

## THE STATE BUDGET IN FEBRUARY–MARCH 2015

T.Tishchenko

*According to data released by the RF Ministry of Finance, the period-end results for January–February 2015 demonstrate that federal budget revenue shrank by 0.6 pp. of GDP, while expenditure increased by 7.1 pp. of GDP on the same period of the previous year. The data on the execution of the consolidated budget of RF subjects in January 2015 point to a somewhat better dynamics: the upward movement of revenue by 0.2 pp. of GDP and a decline in the amount of expenditure by 0.6 pp. of GDP on January 2014. The amount of federal budget deficit for the first two months of 2015 (as shown by the period-end results) is 7.4% of GDP, while the consolidated budget of RF subjects for January 2015 has been executed with a deficit of 1.4% of GDP.*

In March 2015, the RF Government submitted to the State Duma a draft law on amendments to the federal law on the federal budget<sup>1</sup>. The main parameters of the central government's budget for 2015 have been adjusted with due regards for the worsening forecasts of the main macroeconomic indices – in particular, the decline of oil prices to the level of \$ 50 per barrel, the ruble's foreign exchange rate at the level of \$ 61.5, and the inflation rate no higher than 12.2%<sup>2</sup>. At the same time, the possibilities for federal budget spending sequestration are limited, and in the current situation, in view of the planned cut in expenditure by Rb 298.0bn, federal budget deficit is expected to increase from 0.6% to 3.7% of GDP. At present, the major economic policy goal is to avoid the emergence of conditions triggering the so-called 'inflationary spiral'.

### The Preliminary Estimates of Federal Budget Execution in January–February 2015

According to data released by the RF Ministry of Finance, federal budget revenue as shown by the period-end results of January–February 2015 amounted to Rb 21.9% of GDP (or Rb 2,277.9bn), which is by 0.6 p.p. of GDP below the corresponding index for the same period of 2014 (*Table 1*); when taken in absolute terms, the amount of federal budget revenue over the first two months of 2015 dropped on the period of January–February 2014 by Rb 90.2bn, or by 3.8%. The volume of oil and gas revenues over the same period also declined on January–February 2014 – by 1.7 p.p. of GDP to 10.0% of GDP (Rb 1,046.3bn), and when taken in absolute terms – by Rb 187.5bn, while

the volume of the non-oil and gas deficit increased by 6.0 p.p. of GDP to 17.4 % of GDP.

Over the first two months of 2015, the volume of federal budget expenditure amounted to 29.3% of GDP, which is by 7.1 p.p. of GDP above the corresponding index for the same period of 2014; when taken in absolute terms, the amount of federal budget expenditure increased by Rb 705.5bn, or by 30.2%, which happened in the main due to the accelerated allocation of funding to state defense at the beginning of the new year (as already noted in the previous issue of *ERR*<sup>3</sup>). As demonstrated by the period-end results of January–February 2015, the federal budget was executed with a deficit of 7.4% of GDP (or Rb 765.2bn), which is by 7.7 p.p. of GDP below the corresponding federal budget index (execution with a surplus) for the same period of 2014.

Over the period of January–February 2015, the amount of federal budget revenue in terms of share of GDP demonstrated different movement by comparison with the same period of 2014 (*Table 2*) depending on each specific component. The revenues from foreign trade over the first two months of 2015 in terms of share of GDP shrank by 2.1 p.p. of GDP on the corresponding period of 2014 – to 5.9 % of GDP; their decline in absolute terms amounted to 26.7%. The receipts of tax on mineral resources extraction in terms of share of GDP over the period of January–February 2015 dropped on the same period of 2014 by 0.2 p.p. of GDP, or by 4.5 %. The receipts of domestic VAT and VAT on imports increased by 0.4 p.p. and 0.2 p.p. of GDP (or by 12.8 and 6.0%) respectively. The federal budget revenues generated by domestic excises in terms of share of GDP increased by 0.2 p.p. of GDP (or by 11.7%), while the revenues from excises on imports declined by 0.02 p.p. of GDP (or by 26.1%). The receipts of tax on profits of organiza-

1 For further detail, see monitoring report No 5 (March) 2015 at [http://www.iep.ru/files/text/crisis\\_monitoring/2015-5-mar.pdf](http://www.iep.ru/files/text/crisis_monitoring/2015-5-mar.pdf)

2 The parameters entered into the initial federal budget law are as follows: oil price – \$ 87.6 per barrel; the ruble's foreign exchange rate – 37.97 Rb/USD; the inflation rate – 5.5%.

3 See *Ekonomicheskoe razvitiye Rossii (ERR)* [Russia's Economic development], No 3, 2015.

Table 1

**MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF RF SUBJECTS FOR JANUARY–FEBRUARY 2014  
AND JANUARY–FEBRUARY 2015**

	January–February 2015		January–February 2014		Deviation	
	bn Rb	% of GDP	bn Rb	% of GDP	bn Rb	p.p. of GDP
Revenue, including:	2,277.9	21.9	2,368.1	22.5	-90.2	-0.6
Oil and gas revenues	1,046.3	10.0	1,233.8	11.7	-187.5	-1.7
Non-oil and gas revenues	1,231.6	11.9	1,134.3	10.8	97.3	1.1
Expenditure, including:	3,043.1	29.3	2,337.6	22.2	705.5	7.1
interest	89.5	0.9	76.7	0.7	12.8	0.2
non-interest	2,953.6	28.4	2,260.9	21.5	692.7	6.9
Federal budget surplus (deficit)	-765.2	-7.4	30.5	0,3	-795,7	-7,7
Non-oil and gas deficit	-1,811.5	-17.4	-1,203.3	-11.4	-608.2	-6.0
GDP estimations	10,381		10,503			

Source: RF Ministry of Finance (preliminary estimates), RF Federal Treasury; IEP's calculations.

Table 2

**RECEIPTS OF THE MAIN TAXES IN THE FEDERAL BUDGET IN JANUARY–FEBRUARY 2014  
AND JANUARY–FEBRUARY 2015**

	January–February 2015		January–February 2014		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
1. Tax receipts, including:	1,822.9	17.5	2,015.7	19.2	-1.7
- tax on profits of organizations	30.5	0.3	35.1	0.3	0.0
- VAT on goods sold in RF territory	351.3	3.4	317.3	3.0	0.4
- VAT on goods imported into RF territory	249.1	2.4	235.2	2.2	0.2
- excises on goods produced in RF territory	110.4	1.1	98.9	0.9	0.2
- excises on goods imported into RF territory	6.5	0.06	8.8	0.08	-0.02
- tax on mineral resources extraction	460.7	4.4	482.1	4.6	-0.2
2. Revenues from foreign trade	614.4	5.9	838.3	8.0	-2.1

Source: RF Federal Treasury; IEP's calculations.

tions over January–February 2015 in terms of share of GDP displayed no change, amounting to 0.3% of GDP; when taken in absolute terms, they declined significantly – by 13.1% on the corresponding index for 2014.

Over the first two months of 2015, the volume of federal budget expenditure (Table 3) in terms of share of GDP demonstrated the following changes:

- increased expenditures under the items: *National Defense* – by 5.6 p.p. of GDP, or 1.8 times in absolute terms (due to the already mentioned accelerated allocation of funding); *Social Policy* – by 1.4 p.p. of GDP, or by 28.8 %; *National Economy* – by 0.6 p.p. of GDP, or by 29.4%; *Education* – by 0.1 p.p. of GDP, or by 11.3% in absolute terms; *Government Debt Servicing* – by 0.2 p.p. of GDP to 0.9% of GDP, or by a 16.7% in absolute terms;
- reduced expenditures under the items: *National Security and Law-enforcement Activity* – by 0.2 p.p. of GDP, or by 6.0% in absolute terms; *Nationwide Issues* – by 0.2 p.p. in terms of share of GDP, or by 11.9%; *Health Care and Housing and Utilities Sector* – by 0.4 and 0.3 p.p. of GDP respectively; when taken in absolute terms,

the amount of expenditures under *Health Care* shrank by 45.3%, and under *Housing and Utilities Sector* – several times.

The volume of federal budget expenditure under the item *Interbudgetary Transfers* remained at the same level when taken in terms of share in GDP, amounting to 1.3% of GDP; in absolute terms it increased by 4.6%. The corresponding indexes for the other federal budget expenditure items changes only slightly in terms of share of GDP, and in the interval between 0.01 and 0.07 p.p. of GDP in absolute terms.

The effects of the negative trends in Russia's socioeconomic development necessitated not only the introduction of some amendments to the law on federal budget, but also the suspension of some of the provisions of the RF Budget Code<sup>1</sup>, in particular the requirement that government municipal programs should be brought in conformity with the budget law/government decision within a three-month period. Besides, it is envisaged that it can be possible not to cancel the already concluded agreements in connection with failure to extend the 2015 budget liability norms to the recipients of budget

1 Federal Law of 8 March 2015, No 25-FZ 'On Suspending Some of the Provisions of the Budget Code of the Russian Federation'.

Table 3

## FEDERAL BUDGET EXPENDITURE FOR JANUARY–FEBRUARY 2014 AND JANUARY–FEBRUARY 2015

	January–February 2015		January–February 2014		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	3,043.1	29.3	2,337.6	22.2	7.1
including	147.7	1.4	167.0	1.6	-0.2
Nationwide issues	1316.4	12.7	748.8	7.1	5.6
National defense	263.8	2.5	280.9	2.7	-0.2
National security and law-enforcement activity	269.3	2.6	208.6	2.0	0.6
National economy	0.5	0.005	29.9	0.3	-0.3
Housing and utilities sector	11.3	0.1	2.9	0.03	0.07
Environment protection	102.6	1.0	91.5	0.9	0.1
Education	14.3	0.1	10.6	0.1	0.0
Culture and cinematography	49.5	0.5	90.6	0.9	-0.4
Health care	615.9	5.9	478.2	4.5	1.4
Social policy	8.5	0.08	6.4	0.06	0.02
Physical culture and sports	14.7	0.1	12.8	0.1	0.0
Mass media	89.5	0.9	76.7	0.7	0.2
Government debt servicing	138.9	1.3	132.8	1.3	0.0

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

funds for 2016 and 2017, and to conclude contracts/agreements, in accordance with the RF Government's decisions, whereby expenditure liabilities can be created for a period in excess of the period established for the execution of the approved budget liability norms. There is no doubt that these changes to the budget rules will make it possible to ensure the fulfillment in full of the obligations of subjects appointed in the course of budget planning at the federal level, thus reducing the non-payment risks for enterprises operating in the real sector of the economy.

#### Analysis of the Main Parameters of the Consolidated Budget Execution by RF Subjects in January 2015

As reported by the RF Federal Treasury, the *consolidated budget revenue of RF subjects* over the first month of 2015 amounted to Rb 310.2bn or 6.1% of GDP, which is by 0.2 p.p. of GDP, or by 5.0% in absolute terms, higher than the same index for January 2014. The consolidated budget expenditure of RF subjects over the first month of 2015, in terms of share of GDP, dropped on the corresponding index for the same period of 2014 by 0.6 p.p. of GDP to 7.5 % of GDP, or Rb 383.7bn (5.4%) (Table 4).

Table 4

## MAIN PARAMETERS OF THE CONSOLIDATED BUDGET OF RF SUBJECTS FOR JANUARY 2014 AND JANUARY 2015

	January 2015		January 2014		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, including:	310.2	6.1	295.6	5.9	0.2
- tax on profits of organizations	66.6	1.3	83.6	1.7	-0.4
- PIT	132.0	2.6	133.2	2.7	-0.1
- excises, domestic	42.0	0.8	44.4	0.9	-0.1
- tax on aggregate income	24.4	0.5	23.6	0.5	0.0
- tax on property	23.3	0.4	28.4	0.6	-0.2
- gratis transfers, including	-26.7	-0.5	-60.3	-1.2	0.7
- gratis transfers from other budgets of RF budgetary system	112.4	2.2	123.0	2.5	-0.3
- repayment of residual amount of subsidies, subventions and other targeted interbudgetary transfers of previous years	-149.1	-2.9	-189.8	-3.8	0.9
Expenditure	383.7	7.5	405.8	8.1	-0.6
Consolidated budget deficit (surplus) of RF subjects	-73.5	-1.4	-110.2	-2.2	0.8
GDP estimations	5,110*		4,988		

Source: RF Federal Treasury; IEP's calculations

\* Estimations by Economic Expert Group. See <http://www.eeg.ru/pages/22>

## CONSOLIDATED BUDGET EXPENDITURE OF RF SUBJECTS FOR JANUARY 2014 AND JANUARY 2015

	January 2015		January 2014		Deviation, p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total	383.7	7.5	405.8	8.1	-0.6
including		0			
Nationwide issues	24.9	0.5	24.7	0.5	0.0
National security and law-enforcement activity	2.6	0.05	2.8	0.06	-0.01
National economy	28.1	0.5	44.9	0.9	-0.4
Housing and utilities sector	19.8	0.4	24.6	0.5	-0.1
Environment protection	0.5	0.01	0.4	0.008	0.002
Education	120.7	2.4	129.1	2.6	-0.2
Culture and cinematography	15.8	0.3	16.4	0.3	0.0
Health care	81.4	1.6	76.8	1.5	0.1
Social policy	69.7	1.4	68.1	1.4	0.0
Physical culture and sports	7.7	0.1	7.6	0.1	0.0
Mass media	1.7	0.03	2.8	0.06	-0.03
Government and municipal debt servicing	10.4	0.2	7.0	0.1	0.1

Source: RF Federal Treasury; IEP's calculations.

An analysis of the structure and movement of the consolidated budget (tax-generated and non-tax) revenue items of RF subjects for the periods of January 2015 and January 2014 revealed the following trends:

- reduced amount of the receipts of tax on profits – by 0.4 p.p. of GDP (or 1.3% of GDP), or by 20.3%; personal income tax – by 0.1 p.p. of GDP (or 2.6% of GDP), or by 0.9% in nominal terms; tax on property – by 0.2 p.p. of GDP (or 0.4% of GDP), or by 17.9 %; domestic excises – by 0.1 p.p. of GDP (or 0.8 % GDP), or by 5.4 % in nominal terms;
- slightly increased amount of the receipts of tax on aggregate income – by 3.4%, without any change in terms of share in GDP (0.5% of GDP).

With regard to gratis transfers from other budgets of the RF budgetary system to the consolidated budget of RF subjects it should be noted that, in January 2015, the volume of budget revenue amounted to Rb 112.4bn, or 2.2% of GDP, which is 0.3 p.p. of GDP below the corresponding index for January 2014. Another important consideration is that January 2015, similarly to the situation a year earlier, a large amount of funds allocated in the form of targeted transfers was repaid to the federal budget (Rb 149.1bn), which points to the low efficiency of the procedure of targeted transfer distribution (primarily subsidies). The RF regions have no time to actually use the targeted transfers received towards the end of a budget year, and so are forced to transfer these funds back to the federal budget in January of next year.

Over January 2015, the majority of expenditure items in the consolidated budget of RF subjects (Table 5) demonstrated only slight changes in terms

of share of GDP or remained at the same levels as in January 2014; the bulk of expenditure decline was observed in the main with regard to the following items: *National Economy* – by 0.4 p.p. of GDP (or by 36.7%) to Rb 28.1bn; and *Education* – by 0.2 p.p. of GDP (or by 6.5%) to Rb 120.7bn. The other expenditure items in the consolidated budget of RF subjects that declined in January 2015 on January 2014 are as follows: *National Security and Law-enforcement Activity* – by 0.01 p.p. of GDP; *Housing and Utilities Sector* – by 0.1 p.p. of GDP; *Mass Media* – by 0.03 p.p. of GDP. The amount of expenditure in the consolidated budget of RF subjects allocated to *Health Care* and *Government Debt Servicing* in January 2015 increased on the same period of 2014 by 0.1 p.p. of GDP – to 1.6 of GDP and 0.2% of GDP respectively (or by Rb 81.4 and Rb 10.4bn respectively).

While the overall movement of tax-generated and non-tax revenue receipts in the consolidated budget of RF subjects in January 2015 displayed a negative trend by comparison with January 2014, the decline (by 0.9 p.p. of GDP on January 2014) in the residual amount of subsidies, subventions and other targeted interbudgetary transfers of previous years that was transferred back to the federal budget in January 2015 (Rb 149.1bn in January 2015 vs. Rb 189.8bn in January 2014) resulted in a shrinkage of deficit in the consolidated budget of RF subjects from 2.2% of GDP (Rb 110.2bn) in January 2014 to 1.4% of GDP in January 2015 (Rb 75.3bn).

At present, the main risks for the budgetary system's sustainability are posed by the potential increase in the growth rate of budget expenditure indexation (to fund the salary raise for the employees of budget-funded institutions, and the raise of social benefits and

other welfare payments). In this situation, much will depend on the regional authorities in their search for a compromise between allowing an excessive shrinkage in the real income of some population groups and keeping their budget deficit within limits that would be safe in terms of a sustainable debt level. At the same

time, certain acts will also be necessary on the part of the federal government, first of all with regard to the adjustment of the budget targets in accordance with the May 2012 presidential executive orders (whereby some additional spending obligations were imposed on the regions). ●