

RUSSIA'S STATE BUDGET IN JANUARY–DECEMBER 2014

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According to the preliminary data of the Ministry of Finance of the Russian Federation, on the basis of the results of January–December 2014 both revenues and expenditures of the federal budget rose by 0.3 p.p. of GDP as compared to the same period of the previous year. For 11 months of 2014, the revenues and expenditures of the consolidated budget of constituent entities of the Russian Federation rose, too, by 0.2 and 0.1 p.p. of GDP, respectively, as compared to January–November 2013. On the basis of the results of 2014, the deficit of the federal budget amounted to 0.5% of GDP, while the consolidated budget of constituent entities of the Russian Federation in January–November 2014 was executed with a small surplus of 0.1% of GDP. So, consolidation of negative factors such as a drop in global prices on hydrocarbons and depreciation of the ruble exchange rate has not affected much so far the execution of the revenue and expenditure sides of the federal budget and the consolidated budget of constituent entities of the Russian Federation. However, the Government of the Russian Federation and experts in public finances¹ are unanimous that 2015 is going to become one of the most complicated years for the budget system of Russia in the past 15 years.

Preliminary Estimates of Execution of the Federal Budget in January–December 2014¹

According to the data of the Ministry of Finance of Russia, on the basis of the results of January–December 2014 federal budget revenues amounted to 20.0% of GDP (Rb 14,488.2bn), which is 0.3 p.p. of GDP higher than the value for the same period of 2013 (*Table 1*); in absolute terms in January–December 2014 federal budget revenues rose by 11.3% as compared to the same period of the previous year. For 12 months of 2014, oil and gas revenues rose by 0.3 p.p. of GDP to 10.2% of GDP (Rb 7,405.0bn) as compared to the previous year with cash execution of the budget at 99.4% of the forecasted volumes. In January–December 2014, the share of oil and gas revenues in the total volume of revenues of the federal budget rose insignificantly (to

51.0% against 50.3% in the same period of the previous year), while the non-oil and gas deficit rose by 0.3 p.p. of GDP to 10.7% of GDP as compared to January–December 2013.

In January–December 2014, federal budget expenditures amounted to Rb 14,824.1bn (20.5% of GDP) which is 0.3 p.p. of GDP higher than within 12 months of the previous year; in absolute terms, in January–December 2014 federal budget expenditures rose by 11.1% as compared to the same period of the previous year. On the basis of the results of January–December 2014, the federal budget was executed with a deficit of 0.5% of GDP (Rb 335.9bn), which in shares of GDP was equal to the amount of balance of the federal budget execution in the same period of 2013.

For 12 months of 2014, as compared to the same period of the previous year there were mixed changes in federal budget revenues in shares of GDP (*Table 2*) by individual components. So, in January–December 2014 revenues

1 For more details, see the Web-site of the Gaidar Forum 2015: <http://www.gaidarforum.ru>

Table 1

THE MAIN PARAMETERS OF THE FEDERAL BUDGET IN JANUARY–DECEMBER 2013–2014

	January–December 2014		January–December 2013		Fluctuation	
	Billion Rb	% GDP	Billion Rb	% of GDP	Billion Rb	p.p. of GDP
Revenues, including:	14488.2	20.0	13019.9	19.7	1468.3	0.3
oil and gas revenues	7405.0	10.2	6534.0	9.9	871.0	0.3
non-oil and gas revenues	7083.2	9.8	6485.9	9.8	597.3	0.0
Expenditures, including:	14824.1	20.5	13342.9	20.2	1481.2	0.3
interest expenditures	415.6	0.6	360.3	0.5	55.3	0.1
non-interest expenditures	14408.5	19.9	12982.6	19.7	1425.9	0.2
Surplus (deficit) of the federal budget	-335.9	-0.5	-323	-0.5	-12.9	0.0
Non-oil and gas deficit	7069.1	-10.7	6857.0	-10.4	-212.1	-0.3
GDP estimate	72300		66194			

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

Table 2

FEDERAL BUDGET REVENUES FROM THE MAIN TAXES IN JANUARY–DECEMBER 2013–2014

	January–December 2014		January–December 2013		Fluctuation, p.p. of GDP
	Billion Rb	% GDP	Billion Rb	% GDP	
Tax revenues, total, including	13249.5	18.3	11961.8	18.0	0.3
corporate profit tax	410.9	0.6	352.2	0.5	0.1
VAT on goods sold in the Russian Federation	2178.0	3.0	1868.2	2.8	0.2
VAT on goods imported to the Russian Federation	1746.5	2.4	1670.8	2.5	-0.1
excises on goods produced in the Russian Federation	520.4	0.7	461.0	0.7	0.0
excises on goods imported to the Russian Federation	71.4	0.1	63.4	0.1	0.0
severance tax	2857.9	3.9	2535.2	3.8	0.1
Revenues from foreign economic activities	5464.4	7.6	5011.0	7.6	0.0

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

from foreign economic activities in shares of GDP did not virtually change as compared to the same period of 2013 and amounted to 7.6% of GDP; in absolute terms their growth amounted to 9.0%. For 12 months of 2014, revenues from the severance tax in shares of GDP rose by 0.1 p.p. of GDP or 12.7% in absolute terms as compared to January–December 2013. For 12 months of 2014, federal budget revenues from the domestic VAT rose by 0.2 p.p. of GDP as compared to January–December 2013 (16.6% in absolute terms), while as regards the import VAT revenues fell by 0.1 p.p. of GDP and increased by the mere 4.5% in absolute terms.

In January–December 2014, revenues from corporate profit tax in shares of GDP increased by 0.1 p.p. of GDP or 16.7% in absolute terms as compared to the same period of the previous year. For 12 months of 2014, federal budget revenues from domestic excises in shares of GDP did not change and amounted to 0.7% of GDP (growth of 12.9% in absolute terms); as regards import excises revenues remained unchanged, too, at the level of 0.1% of GDP as compared to January–December 2013 and increased by 12.6% in absolute terms.

For 12 months of 2014, federal budget expenditures (Table 3) in shares of GDP changed as follows as compared to January–December 2013:

- expenditures on social policy decreased by 1.0 p.p. of GDP or 10.9% in absolute terms;
- expenditures on national defense rose by 0.2 p.p. of GDP or 17.8% in absolute terms;
- expenditures on national security and law enforcement activities fell by 0.2 p.p. of GDP; in absolute terms growth amounted to 1.2 %;
- expenditures on national economy rose substantially by 1.4 p.p. of GDP or 65.6% in absolute terms;
- expenditures on federal issues remained unchanged in shares of GDP, that is, 1.3% of

GDP; in absolute terms growth amounted to 9.1%;

- expenditures on inter-budget transfers rose by 0.1 p.p. of GDP or 22.1% in absolute terms;
- expenditures on healthcare fell by 0.1 p.p. of GDP; in absolute terms growth amounted to 6.7%;
- expenditures on education fell by 0.1 p.p. of GDP, too; in absolute terms they fell by 5.1%;
- expenditures on public debt servicing rose by 0.1 p.p. of GDP to 0.6% of GDP or 22.1 % in absolute terms;
- expenditures on housing and public utilities fell by 0.1 p.p. of GDP which was equal to a decrease of 32.5% in absolute terms;
- expenditures on protection of the environment rose by 0.02 p.p. of GDP; growth of 91.7% in absolute terms;
- expenditures in shares of GDP remained in the volume of 0.1% of GDP on physical culture and sport (growth of 4.4% in absolute terms), culture and cinema (growth of +3.2% in absolute terms) and the mass media (a decrease of 3.2% in absolute terms).

It is noteworthy that there are substantial discrepancies between the preliminary data of the Ministry of Finance of the Russian Federation and the operating data of the Federal Treasury as regards federal budget expenditures for 12 months of 2014. It is to be noted that Table 3 includes the data of the Ministry of Finance of the Russian Federation on the federal budget expenditures in the volume of Rb 14,824.1bn in January–December 2014, while according to the data of the Federal Treasury the volume of expenditures amounts to Rb 13,821.6bn. The difference amounts to about Rb 1 trillion as regards the subsection: “Other Issues in the Sphere of the National Economy” of the section: National Economy. The above sum was directed as a

Table 3

FEDERAL BUDGET EXPENDITURES IN JANUARY–DECEMBER 2013–2014

	January–December 2014		January–December 2013.		Fluctuation, p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Total expenditures, including:	14824.1	20.5	13342.9	20.2	0.3
Federal issues	928.9	1.3	850.7	1.3	0.0
National defense	2478.6	3.4	2103.6	3.2	0.2
National security and law enforcement activities	2085.7	2.9	2061.6	3.1	-0.2
National economy	3063.3	4.2	1849.3	2.8	1.4
Housing and public utilities	119.6	0.2	177.5	0.3	-0.1
Protection of the environment	46.4	0.06	24.2	0.04	0.02
Education	638.3	0.9	672.3	1.0	-0.1
Culture and cinema	97.8	0.1	94.8	0.1	0.0
Healthcare	535.5	0.7	502.0	0.8	-0.1
Social policy	3452.4	4.8	3833.1	5.8	-1.0
Physical culture and sport	71.0	0.1	68.0	0.1	0.0
Mass media	74.8	0.1	77.3	0.1	0.0
Public debt servicing	415.6	0.6	360.3	0.5	0.1
Inter-budget transfers	816.1	1.1	668.1	1.0	0.1

Source: The Ministry of Finance and calculations of the Gaidar Institute.

Table 4

THE MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION IN JANUARY–NOVEMBER 2014–2013

	January–November 2014		January–November 2013		Fluctuation, p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Revenues, including:	7854.5	12.0	7234.9	11.8	0.2
corporate property tax	1771.1	2.7	1574.9	2.6	0.1
individual income tax	2286.9	3.5	2140.4	3.5	0.0
excises on goods produced in the Russian Federation	432.2	0.6	447.3	0.7	-0.1
aggregate income tax	304.9	0.5	284.0	0.5	0.0
property tax	922.9	1.4	869.8	1.4	0.0
uncompensated receipts from other budgets of the budget system of the Russian Federation	1424.6	2.2	1288.1	2.1	0.1
Expenditures	7769.5	11.9	7252.4	11.8	0.1
Surplus (Deficit) of the consolidated budget	85.0	0.1	-17.5	-0.03	0.07
GDP estimate	65535		61240		

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

property contribution of the Russian Federation to the property of the Deposit Insurance Agency by means of assignment of federal loan bonds for additional capitalization of banks.

As of January 1, 2015, the aggregate volume of the Reserve Fund and the National Welfare Fund amounted to Rb 4,945.5bn (\$87.9bn) and Rb 4,388.1bn (\$78.0bn), respectively. For 12 months of 2014, the exchange rate difference from revaluation of balances of the Reserve Fund and the national Welfare Fund amounted to Rb 1,868.7 and Rb 1,499.9bn, respectively.

As of December 1, 2014, the public debt of the Russian Federation amounted to:

- Rb 5,759.2bn as regards the internal debt, including Rb 1,332.1bn on state guarantees;
- \$5,397.2m as regards foreign debt.

With taking into account funds – borrowed in December 2014 in the volume of Rb 1,000.0bn by means of issuing of federal loan securities – directed to the Deposit Insurance Agency, the total public debt of the Russian Federation amounts to Rb 9,795.6bn or 13.6% of GDP as of December 31, 2014.

Analysis of the main parameters of execution of the consolidated budget of constituent entities of the Russian Federation in January–November 2014

According to the data of the Federal Treasury, within 11 months of 2014 the revenues of the consolidated budget of constituent entities of the Russian Federation amounted to Rb 7,854.5bn or 12.0% of GDP which is 0.2 p.p. of GDP or 8.6% in nominal terms

Table 5

EXECUTION OF THE CONSOLIDATED BUDGET OF CONSTITUENT ENTITIES OF THE RUSSIAN FEDERATION AS REGARDS EXPENDITURES IN JANUARY–NOVEMBER 2013–2014.

	January–November 2013		January–November 2014		Fluctuation, p.p. of GDP
	Billion Rb	% of GDP	Billion Rb	% of GDP	
Expenditures, total:including	7769.5	11.9	7252.4	11.8	0.1
Federal issues	489.3	0.7	455.6	0.7	0.0
National security and law enforcement activities	84.7	0.1	81.2	0.1	0.0
National economy	1361.7	2.1	1320.5	2.1	0.0
Housing and public utilities	698.3	1.1	685.7	1.1	0.0
Protection of the environment	20.1	0.03	19.7	0.03	0.0
Education	2129.8	3.2	1993.2	3.2	0.0
Culture and cinema	270.0	0.4	241.6	0.4	0.0
Healthcare	1142.2	1.7	1081.4	1.8	-0.1
Social policy	1281.7	2.0	1131.8	1.8	0.2
Physical culture and sport	148.6	0.2	128.8	0.2	0.0
Mass media	36.8	0.06	35.0	0.06	0.0
Public and municipal debt servicing	97.9	0.1	70.2	0.1	0.0

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

higher than the level of January–November 2013. Within 11 months of 2014, expenditures of the consolidated budget of constituent entities of the Russian Federation fell in shares of GDP by 0.1 p.p. of GDP as compared to the respective period of 2013 and rose by 7.1% in absolute terms to Rb 7,769.5bn (11.9% of GDP) (Table 4).

Comparison of the data on revenues from taxes and payments to the consolidated budget of constituent entities of the Russian Federation in January–November 2014 and the same period of the previous year shows the following:

- growth of 0.1 p.p. of GDP to 2.2% of GDP in uncompensated receipts from other budgets of the budget system of the Russian Federation or a 10.6% growth in absolute terms;
- growth of 0.1 p.p. of GDP to 2.7% of GDP in profit tax revenues or a 12.4% growth in absolute terms;

On the basis of the results of January–November 2014, the revenues of the consolidated budget of constituent entities of the Russian Federation fell as regards domestic excises by 0.1 p.p. of GDP as compared to 11 months of 2013 or 3.3% in absolute terms.

As regards other tax and non-tax revenues, in January–November 2014 revenues of the consolidated budget of constituent entities of the Russian Federation in shares of GDP remained at the level of the respective period of 2013, namely:

- as regards the individual income tax: 3.5% of GDP (growth of 6.8% in absolute terms);
- as regards the property tax: 1.4 % of GDP (growth of 6.1% in absolute terms);
- as regards taxes on the aggregate profit: 0.5 % of GDP (growth of 7.3% in absolute terms).

On the basis of the results of 11 months 2014, expenditures of the consolidated budget of constituent entities of the Russian Federation (Table 5) as regards most items in shares of GDP changed insignificantly or remained at the level of January–November 2013. Expenditures decreased by 0.1 p.p. of GDP only as regards *Healthcare* (to 1.7% of GDP) and rose by 0.2 p.p. of GDP to 2.0% of GDP as regards *Social Policy*.

On the basis of the results of January–November 2014, consolidated budgets of constituent entities of the Russian Federation were executed with surplus of Rb 85.0bn or 0.1% of GDP which was 0.07 p.p. of GDP higher than the level of 11 months of 2013.

The year 2015 will be one of the most difficult years for the country's budget system. According to the estimates of the Ministry of Finance of the Russian Federation, only due to reduction of oil and gas revenues with the price of oil at \$50 a barrel over Rb 3 trillion will be short-received by the budget which is equal to about 20% of the expected federal budget revenues in 2015. The Ministry of Finance carried out a 10% reduction of limit volumes of budget obligations which measure permitted to cut federal budget expenditures by nearly Rb 1 trillion and maintain the budget deficit at the level of maximum 3% of GDP with the volume of 0.6% of GDP¹ approved in the Law on the Federal Budget².

So, in 2015 revision of the Law on the Federal Budget as regards the main parameters of the revenue and expenditure sides and sources of financing of the deficit of the federal budget is inevitable.

1 <http://www.minfin.ru>

2 Federal Law No. 384-FZ of December 1, 2014 on The Federal Budget in 2015 and the 2016-2017 planned period.