

## RUSSIA'S STATE BUDGET IN JANUARY–NOVEMBER 2014

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According to data released by the RF Federal Treasury, Russia's federal budget revenue over the period of January–November 2014 increased by 0.5 p.p. of GDP on the same period of 2013 due to growth, by 0.5 p.p. of GDP, of the volume of oil and gas revenue.

The main factor responsible for the upward movement of the oil and gas revenue index (and the corresponding upward movement of federal budget revenue) in face of plummeting world oil prices (to \$ 60 per barrel) was the ruble's dramatic weakening against the USD and euro. Thus, the federal budget surplus of 1.9 % of GDP achieved over the first eleven months of 2014, as well as the surplus of 0.4 % of GDP in the consolidated budget of RF subjects achieved over the ten months of 2014, can by no means be regarded as manifestations of the budget system's sustainability as a whole. As early as late October 2014, Moody's Investors Service rating agency downgraded Russia's credit rating index from Baa1 to Baa2, pointing out in this connection that any further weakening of this country's national currency will have an extremely negative effect on the economy<sup>1</sup>.

### Execution of the Federal Budget over the Period of January–November 2014 r.

Over the period of January–November 2014, federal budget revenue amounted to Rb 12,950.8bn or 19.7% of GDP, which represents a rise by 0.5 p.p. of GDP on the corresponding period of last year (Table 1). Oil and gas revenues increased to 10.2% of GDP (Rb 6,718.8 bn), which is by 0.5 pp. of GDP above the corresponding index for the first eleven months of 2013, while the period-end volume of non-oil and gas revenues for January–November 2014 remained at the same level as the corresponding index for the same period of 2013 – 9.5% of GDP. The volume of federal budget expenditure over the period of January–November 2014 climbed to Rb 11,677.5bn (17.8% of GDP), which is 0.4 pp. of GDP below the corresponding index for the first eleven months of last year. The period-end fed-

eral budget for January–November 2014 is executed with a surplus of 1.9% of GDP (Rb 1,273.3 bn), which is by 0.9 p.p. of GDP above the federal budget balance for the same period 2013; at the same time, the volume of the non-oil and gas deficit, in terms of share of GDP, shrank on the corresponding period of last year by 0.4 p.p. of GDP – to 8.3% of GDP.

Over the first eleven months of 2014, the majority of tax-generated revenue items in the RF federal budget, rose on the same period of 2013 (Table 2).

The revenues from foreign trade in terms of share of GDP over the period of January–November 2014 demonstrated no change on their index for the corresponding period of 2013, and thus amounted to 7.3% of GDP; when taken in absolute terms, this index increased over the year by 7.0%, while total growth of federal budget revenue over the period of January–November 2014 increased on the same period of 2013 by 10.2%.

1 <http://www.kommersant.ru/doc/2593550>

Table 1

**MAIN PARAMETERS OF THE RF FEDERAL BUDGET FOR JANUARY–NOVEMBER 2013 AND JANUARY–NOVEMBER 2014**

	January–November 2014		January–November 2013		Deviation, p. p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	12,950.8	19.7	11,758.1	19.2	0.5
Oil and gas revenues	6,718.8	10.2	5,940.7	9.7	0.5
Non-oil and gas revenues	6,232.0	9.5	5,817.4	9.5	0.0
Expenditure, including:	11,677.5	17.8	11,158.2	18.2	-0.4
interest	377.9	0.6	328.8	0.5	0.1
non-interest	11,299.6	17.2	10,829.4	17.7	-0.5
Federal budget surplus (deficit)	1,273.3	1.9	599.9	1.0	0.9
Non-oil and gas deficit	-5,445.5	-8.3	-5,340.8	-8.7	0.4
GDP estimations	65,535		61,240		

Source: RF Ministry of Finance, RF Federal Treasury; IEP's calculations.

Table 2

**RECEIPTS OF THE MAIN TAXES IN THE FEDERAL BUDGET IN JANUARY–NOVEMBER 2013  
AND JANUARY–NOVEMBER 2014**

	January–November 2014		January–November 2013		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
1. Tax receipts, including:	11,814.8	17.9	10,777.8	17.6	0.3
- tax on profits of organizations	372.7	0.6	325.0	0.5	0.1
- VAT on goods sold in RF territory	1,914.2	2.9	1,650.8	2.7	0.2
- VAT on goods imported into RF territory	1,542.6	2.3	1,509.6	2.5	-0.2
- excises on goods produced in RF territory	469.8	0.7	415.9	0.7	0.0
- excises on goods imported into RF territory	63.4	0.1	55.2	0.1	0.0
- tax on mineral resources extraction	2,632.4	4.0	2,315.2	3.8	0.2
2. Revenues from foreign trade	4,819.7	7.3	4,506.1	7.3	0.0

Source: RF Federal Treasury; IEP's calculations.

Table 3

**FEDERAL BUDGET EXPENDITURE FOR JANUARY–NOVEMBER 2013 AND JANUARY–NOVEMBER 2014**

	January–November 2014		January–November 2013		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	11,677.5	17.8	11,158.2	18.2	-0.4
including					
Nationwide issues	769.1	1.2	706.7	1.1	0.1
National defense	2,124.7	3.2	1,695.1	2.8	0.4
National security and law-enforcement activity	1,743.0	2.7	1,695.0	2.8	-0.1
National economy	1,527.7	2.3	1,379.5	2.2	0.1
Housing and utilities sector	87.9	0.1	109.9	0.2	-0.1
Environment protection	40.3	0.06	21.3	0.03	0.03
Education	567.0	0.9	598.2	1.0	-0.1
Culture and cinematography	78.6	0.1	69.2	0.1	0.0
Health care	437.6	0.7	365.1	0.6	0.1
Social policy	3,097.6	4.7	3,495.4	5.7	-1.0
Physical culture and sports	42.4	0.06	51.0	0.08	-0.02
Mass media	65.1	0.1	67.8	0.1	0.0
Government debt servicing	377.9	0.6	328.8	0.5	0.1
Interbudgetary transfers	718.4	1.1	575.0	0.9	0.2

Source: RF Federal Treasury; IEP's calculations.

The receipts of tax on mineral resources extraction in terms of share of GDP over the first eleven months of 2014 increased by 0.2 p.p. of GDP, or by 13.7% in absolute terms, on their index for the period of January–November 2013. The receipts of domestic VAT over the first eleven months 2014 increased by 0.2 p.p. of GDP (16.0% in absolute terms), while the receipts of VAT on imports shrank by 0.2 p.p. of GDP, having increased in absolute terms on the period of January–November 2013 by only 2.2%.

The receipts of tax on profits of organizations over January–November 2014 in terms of share of GDP increased by 0.1 p.p. of GDP, or by 14.7% in absolute terms, on the same index for the corresponding period of 2013. The federal budget revenues generated by domestic excises over the first eleven months of 2014 demonstrated no change in terms of share of GDP on the same period of 2013 and amounted to 0.7% of GDP (vs. growth rate of 13.0% in absolute terms); the

revenues from excises on imports likewise remained unchanged (at the level of 0.1% of GDP) on the period of January–November 2013, while increasing by 14.9% in absolute terms.

Over the first eleven months of 2014, the volume of federal budget expenditure (*Table 3*) in terms of share of GDP dropped on the same index for the period of January–November 2013 by 0.4 p.p. of GDP.

**The Execution of the Consolidated Budget of RF Subjects in January–October 2014**

As reported by the RF Federal Treasury, the *consolidated budget revenue of RF subjects* over the first ten months of 2014 amounted to Rb 7,246.1bn or 12.2% of GDP, which is by 0.2 p.p. of GDP, or by 9.5% in absolute terms, higher than the same index for the period of January–October 2013. The consolidated budget expenditure of RF subjects over the first ten months of 2014 in terms of share of GDP dropped on the same

Table 4

**MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF RF SUBJECTS FOR JANUARY–OCTOBER 2013  
AND JANUARY–OCTOBER 2014**

	January–October 2014		January–October 2013		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	7246.1	12.2	6618.2	12.0	0.2
tax on profits of organizations	1,685.0	2.8	1,457.5	2.6	0.2
PIT	2,080.6	3.5	1,937.1	3.5	0.0
excises, domestic	395.8	0.7	407.5	0.7	0.0
tax on aggregate income	297.1	0.5	276.8	0.5	0.0
tax on property	856.1	1.4	810.3	1.5	-0.1
gratis transfers from other budgets of RF budgetary system	1,313.8	2.2	1,173.9	2.1	0.1
Expenditure	7,023.1	11.8	6,531.7	11.9	-0.1
Consolidated budget deficit (surplus) of RF subjects	223.0	0.4	86.5	0.1	0.3
GDP estimations	59,258		55,003		

Source: RF Federal Treasury; IEP's calculations.

Table 5

**CONSOLIDATED BUDGET EXPENDITURE OF RF SUBJECTS FOR JANUARY–OCTOBER 2013  
AND JANUARY–OCTOBER 2014**

	January–October 2014		January–October 2013		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total including	7,023.1	11.8	6,531.7	11.9	-0.1
Nationwide issues	450.9	0.8	414.0	0.7	0.1
National security and law-enforcement activity	77.3	0.1	72.6	0.1	0.0
National economy	1,207.7	2.0	1,174.8	2.1	-0.1
Housing and utilities sector	619.1	1.0	604.5	1.1	-0.1
Environment protection	18.2	0.03	17.3	0.03	0.0
Education	1,937.5	3.3	1,807.6	3.3	0.0
Culture and cinematography	246.8	0.4	218.9	0.4	0.0
Health care	1,029.5	1.7	982.8	1.8	-0.1
Social policy	1,170.1	2.0	1,020.0	1.8	0.2
Physical culture and sports	136.4	0.2	117.2	0.2	0.0
Mass media	33.6	0.06	32.2	0.06	0.0
Government and municipal debt servicing	89.0	0.1	62.6	0.1	0.0

Source: RF Federal Treasury; IEP's calculations.

period of 2013 by 0.1 p.p. of GDP, thus amounting to 11.8% of GDP, and increased in absolute terms by 12.0% to Rb 7,023.1bn (Table 4).

The following consolidated budget revenue items of RF subjects for the period of January–October 2014 increased in terms of share of GDP on the same period of 2013:

- tax on profits – by 0.2 p.p. of GDP to 2.8% of GDP; in absolute terms – by 15.7%;
- gratis transfers from other budgets of the RF budgetary system – by 0.1 p.p. of GDP to 2.2 p.p. of GDP, or by 12.0% in absolute terms.

The consolidated budget revenues of RF subjects from tax on property received over the first ten months

of 2014 declined by 0.1 p.p. of GDP on the same index for the period of January–October 2013, while increasing by 5.7% in absolute terms).

The consolidated budget revenues of RF subjects from other items in terms of share of GDP remained at the same level as in the corresponding period of last year:

- personal income tax – 3.5% of GDP (+7.4 % in absolute terms);
- domestic excises – 0.7% of GDP (–2.9% in absolute terms);
- tax on aggregate income – 0.5 % of GDP (+7.6% in absolute terms).

Over the first ten months of 2014, the majority of expenditure items in the consolidated budget of RF subjects

(Table 5) demonstrated only slight changes or remained at the same levels as in January–October 2013. The following items declined: ‘National Economy’ – by 0.1 p.p. of GDP (to 2.0% of GDP); ‘Health Care’ – by 0.1 p.p. of GDP (to 1.7% of GDP); ‘Housing and Utilities Sector’ – by 0.1 p.p. of GDP (to 1.0% of GDP). Expenditure growth was displayed by the items ‘Social Policy’ – by 0.2 p.p. of GDP to 2.0% of GDP, and ‘Nationwide Issues’ – by 0.1 p.p. of GDP to 0.8% of GDP.

The consolidated budget of RF subjects for the period of January–October 2014 is executed with a surplus in the volume of Rb 223.0bn or 0.4% of GDP, which is by 0.3 p.p. of GDP above the corresponding index for the period of the first ten months of 2013.

On the whole, the trends in the movement of the budgetary system’s revenue and expenditure are compatible with their average annual trends, and so it can

be expected that the 2014 year-end federal budget will also be executed with a surplus, while the amount of deficit in the consolidated budget of RF subjects will not exceed its planned target (Rb 1,218.5bn).

In the medium-term perspective, the budgetary system will be operating under an increasing pressure resulting from the combined effects of negative external and internal factors. On 17 December 2014, head of the Audit Chamber Tatiana Golikova announced that the ceiling for the spending obligations of the RF federal budget for 2015–2017 would be reduced by 10%<sup>1</sup>. Such budgetary maneuvers, while being a necessary measure in the current situation, can hardly conduce to a recovery of Russia’s economy in absence of the long-due institutional reform. ●

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1 Source: INTERFAX.RU