

## CHANGES IN THE NORMATIVE BASE OF THE BUDGETARY PROCESS IN RUSSIA IN AUGUST 2015

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*Over the period July-August 2015, the following developments can be noted in the sphere pertaining to the budgetary process: the Federal Law came into force, whereby a system of interdepartmental control over the use of budget funds allocated to the state defense order was to be established; the rules for the formation and use of the RF Reserve Fund were introduced; and the indexation of some types of social benefits was suspended until 1 January 2016.*

On 1 July 2015, **Federal Law of 29 June 2015, No 159-FZ** 'On Introducing Alterations to the Federal Law "On the State Defense Order" and Some Legislative Acts of the Russian Federation"' came into force (hereinafter – Federal Law No 159-FZ).

Federal Law No 159-FZ is intended to carry into effect the List of the RF President's Instructions on Implementing the Presidential Address to the Federal Assembly of 4 December 2014, of 5 December 2014, No 2821.

By Federal Law No 159-FZ it is envisaged that a system of interdepartmental control over the use of budget funds in the course of placement and execution of a state defense order should be established. The participants in that system are to be the RF Ministry of Defense, the Federal Antimonopoly Service (FAS), the Federal Financial Monitoring Service (*Rosfinmonitoring*), and the Bank of Russia.

The control system must rely on the databases containing information on the fulfillment of a state defense order, its head contractors, and the contracts and mutual settlements between the parties. The core element of the control system will be the banking supervision provided by relevant empowered banks and effectuated through special separate accounts opened by the head contractors (or contractors) with the empowered banks.

The agreement on banking supervision must stipulate, among other things, the client's consent to the release, by the empowered bank, of the information necessary for the execution of proper control to the relevant government client, head contractor or contractor, and the transfer of that information to the single information system of the government defense order.

Banking supervision may be provided by a bank established in accordance with legislation of the Russian Federation and meeting the following criteria:

1) the bank possesses equity (capital) as of the first day of a reporting month in the amount of no less than Rb 100bn;

2) the bank is subject to control exercised by the Russian Federation or the Bank of Russia. For the purposes of Federal Law No 159-FZ, control exercised by the Russian Federation or the Bank of Russia is to be understood as the ability of the Russian Federation or the Bank of Russia to directly or indirectly (through a legal entity or several legal entities) determine the bank's decisions by disposing of more than 50% of the total vote constituted by the voting shares (or stakes) in the bank's charter capital, to appoint (or elect) a single executive body and (or) more than 50% of the bank's supervisory board (or board of directors);

3) the bank must hold a license to perform tasks involving the use of information составляющих state secret тайну.

**By Decree of the RF Government of 19 August 2015, No 863** 'On the Introduction of Alterations to the Rules for Making Settlements and Making Money Transfers in Connection with the Formation and Use of the Additional Oil and Gas Revenues of the Federal Budget, the RF Reserve Fund and the RF National Welfare Fund' (hereinafter – the Rules), the procedure for forming and using the RF Reserve Fund has been altered.

Similarly to the stipulations in the Rules effective prior to the introduction of the new alterations to the Rules, the additional oil and gas revenues received by the federal budget are to be transferred to the RF Reserve Fund until it achieves its normative amount as determined in the federal law on the federal budget for a current financial year and planning period. At the same time, when the RF Reserve Fund is being formed, the amount of allocations from the RF Reserve Fund to cover federal budget deficit, as envisaged in the federal law on the federal budget for the current financial year and planning period, is not to be taken into account.

The amount of additional oil and gas revenues in the federal budget received over a current financial year and used to cover the loss of federal budget revenue incurred in the course of execution of the

federal budget over a current financial year may be preliminarily determined in the federal law on the federal budget for a current financial year and planning period.

Besides, by the new alterations to the Rules it is envisaged that the RF Reserve Fund, within the limits established by the federal law on the federal budget for a current financial year and planning period, is to be used to cover the loss of additional oil and gas revenues in the federal budget incurred in the course of execution of the federal budget over a current financial year; the latter, in their turns, are earmarked for replacement of the government loans of the Russian Federation in accordance with Item 7 of Article 199 of the RF Budget Code.

**By Decree of the RF Government of 13 August 2015, No 840** 'On the Suspension of Some Acts Issued by the Government of the Russian Federation in Connection with the Federal Law "On the Federal Budget for 2015 and the Planning Period 2016 – 2017"', no indexation of the following benefits is to be envisaged until 1 January 2016:

- the cost of services provided in accordance with the list of guaranteed burial services, and the funeral benefit;
- annual monetary compensation of the cost of the upkeep of and veterinary care provided to lead dogs;
- compensations and other payments to victims of the Chernobyl disaster.