

RUSSIA'S STATE BUDGET IN JANUARY–APRIL 2015

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According to the recent data released by the Federal Treasury, within January–April 2015 the federal budget revenues fell by 0.6 p.p. of GDP and the expenses went up by 4.7 p.p. of GDP on the same period of the previous year. Revenues and expenses of the consolidated budget of the subjects of the Russian Federation over January–March 2015 went up by 1.1 and 0.3 p.p. of GDP respectively. The amount of the federal budget deficit for the first four months of 2015 constituted 4.7% of GDP, while the consolidated budget of RF subjects over January–March of 2015 has been executed with a surplus of 1.5% of GDP. Dynamics of the main parameters of the federal and consolidated budgets of RF subjects post a variety of trends and confirm both most optimistic projections about the end of the acute phase of the Russian economic crisis¹ and the most pessimistic projections about the GDP contraction by 2.5% by the year-end of 2015². A number of interrelated factors both internal and external and their unpredictability have aggravated the problem of feasibility of socio-economic development forecast for selecting main parameters of the budgetary system of the Russian Federation for the medium term.

The preliminary estimates of the federal budget execution in January–April 2015

Over January–April 2015, the federal budget revenues amounted to 21.2% of GDP (or Rb 4,548.0bn) down 0.6 p.p. of GDP from the same period of 2014 (*Table 1*); in nominal terms the federal budget revenues within the first four months of 2015 shrank by Rb 206.3bn or by 4.3% in comparison with January–April of the previous year. A reduction was due to the oil and gas revenue component: for the first four months of 2015, against the same period of 2014, they went down by 2.1 p.p. of GDP to 9.4% of GDP (or RB 2,018.5 bn) or Rb 498.1 bn in absolute terms which led to an increase of non-oil and gas deficit by 3.1 p.p. of GDP to 14.0% of GDP. At the same time, non-oil and gas revenues within January–April 2015 were up 1.5 p.p. of GDP to 11.*% (or Rb 2,529.5bn) or by 13.1% in nominal terms against the same period of 2014.

Over the first four months of 2015, the volume of federal budget expenditure amounted to 25.9% of GDP, which is up 4.7 p.p. of GDP from the same period of 2014. When taken in absolute terms, the federal budget expenditure went up by Rb 915.8bn or by 19.8% in relative terms. Thus, the federal budget revenue growth rates, oil and gas and non-oil and gas revenue for the first four months of 2015 in comparison with January–April 2014 are below the Consumer

Price Index (CPI) rates for the same period (16.4%). The federal budget expenditure growth rates are above the CPI rates. Over January–April 2015, the federal budget has been executed with a deficit of 4.7% of GDP (Rb 994.0bn), which is down 5.3 p.p. of GDP from the federal budget surplus balance for the same period of 2014.

Within January–April 2015, certain components of the federal budget revenue in terms of share of GDP demonstrated different movement in comparison with the same period of 2014 (*Table 2*). Revenues from the foreign economic activity continued falling: by the end of the first three months of 2015, these revenues were down by 2.9 p.p. of GDP against the same period of 2014. Within the first four months of 2015, a difference in revenues amounted to 3.3 p.p. of GDP from January–April 2014.

The structure of the federal budget revenues from the foreign economic activity posts the following trends:

- Increase of the share of revenues from the customs export duties in the overall volume of revenues generated by the foreign economic activity from 86.6% in January–April 2014 to 90.4% for the first four months of 2015 resulting from the contraction of the import volume;
- Significant contraction of proceeds from the export duties on crude oil by 44.3% in January–April 2015 against corresponding period of 2014 (or by 1.7 p.p. of GDP), under a total fall in the volume of receipts from the export duties by 37.7%
- Receipts from the customs export duties on natural gas and petroleum products shrank over the first four months of 2015 by 8.0 or 39.1% in comparison with the same period of 2014.

1 “Today we can not speak for sure about anything, but the acute phase of the crisis has passed, to my mind,”- underlined German Gref, head of the Sberbank, source: <http://tass.ru/ekonomika/1984119>

2 «By year-end 2015, Russian GDP will contract by 2.5%, here-with the peak of recession will be in July-September, briefed, Anton Siluanov, the Minister of Finance of Russia following the results of the IMF mission. Source: <http://quote.rbc.ru/topnews/2015/05/21/34369402.html>

Table 1

MAIN PARAMETERS OF THE FEDERAL BUDGET FOR JANUARY–APRIL 2014 AND JANUARY–APRIL 2015

	January–April 2015		January–April 2014		Changes (January–April 2015 to January–April 2014)	
	bn Rb	% of GDP	bn Rb	% of GDP	bn Rb	p.p. of GDP
Revenues, of which:	4,548.0	21.2	4,754.3	21.8	-206.3	-0.6
Oil and gas revenues	2,018.5	9.4	2,516.6	11.5	-498.1	-2.1
Non-oil and gas revenues	2,529.5	11.8	2,237.7	10.3	291.8	1.5
Expenditures, of which:	5,542.0	25.9	4,626.2	21.2	915.8	4.7
Interest	194.7	0.9	155.5	0.7	39.2	0.2
Non-interest	5,347.3	25.0	4,470.7	20.5	876.6	4.5
Surplus (deficit) of the federal budget	-994.0	-4.7	128.1	0.6	-1,122.1	-5.3
Non-oil and gas deficit	-3,012.5	-14.0	-2,388.5	-10.9	-624	-3.1
GDP estimations	21,430		21,843			

Source: RF Federal Treasury, Rosstat (the GDP volume is calculated taking into account preliminary estimates of the GDP volume for three months of 2015), Gaidar Institute calculations.

Table 2

RECEIPTS FROM THE MAIN TAXES IN THE FEDERAL BUDGET IN JANUARY–APRIL 2014 AND JANUARY–APRIL 2015

	January–April 2015		January–April 2014		Changes (January–April 2015 to January–April 2014) in p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Tax receipts, total, of which	4,006.9	18.7	4,398.2	20.1	-1.4
Corporate income tax	202.6	0.9	135.5	0.6	0.3
VAT on goods sold in RF	930.4	4.3	771.3	3.5	0.8
VAT on goods produced in RF	534.4	2.5	529.3	2.4	0.1
Excises on goods produced in RF	176.6	0.8	160.2	0.7	0.1
Excises on goods imported into RF	14.5	0.07	21.5	0.1	-0.03
Mineral extraction tax	1,068.8	5.0	971.3	4.4	0.6
Revenues from the foreign economic activity	1,079.6	5.0	1,809.1	8.3	-3.3

Source: RF Federal Treasury, Gaidar Institute calculations.

Thus, receipts generated by export of crude oil and petroleum products made the largest contribution to the falling receipts of the federal budget revenues generated from the foreign economic activity.

Receipts from the Mineral Extraction Tax (MET) in terms of share of GDP continued growing against corresponding period of 2014: if by the first three months-end of 2015, the federal budget revenues generated by MET went up by 0.2 p.p. of GDP or by 8.6% compared with January–March 2014, than by the first four months-end of 2015, growth amounted to 0.6 p.p. of GDP or 10.1% from January–April 2014. The MET significance for the federal budget went up: if in January–April 2014, the MET receipts amounted to 20.5% in the overall volume of the federal budget revenues, than over January–April 2015 they constituted 23.5%

One of the reasons explaining the fall of the federal budget revenues from the customs export duty on crude oil and petroleum products and increase of receipts from MET consists in the introduction from

January 2015 of the new approaches to the taxation of the sector, the so called 'tax maneuver' which envisages a reduction of the marginal rate of the customs export duty on crude oil (coefficient in the formula for calculation of marginal rate) from 59% in 2014 to 30% in 2017 with a gradual increase of the Mineral Extraction Tax (MET) base rate from Rb493 per ton in 2014 to Rb919 per ton in 2017. According to the Gaidar Institute calculations¹ within the crude oil price range \$60-100 per barrel the share of export duty in the price of crude will drop from 41-48% in 2014 to 31-36% in 2015 and 24-27% in 2017, meanwhile, MET will be performing main functions of tax regulation in the sector.

By the first four month-end, we can acknowledge that:

¹ Source: Yu. Bobylev. In the wake of the low oil prices, tax burden on the upstream oil production will grow. <http://www.finam.ru/analysis/forecasts/v-usloviyax-nizkix-neftnyanx-cenalogovaya-nagruzka-na-dobychu-chernogo-zolota-voztas-taet-20150427-19160/>

RECEIPTS OF CIT TO THE FEDERAL BUDGET IN JANUARY–APRIL 2014 AND JANUARY–APRIL 2015

	January–April 2015, billion rubles	January–April 2014, billion rubles	Changes in billion rubles	Changes in %
Corporate income tax, total, Of which on main profit items:	202.6	135.5	67.1	49.5
corporate income tax* paid to the federal budget	99.1	90.7	8.4	9.3
corporate income tax under the pro- duction sharing agreements	31.3	15.3	16.0	Over 2-fold
corporate income tax from profits gener- ated by dividends from Russian organi- zations by Russian organizations	3.0	1.7	1.3	76.5
corporate income tax from profits gener- ated by dividends from Russian organi- zations by foreign organizations	20.1	13.2	6.9	52.3
corporate income tax from profits gener- ated by dividends from foreign organi- zations by Russian organizations	34.2	0.4	33.8	Over 80-fold
corporate income tax from profits obtained by foreign organizations which are not linked with activity in the Russian Federation with permanent establishment**	3.4	3.8	-0.4	-10.5
corporate income tax from profits generated by interest from government and municipal bonds	11.4	10.4	1.0	9.7

* Including for January–April 2015, on profits of consolidated groups of taxpayers who in the report on the federal budget execution are not selected along the code of budgetary classification.

** Minus profits generated by dividends and interest from government and municipal securities.

Source: RF Federal Treasury, Gaidar Institute calculations.

- no compensating effect for the federal budget revenue from an increase of the MET base rate with a reduction of export duty marginal rate has been registered; with a reduction of receipts from export duties on crude oil in January–April 2015 by 1.7 p.p. of GDP, receipts from the MER went up solely by 0.6 p.p. of GDP against the same period of 2014;
- in the wake of falling oil prices and due to calculation characteristics of export duty on crude, petroleum products and MET, the tax burden for major Russian oil companies will grow. According to the financial statement released by Rosneft for Q1 2015 the share of taxes included in production cost (including MET) in the overall volume of production cost went up to 13.3% from 10.2% for Q1 2014¹.

Thus, the issue of implementation of tax maneuver in the wake of the current oil prices development remains open.

Tax receipts to the federal budget revenue for the first four months 2015 generated by domestic and import VAT increased by 0.8% and 0.1% respectively (20.7 and 1.0%). One of the factors which contributed to a speedy growth of revenues generated from domestic VAT (20.7%) against the development of the

federal budget revenue volume growth for January–April 2015 (4.3%) from the same period of 2014 was inflation: Consumer Price Index (CPI) according to the data released by Rosstat for the first four months 2015 from the first four months 2014 constituted 116.3%.

In January–April 2015 against the first four months of 2014, the federal budget revenues in terms of share of GDP on domestic excises went up by 0.1 p.p. of GDP (10.0% in the nominal terms), meanwhile, receipts from the import excises shrank by 0.03 p.p. of GDP (reduction by 32.5% in nominal terms).

Receipts from the corporate income tax (CIT) in January–April 2015 in terms of share of GDP went up by 0.3 p.p. of GDP or by 49.5% compared with the same period of 2014. In the federal budget revenue structure regarding corporate income tax, the following changes are registered: (four months of 2015 against four months of 2014) (Table 3):

- the largest increase in absolute terms took place with respect to CIT from profits generated from dividends from foreign organizations by the Russian organizations from Rb 0.4bn to Rb 34.2bn or by over 80-fold;
- revenue from CIT paid into the federal budget went up by 9.3% (below the inflation level) or by Rb 8.4bn ;

1 Source: http://rosneft.ru/attach/0/16/06/qreport_1_2015.pdf

FEDERAL BUDGET EXPENDITURE FOR JANUARY–APRIL 2014 AND JANUARY–APRIL 2015

	January–April 2015		January–April 2014.		Changes (January–April 2015 to January–April 2014) in p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total, of which:	5542.0	25.9	4626.2	21.2	4.7
Nationwide issues	321.3	1.5	300.1	1.4	0.1
National defence	1709.4	8.0	1172.5	5.4	2.6
National security and law-enforcement activity	592.1	2.8	588.6	2.8	0.0
National economy	565.3	2.6	507.2	2.3	0.3
Housing and utilities sector	45.3	0.2	35.3	0.2	0.0
Environment protection	23.9	0.1	10.2	0.05	0.05
Education	244.7	1.1	249.6	1.1	0.0
Culture and cinema	29.7	0.1	26.9	0.1	0.0
Health care system	166.8	0.8	155.7	0.7	0.1
Social policy	1355.2	6.3	1107.1	5.0	1.3
Physical culture and sports	26.2	0.1	10.1	0.05	0.05
Mass media	30.2	0.1	30.3	0.1	0.0
Government debt servicing	194.7	0.9	155.5	0.	0.2
Interbudgetary transfers	237.0	1.1	276.8	1.3	-0.2

Source: RF Ministry of Finance, Gaidar Institute calculations.

- 2-fold increase of receipts from CIT in production sharing agreements¹ from Rb 15.3 to Rb 31.3bn;
- increase of receipts from CIT from profits obtained in the form of dividends of Russian organizations by Russian organizations by 76.5% in nominal terms from Rb1.7bn to Rb3.0bn;
- increase of receipts from CIT from profits obtained in the form of dividends from Russian organizations by foreign organizations by 1.5 times from Rb13.2bn to Rb20.1bn;
- insignificant increase of receipts from CIT from profits generated by interest received from government and municipal securities by Rb1.0bn or by 9.7% in nominal terms;
- reduction of receipts from CIT from the profits of foreign organizations which are not linked by activity with the Russian Federation via permanent establishment by 10.5% in nominal terms or by Rb0.4bn.

Lack of official statistical information on the tax base regarding the profit tax does not allow to analyse main factors of receipts growth from this tax. However, taking into account data released by Rosstat on the contraction of the industrial production index for the first four months of 2015 against the first four months of 2014 down to 98.5%, one can suppose that main factors of receipts growth in the federal budget on the profit tax in January–April 2015 against the

same period of 2014 lie not in the improvement in the real sector of the economy by growth of the tax base on dividends. We should underline a positive trend regarding growth of dividends received from foreign companies by Russian organizations. One can suppose that in the circumstances of financial restrictions tied to sanctions Russian companies are forced to transfer part of the assets from offshore accounts for financing their activity in the Russian Federation.

Over the first four months of 2015 against January–April 2014, the volume of federal budget expenditure (*Table 4*) in terms of share of GDP demonstrated the following changes:

- expenditure on the national defence up 2.6 p.p. of GDP or up 1.4 times;
- expenditure under the item ‘Social policy’ up 1.3 p.p. of GDP or up 22.4%;
- expenditure under the item ‘National security and law-enforcement activity’ stayed on hold in term of share of GDP and amounted to 2.8% of GDP; in absolute terms up Rb3.5bn;
- expenditure under the item ‘National economy’ up 0.3 p.p. of GDP or 11.5%;
- expenditure under the item ‘Nationwide issues’ in the terms of GDP went up by 0.1p.p. of GDP and constituted 1.5% of GDP; in absolute terms growth amounted to Rb21.2bn;
- expenditures under the item ‘Interbudgetary transfers’ in terms of share of GDP down by 0.2 p.p. of GDP or by 14.3%;
- expenditure on education in terms of share of GDP stayed unchanged and constituted 1.1%

¹ Signed prior to the enactment of the Federal Law of 30 December 1995 № 225-FZ “On production sharing agreements” and which do not envisage special tax rates being paid into the federal budget of budgets of the subjects of the Russian Federation.

of GDP and in absolute terms expenditures on education went up by Rb4.9bn;

- expenditure of health care system in terms of share of GDP up by 0.1 p.p. and up by Rb11.1bn;
- expenditures on government debt servicing up by 0.2 p.p. of GDP to 0.9% of GDP or up by 25.2%.

The corresponding indices for the other federal budget expenditure items change only slightly in terms of share of GDP, and in the range between 0.01–0.05 p.p. of GDP.

In May 2015, the RF Government set about to the development of main parameters of 2016–2018 budget in terms of basic (conservative) version of the macroeconomic forecast adjusted to demographic growth indices, GDP growth, real disposable income and salaries of the population, consumer prices, corporate profits, crude oil production and forecasts for Urals in 2016–2018 in the range of US\$60–65–70 per barrel respectively¹.

Analysis of the main parameters of the consolidated budget execution by RF subjects in January–March 2015

As reported by the RF Federal Treasury, the *consolidated budget revenue of RF subjects* over the first three month of 2015 amounted to Rb 2,005.8bn or 12.1% of GDP, which is by 1.1 pp. of GDP, or by 12.1% in nominal terms, higher than the same index for January–March 2014. The consolidated budget expenditure of RF subjects over the first three month of 2015, in terms of share of GDP, went up on the corresponding index for the same period of 2014 by 0.3 pp. of GDP to 10.6 % of GDP, or Rb 1,763.9bn (*Table 5*).

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

- profit tax receipts up 0.3 p.p. of GDP to 3.3% of GDP or up 8.5% in nominal terms. Lack of official statistical information on the tax base of the profit tax for the reviewed period does not allow to fully analyse main growth factors;
- personal income tax (PIT) receipts up 0.1 p.p. of GDP or 4.3%;
- excises from domestic excises in terms of share of GDP stayed on hold and constituted 0.7% of GDP and went up 6.1% in nominal terms;
- receipts from aggregate income and property tax up 0.1 and 0.2 p.p. of GDP respectively, up 11.1 and 21.0% in nominal terms respectively;
- profit from uncompensated receipts from other budgets of the RF budgetary system down 0.1 p.p. of GDP to 2.2% of GDP or 1.1% in nominal.

Over the month-end of January–March 2015, the majority of expenditure items of the consolidated budget of RF subjects (*Table 6*) demonstrated in absolute terms solely slight changes in terms of share of GDP or remained at the same level as in the corresponding period of 2014. Expenditure of the consolidated budget of RF subjects by three months-end 2015 against three months 2014:

- expenditure up 0.1 p.p. of GDP regarding four items: 'Social policy' 1.9% of GDP, 'Health care' 1.7% of GDP, 'Culture and cinema' 0.4% of GDP,

Table 5

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

	January–March 2015		January–March 2014		Changes (January–March 2015 to January–March 2014) in p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Revenue, of which:	2,005.8	12.1	1,790.6	11,0	1,1
- Corporate income tax	540.6	3.3	497.9	3,0	0,3
- personal income tax	570.2	3.4	546.8	3,3	0,1
- excises of goods produce in RF	120.6	0.7	113.7	0,7	0,0
- tax on aggregate income	77.1	0.5	69.4	0,4	0,1
- property tax	192.6	1.2	159.2	1,0	0,2
- transfers from other budgets of the RF budgetary system	369.1	2.2	373.2	2,3	-0,1
Expenditure	1,763.9	10.6	1,683.2	10,3	0,3
Surplus (deficit) of consolidated budget	241.9	1.5	107.4	0,7	0,8
GDP estimates	16,621		16,284		

Source: RF Federal Treasury, Gaidar Institute calculations.

1 Source: <http://government.ru/news/17821/>

Table 6

CONSOLIDATED BUDGET EXPENDITURE FOR JANUARY–MARCH 2014 AND JANUARY–MARCH 2015

	January–March 2015		January–March 2014		Changes (January–March 2015 from January–March 2014), p.p. of GDP
	bn Rb	% of GDP	bn Rb	% of GDP	
Expenditure, total:	1,763.9	10.6	1,683.2	10.3	0.3
Of which:					
Nationwide issues	115.1	0.7	108.2	0.7	0.0
National security and law-enforcement activity	18.6	0.1	16.4	0.1	0.0
National economy	247.8	1.5	239.4	1.5	0.0
Housing and utilities sector	130.2	0.8	127.7	0.8	0.0
Environment protection	4.5	0.03	3.4	0.03	0.0
Education	507.3	3.0	499.2	3.1	-0.1
Culture and cinema	61.9	0.4	56.0	0.3	0.1
Health care	280.5	1.7	264.0	1.6	0.1
Social policy	323.1	1.9	301.9	1.8	0.1
Physical culture and sports	33.3	0.2	31.0	0.2	0.0
Mass media	8.8	0.05	8.7	0.05	0.0
Government and municipal debt servicing	32.1	0.2	24.7	0.1	0.1

Source: RF Federal Treasury; Gaidar Institute calculations.

‘Government and municipal debt servicing’ 0.2% of GDP;

- expenditure on item ‘Education’ down 0.1 p.p. of GDP or 3% of GDP.

By month-end of January–March 2015, consolidated budget of RF subjects was executed with a surplus of 1.5% of GDP (Rb241.9bn), up 0.7 p.p. of GDP from the same period 2014.

As of 1 May 2015, the volume of the government debt of RF subjects constituted Rb 2,100.6 bn (up Rb 11.1bn over January–April 2015) (see also *OMES №8, 2015¹*). Across regions, the biggest debt volume have: Moscow – Rb 157.0bn, Krasnodar Krai – Rb 136.5 bn, Republic of Tatarstan – Rb 104.4bn, Moscow oblast – Rb 103.1bn, and the lowest government debt volume have: Tyumen oblast – Rb 0.3bn, Republic of Crimea – Rb 0.3bn, Republic Tyva and Republic of Altai – Rb 1.7bn, and the Jewish autonomous region and the city of Sebastopol have no government debts.

The debt structure posts the following trends:

- the share of regional debt obligations on credits received from credit organizations, foreign

banks and international financial organizations remains high – 37.9% in the overall debt volume. However, within January–April 2015, the debt volume in nominal terms shrank by 10.4% to Rb 795.1bn;

- the share of budget credits in the overall debt volume up from 31.0% on 1 January 2015 to 36.0% as of 1 May 2015 (up Rb 107.4bn or by 16.6% in nominal terms) which is determined by the execution of anti-crisis measures aimed at a reduction of their servicing at the expense of an increase of the budget credit volume to Rb 310.0 bn;
- RF subjects have no incentives to borrow by issuing state securities: their share is solely 20.7% of the overall regional debt volume. Meanwhile, in the USA and Canada government securities represent principal mechanism for financing infrastructure.

At present major risks of regional budgets sustainability are linked with the debt building and feasibility of RF subjects to sustain nominal expenditure level. ●

1 <http://www.iep.ru/ru/publikacii/7497/publication.html>