

RUSSIA'S STATE BUDGET IN H1 2014

T.Tischenko

According to the data provided by the Federal Treasury of Russia, federal budget revenues gained 0.6 p.p. of GDP during the period of January to July 2014 relative to the corresponding period of the previous year; likewise, consolidated budget revenues of the constituent territories of the Russian Federation increased 0.2 p.p. of GDP in H1 2014 compared to January-June 2013. The federal budget ran a surplus of 1.6% of GDP as of the end of the period between January and July 2014, while the consolidated budget of the constituent territories of the Russian Federation ran a surplus of 0.3% of GDP in the period of January to June 2014. However, although federal budget revenues reached 21.1% of GDP as of the end of six months in 2014, they stood at only 20.4% of GDP during the first seven months of the current year, i.e. down by 0.7 p.p. of GDP in July. Consolidated budget revenues of the constituent territories of the Russian Federation diminished by 0.6 p.p. of GDP as of the end of six months in 2014 compared to the volume of revenues observed in the period between January and May of the same year.

Analysis of the basic execution parameters of the federal budget during the first seven months in 2014

During the period between January and July 2014, the federal budget received Rb 8254,8bn, or 20.4% of GDP, of revenues, by 0.6 p.p. of GDP more than the value observed during the corresponding period of the previous year (Table 1). Oil and gas revenues accounted for 10.7% of GDP, by 0.9 p.p. of GDP more than during the first seven months in 2013, whereas revenues (other than oil and gas revenues) diminished by 0.3 p.p. of GDP as of the end of the period between January and July 2014 compared to the corresponding period of the previous year and accounted for 9.7% of GDP. Federal budget expenditures amounted to Rb 7578,0bn (18.8% of GDP) during the period of January to July 2014, by 0.3 p.p. of GDP less than the value observed during the first seven months of the

previous year. As of the end of the period between January and July 2014, the federal budget ran a surplus of 1.6% of GDP (Rb 676,8bn), by 0.9 p.p. of GDP more than the balance of federal budget execution in the period of January to July 2013. Furthermore, the volume of non-oil-and-gas deficit as a percentage of GDP remained unchanged relative to the corresponding period of the previous year and accounted for 9.1% of GDP.

During the first seven months of the current year federal budget revenues as a percentage of GDP increased compared to the corresponding period of 2013 (Table 2) through growth in revenues from the profit tax (by 0.1 p.p. of GDP), internal VAT (by 0.2 p.p. of GDP), mineral extraction tax (by 0.4 p.p. of GDP), and foreign trade (by 0.1 p.p. of GDP). Federal budget revenues from the "imports" VAT diminished by 0.2 p.p. of GDP in January–July 2014 relative to the

Table 1

RUSSIA'S FEDERAL BUDGET BASIC PARAMETERS IN THE PERIOD BETWEEN JANUARY AND JULY IN 2013 AND 2014

	January to July 2014		January to July 2013		Deviation, as p.p. of GDP
	billions of rubles	as a % of GDP	billions of rubles	as a % of GDP	
Revenues, including:	8254.8	20.4	7329.0	19.8	0.6
Oil and gas revenues	4313.9	10.7	3635.7	9.8	0.9
Revenues (other than oil and gas revenues)	3940.9	9.7	3693.3	10.0	-0.3
Expenditures, including:	7578.0	18.8	7090.8	19.1	-0.3
interest expense	225.7	0.6	201.2	0.5	0.1
non-interest expense	7352.3	18.2	6889.6	18.6	-0.4
Federal budget surplus (deficit)	676.8	1.6	238.2	0.7	0.9
Deficit (other than oil and gas deficit)	-3637.1	-9.1	-3397.5	-9.1	0.0
GDP evaluation	40380		37079		

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

Table 2

FEDERAL BUDGET BASIC TAX REVENUES IN THE PERIOD BETWEEN JANUARY AND JULY IN 2013 AND 2014

	January to July 2014		January to July 2013		Deviation, as p.p. of GDP
	billions of rubles	as a % of GDP	billions of rubles	as a % of GDP	
1. Tax revenues, including:	7560.3	18.6	6699.7	18.0	0.6
corporate profit tax	239.8	0.6	201.9	0.5	0.1
VAT on goods sold on the territory of the Russian Federation	1302.3	3.2	1114.8	3.0	0.2
VAT on goods imported to the Russian Federation	950.2	2.3	921.7	2.5	-0.2
excises on goods manufactured on the territory of the Russian Federation	283.3	0.7	251.8	0.7	0.0
excises on goods imported to the Russian Federation	38.3	0.1	32.2	0.1	0.0
Mineral extraction tax	1706.3	4.2	1420.8	3.8	0.4
2. Foreign trade revenues	3040.1	7.5	2756.5	7.4	0.1

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

first seven months of 2013, while revenues from internal and import excises stood at 0.7 and 0.1% of GDP respectively, remaining at the level observed in the period of January to July 2013.

Following listed are the trends that were observed in the federal budget expenditures (Table 3) during the first seven months of the current year relative to the period of January to July 2013:

- growth in expenditures in the sections of *National Defense* (by 0.6 p.p. of GDP), *Nationwide Issues*, *National Economy* and *Public Debt Servicing* (by 0.1 p.p. of GDP each);

- reduction of expenditures in the sections of *Social Policy* (by 0.9 p.p. of GDP), *National Security and Law Enforcement*, *Education and Healthcare* (by 0.1 p.p. of GDP each).

Within the first seven months in 2014 the other expenditure sections of federal budget as a percentage of GDP remained at the level observed in the period of January and July 2013.

In July 2014, the volume of the Reserve Fund and the National Wealth Fund increased by Rb 158,2bn and Rb 131,4bn respectively, because of the foreign exchange difference, and as of 01.08.2014 they amounted to Rb 3095,2bn and Rb 3088,8bn respectively.

Table 3

FEDERAL BUDGET EXPENDITURES IN THE PERIOD BETWEEN JANUARY AND JULY IN 2013 AND 2014

	January to July 2014		January to July 2013		Deviation, as p.p. of GDP
	billions of rubles	as a % of GDP	billions of rubles	as a % of GDP	
Expenditures, total	7578.0	18.8	7090.8	19.1	-0.3
Including					
Nationwide Issues	524.5	1.3	453.7	1.2	0.1
National Defense	1584.2	3.9	1236.2	3.3	0.6
National Security and Law Enforcement	1072.0	2.6	1019.4	2.7	-0.1
National Economy	935.5	2.3	822.8	2.2	0.1
Public Utilities Sector	66.3	0.2	66.9	0.2	0.0
Environmental Protection	21.7	0.05	16.1	0.05	0.0
Education	386.2	1.0	402.0	1.1	-0.1
Culture and Cinematography	48.5	0.1	43.4	0.1	0.0
Healthcare	260.9	0.6	266.7	0.7	-0.1
Social Policy	1927.4	4.8	2120.9	5.7	-0.9
Physical Culture and Sports	24.7	0.1	34.3	0.1	0.0
Mass Media	46.5	0.1	49.0	0.1	0.0
Public Debt Servicing	225.7	0.6	201.2	0.5	0.1
Inter-Budget Transfers	453.7	1.1	358.0	1.1	0.0

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

Table 4

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

	January to June 2014		January to June 2013		Deviation as p.p. of GDP
	billions of rubles	as a % of GDP	billions of rubles	as a % of GDP	
Revenues including:	4052.1	12.0	3698.5	11.8	0.2
- corporate profit tax	976.5	2.9	834.8	2.7	0.2
- personal income tax	1197.0	3.5	1119.3	3.6	-0.1
- internal excises	215.6	0.6	233.6	0.7	-0.1
- aggregate income tax	170.7	0.5	159.0	0.5	0.0
- property tax	428.0	1.3	406.1	1.3	0.0
- non-repayable receipts from other budgets of the Russian budgetary system	756.8	2.2	671.4	2.2	0.0
Expenditures	3961.8	11.7	3693.2	11.8	-0.1
Surplus (deficit) of the consolidated budget of the constituent territories of the Russian Federation	90.3	0.3	5.3	0.0	0.3
GDP evaluation	33770		31215		

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

Execution of the consolidated budget of the constituent territories of the Russian Federation in H1 2014

According to the data provided by the Federal Treasury of Russia, in H1 2014 *the consolidated budget of the constituent territories of the Russian Federation* generated Rb 4052,1bn of revenues, or 12.0% of GDP, up by 0.2 p.p. of GDP against the value observed in the period of January–June 2013. During the first six month of 2014 consolidated budget expenditures of the constituent territories of the Russian Federation diminished as a percentage of GDP by 0.1 p.p. of GDP

and amounted to Rb 3691,8bn compared to the corresponding period of 2013 (*Table 4*).

Two revenue sections of the consolidated budget of the constituent territories of the Russian Federation saw changes H1 2014 compared to the corresponding period of 2013: revenues from the corporate profit tax increased by 0.2 p.p. of GDP, whereas revenues from the personal income tax and internal excises diminished by 0.1 p.p. of GDP each. In the period between January and June 2014, revenues from internal excises, aggregate income tax and profit tax, as well as non-repayable receipts from other budgets of the Russian

Table 5

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

	January to June 2014		January to June 2013		Deviation, as p.p. of GDP
	billions of rubles	as a % of GDP	billions of rubles	as a % of GDP	
Expenditures, total	3961.8	11.7	3693.2	11.8	-0.1
Including					
Nationwide Issues	248.2	0.7	234.5	0.8	-0.1
National Security and Law Enforcement	41.0	0.1	36.4	0.1	0.0
National Economy	605.6	1.8	596.7	1.9	-0.1
Public Utilities Sector	309.9	0.9	291.0	0.9	0.0
Environmental Protection	8.8	0.03	8.8	0.03	0.0
Education	1210.7	3.6	1115.6	3.6	0.0
Culture and Cinematography	137.5	0.4	123.9	0.4	0.0
Healthcare	579.6	1.7	563.5	1.8	-0.1
Social Policy	668.6	2.0	597.7	1.9	0.1
Physical Culture and Sports	74.5	0.2	64.3	0.2	0.0
Mass Media	19.0	0.1	17.2	0.1	0.0
Public and municipal debt servicing	53.5	0.2	38.2	0.1	0.1

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

budgetary system as a percentage of GDP remained at the level observed during the corresponding period of the previous year.

As of the end of first six months of the current year, consolidated budget expenditures of the constituent territories of the Russian Federation (*Table 5*) in most of the budget sections as a percentage of GDP either saw timid changes or remained at the level observed during the first six months of the previous year; in particular, expenditures on the following three expenditure sections were cut: *Nationwide Issues*, *National Economy* and *Healthcare* (by 0.1 p.p. of GDP each), whereas expenditures on the following two expenditure sections saw an increase: *Social Policy* and *Public and municipal debt servicing* (by 0.1 p.p. of GDP each) relative to the corresponding period of 2013. In H1 2014, cash execution on expenditures of the consolidated budget of the constituent territories of the Russian Federation accounted for 40.3% of the approved annual volume of expenditures and was changed insignificantly compared to the first six months of 2013 (39.5%).

As of the end of the period of January to June 2014, the consolidated budget of the constituent territories of the Russian Federation ran a surplus of Rb 90,3bn or 0.3% of GDP, up by 0.3 p.p. of GDP against the value observed during the first six months of 2013.

The public debt owed by the constituent territories of the Russian Federation amounted to Rb 1733,1bn as of 01.08.2014 (a reduction by Rb 4,4bn during the first seven months in 2014), including:

- loans which the constituent territories of the Russian Federation obtained from credit institutions, foreign banks and international financial institutions – Rb 653,4bn;
- budget loans from other budgets of the budget system of the Russian Federation – Rb 529,0bn;
- government securities of a constituent territory of the Russian Federation – Rb 433,4bn.

The Government of Russia is still working on a draft of the federal budget for 2015 and 2016–2017. The

adjusted scenario anticipates a decline in GDP growth rate to 1% from 2% of GDP and inflation growth up to 6% in 2015.

Given the situation when the country has entered the “downward phase of the economic cycle”¹, the discussion of the need to increase public spending or follow strictly the fiscal rules remains topical. “Cutting public spending will further accelerate the adverse trends in the economy, which in turn will impede the enhancement of fiscal positions. A responsible approach towards increasing budget deficit will enable us to ensure a new surge of fresh economic energy, which is very important amid the escalating geopolitical situation”, said Ministry of Economic Development of Russia A. Ulyukayev². However, the Ministry of Finance’s still has the same position as to the containment of spending and stop using stabilizations funds’ resources. “There is big temptation to share the reserves with everyone in order to stop all endless blames for avarice. We know, however, that this will be followed by a hard “withdrawal syndrome”. This is our concern that has been reported to the top-ranking government officials”, said First Deputy Finance Minister Tatyana Nesterenko,³

It should be noted that the administrative dilemma of cutting public spending with a view to reducing liabilities or increasing government funding in order to promote economic growth is being faced not only by Russia, but also many developed and developing countries, and no uniform efficient solutions to these problems have been developed to date. ●

1 An extract from Economic Development Minister Ulyukayev’s article published in *Vedomosti* newspaper, available in Russian at: <http://www.economy.gov.ru/wps/wcm/connect/economylib4/mer/press/interview/20140825>

2 <http://www.economy.gov.ru/wps/wcm/connect/economylib4/mer/press/interview/20140825>

3 An extract from an interview which T. Nesterova gave to *Budget* journal, available in Russian at http://minfin.ru/ru/press/speech/index.php?id_4=22431