budget in the first 10 months of 2012 amounted to 76.0% of the per annum budget allocations for 2012.

Table 4

Execution of Federal Budget Expenditure in January-October 2011–2012

	January-October 2012		January-October 2011		Deviation, p. p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total, including:	9735.8	19.5	7839.7	18.0	1.5
Nationwide issues	609.7	1.2	543.1	1.2	0.0
National defense	1345.7	2.7	1036.7	2.3	0.4
National security and law-enforcement activity	1283.5	2.5	890.8	2.0	0.5
National economy	1271.0	2.5	1093.7	2.5	0.0
Housing and utilities sector	87.1	0.1	169.8	0.3	-0.2
Environment protection	18.6	0.0	11.7	0.0	0.0
Education	515.3	1.0	388.5	0.8	0.2
Culture and cinematography	65.3	0.1	54.3	0.1	0.0

¹ Information published on the RF Ministry of Finance's website.

Health care	444.4	0.8	330.2	0.7	0.1
Social policy	3228.2	6.4	2516.7	5.8	0.6
Physical culture and sports	36.0	0.0	33.2	0.0	0.0
Mass media	63.4	0.1	50.4	0.1	0.0
Government debt servicing	293.3	0.5	226.4	0.5	0.0
Interbudgetary transfers	474.2	0.9	494.1	1.1	-0.2

Source: RF Federal Treasury; Gaidar Institute's estimates

As reported by the RF Ministry of Finance, the residuals of the Reserve Fund and National Welfare Fund as of the end of October 2012 amounted to Rb 1,934.1bn and Rb 2,748.7bn respectively.

In October 2012, the volume of foreign government debt slightly declined (by \$ 800m), thus amounting as of the end of October to \$ 40.5bn. The volume of domestic government debt increased by Rb100bn and amounted as of 1 November 2012 to Rb 3,930.8bn.

Draft Law on Introducing Alterations in the 2012 Federal Budget

On 30 October 2012, the RF Government submitted to the RF State Duma a draft law on introducing alterations in the 2012 federal budget, whereby the forecasted GDP volume by the year's results was to increase from Rb 60,590.0bn to Rb 61.238.0bn, the forecasted volume of federal budget revenue was to be increased by Rb 237.6bn to Rb 12,914.6bn, and that of federal budget expenditure - by Rb 212.2bn to Rb 12,957.3bn; the forecasted federal budget deficit was to be decreased to Rb 42.7bn. So, the federal budget surplus observed over several months in a row and the low probability of any significant downward movement of hydrocarbon prices on the world market until the year's end prompted the RF Government to make some upward adjustments to the parameters of federal budget revenue and expenditure.

According to the draft law, the overall volume of budget allocations for the fulfillment of public standard obligations in 2012 is to be cut by Rb 12.6bn; at the same time, the amount of expenditure earmarked for the preparation to the 2014 Winter Olympics and the support of the military-industrial complex has been increased. Some additional budget funding is allocated to the Open-end Joint-stock Company Russian Railways – for the implementation of transport infrastructure projects for the Sochi 2014 Winter Olympic Games (an increase by Rb 35bn – to Rb 49.4bn) and the development of the transport network in the Moscow region (an increase by Rb 25.9bn – to Rn 43.2bn).

The financial support of the enterprises of the military-industrial complex that have recently been transformed into joint-stock companies is becoming stronger. Thus, for example, while in the initial version of the law on the 2012 federal budget it was planned to allocate to the JSC *Proizvodstvennoe ob"edinenie 'Severnyi mashinostroitel'noe predpriatie'* ["Industrial Amalgamation 'Northern Machine-building Enterprise'"] a total of approximately Rb 260m to cover the interest on the loans issued to that company by *Vneshekonombank* [Bank for Development and Foreign Economic Affairs] the new draft law already envisages that it should receive budget subsidies in the amount of Rb 2.8bn, which will enable it to pay interest on as well as to redeem its debt. Budget support is also granted to some other companies belonging to the military-industrial complex: OJSC *Ob'edinennaia sudostroitel'naia korporatsia* [United Shipbuilding Corporation] (Rb 3.7bn), OJSC *Oboronprom* (Rb 5.4bn), OJSC *Ob'edinennaia aviaostroitel'naia korporatsia* [United Aircraft-building Corporation] (Rb 2.4bn).

Thus, the RF Government continues to increase the volume of support granted to the military-industrial complex and to disregard the fact that the problems existing in that sphere cannot be solved by simply injecting more budget funding, while doing nothing in terms of implementing new managerial approaches oriented to improving the performance level. .

Execution of the Consolidated Budget of RF Subjects in January–September 2012

As reported by the RF Federal Treasury, the consolidated budget revenue of RF subjects in the first 9 months of 2012 amounted to 12.9% of GDP, which is by 2.1 pp. of GDP below its level recorded in the same period of 2011 (see *Table 5*). In absolute terms, federal budget revenue growth amounted to Rb 70.8bn. The consolidated budget expenditure of RF subjects in January – September 2012 dropped on the same period of last year by 0.2 pp. of GDP and amounted to 12.3% of GDP. As shown by the results of the first nine months of 2012, the consolidated budget of RF subjects is executed with a surplus of 0.6% of GDP (Rb 251.2bn), which is by 1.6 pp. of GDP lower than the same index for the first nine months of 2011.

Table 5

Main Parameters of the Consolidated Budget of RF Subjects in January–September 2011–2012

	January - September 2012		January – September 2011		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	bn Rb	
Revenue, including:	5,688.5	12.9	5,617.7	14.7	-2.1
- tax on profits of organizations	1,445.1	3.2	1,511.9	3.9	-0.7
- PIT	1,566.2	3.5	1,378.5	3.6	-0.1
- VAT, domestic	0.2	0.0	0.2	0.0	0.0
- excises, domestic	331.3	0.7	278.6	0.7	0.0
- tax on aggregate income	205.7	0.4	158.5	0.4	0.0
- tax on property	554.3	1.2	503.0	1.3	-0.1
- gratis transfers from other budgets of RF budgetary system	1,126.4	2.5	1,210.4	3.1	-0.6
Expenditure, including:	5,437.3	12.3	4,786.1	12.5	-0.2
Consolidated budget surplus (deficit)	251.2	0.6	831.6	2.2	-1.6
GDP estimations		44,077		38,209	

Source: RF Federal Treasury; Gaidar Institute's estimates

By comparison with the same period of last year, the first nine months of 2012 saw a decline in the RF subjects' consolidated budget's revenues from the majority of taxes, including from tax on profit – by 0.7 pp. of GDP; from personal income tax (PIT) – by 0.1 pp. of GDP; from tax on property – by 0.1 pp. of GDP; while its interbudgetary transfer receipts dropped by 0.6 pp. of GDP. So far as the budgets of RF subjects are concerned, their tax receipts from VAT, domestic excises and tax on property, expressed as shares of GDP, registered over the course of the first 9 months of 2012 remained at the same level as last year.

The execution of the consolidated budget expenditure of RF subjects (*see Table 6*) over January-September 2012 amounted to Rb 5,437.3bn, or 12.3% of GDP, which is by 0.2 pp. of GDP below the corresponding index for the first nine months of last year.

Table 6

Execution of the Consolidated Budget Expenditure of RF Subjects in January-September 2011–2012

	January-September 2012		January-September 2011		Deviation, pp. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total, <i>including</i>	5437.3	12.3	4786.1	12.5	-0.2
Nationwide issues	342.5	0.7	315.7	0.8	-0.1
National defense	0.2	0.0	0.2	0.0	0.0
National security and law-enforcement activity	57.0	0.1	176.2	0.4	-0.3
National economy	962.2	2.1	767.1	2.0	0.1
Housing and utilities sector	536.5	1.2	538.7	1.4	-0.2
Environment protection	11.9	0.0	9.9	0.0	0.0
Education	1391.5	3.1	1109.1	2.9	0.2
Culture and cinematography	173.2	0.3	147.5	0.3	0.0
Health care	890.6	2.0	743.5	1.9	0.1
Social policy	892.6	2.0	812.5	2.1	-0.1
Physical culture and sports	90.6	0.2	85.1	0.2	0.0
Mass media	24.9	0.0	21.4	0.0	0.0
Government debt servicing	48.8	0.1	45.4	0.0	0.0
Interbudgetary transfers	12.4	0.0	11.7	0.0	0.0

Source: RF Federal Treasury; Gaidar Institute's estimates

A slight increase, on the period of January – September 2011, in the amount of consolidated budget expenditure over the period under consideration was displayed by the item ‘Education’ – by 0.2 pp. of GDP; and ‘National Economy’ and ‘Health Care’ – by 0.1 pp. of GDP each. The shrinkage, this year, in the amount of regional budget expenditure allocated to the item ‘National Security and Law-enforcement Activity’ – by 0.3 pp. of GDP - occurred as a result of the transfer, from the year 2012 onwards, of the powers to fund the police force from the regional to federal level. The items ‘Nationwide Issues’, ‘Housing and Utilities Sector’, ‘Social Policy’ demonstrated a decline, in January – September 2012 on the same period of last year, in the amount of allocated expenditure – by 0.1–0.2 pp. of GDP. The other expenditure items of the consolidated budget of RF subjects over the first 9 months of 2012 remained at the same level as last year.

The amount of government debt of RF subjects as of the end of September 2012 amounted to Rb 1,121.3bn, which is by nearly Rb 6bn higher than the previous month's index.