

RUSSIA'S STATE BUDGET IN JANUARY–JULY 2015

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According to the Federal Treasury data, over January–July 2015, the federal budget revenues contracted 1.3 p.p. of GDP, and expenditures went up 3.3 p.p. of GDP on the same period of the previous year. Revenues and expenditures of the consolidated budgets of the constituents of the Russian Federation over six months of the current year up 1.0 and 0.3 p.p. of GDP on six months of the previous year, respectively. The federal budget deficit for January–July 2015 constituted 2.8% of GDP, which is down 4.4 p.p. of GDP of the federal budget balance over seven months last year. Consolidated budget of the subjects of the Russian Federation by the period-end for six months 2015 was executed with a surplus of 1.0% of GDP or up 0.7 p.p. against six months 2014.

The quality of state government and effectiveness of budget expenditure are becoming dominant domestic factors of budget system sustainability, its ability to adjust to risks amid falling prices on hydrocarbons and economic growth slowdown.

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

The federal budget revenues as of the period-end results for January–July 2015 came to 19.1% of GDP (Rb 7,794.4bn) down 1.3 p.p. of GDP on the same period 2014 (Table 1). In absolute terms, the federal budget revenues over seven months of the current year against the same period last year contracted by Rb 461.3bn or down 5.8%. Oil and gas revenues down as of the period – end results for seven months 2015 against the same period 2014 by 2.1 p.p. of GDP to 8.6% of GDP (Rb 3,505.1bn). Meanwhile, non-oil and gas revenues over January–July of the current year up 0.8 p.p. of GDP to 10.5% of GDP (Rb 4,289.3bn) compared to seven months 2014.

Over seven months 2015, the volume of the federal budget expenditures reached 21.9% of GDP up 3.3 p.p. of GDP on the same period last year. When taken in absolute terms, the federal budget expenditures went up by Rb 1,399.2bn or 18.6%. By the period-end results for January–July 2015, the federal budget was executed with the deficit of 2.8% of GDP

(Rb 1,121.3bn) down 4.6 p.p. of GDP against the surplus balance of the federal budget for the same period 2014. Non-oil and gas deficit up 11.4% of GDP or 2.1 p.p. of GDP against January–July 2014.

Over seven months 2015, the federal budget revenues and their budget line changes against the same period 2014 are given in Table 2. Proceeds from the foreign economic activity shrank by 2.9 p.p. of GDP on the same period last year to 4.6% of GDP or by 37.4%.

Over the period-end results for January–July 2015, receipts from the Mineral Extraction Tax (MET) went up 4.7% of GDP on the corresponding period last year. In nominal terms, growth constituted 12.6%. Proceeds to the revenue part of the federal budget over seven months of the current year against January–July 2014 generated from domestic VAT up 0.6 p.p. of GDP to 3.8% of GDP, and from imports VAT and from domestic excises in terms of share of GDP have remained flat and came to 2.3% and 0.7% of GDP, respectively. Over the same period, receipts generated from import excises down 0.03 p.p. of GDP to 0.06% of GDP. Earnings from corporate income tax in January–July 2015 as a share

Table 1

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

	January–July 2015		January–July 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p. GDP
Revenues, of which:	7,794.4	19.1	8,255.7	20.4	-461.3	-1.3
Oil and gas revenues	3,505.1	8.6	4,313.9	10.7	-808.8	-2.1
Non-oil and gas revenues	4,289.3	10.5	3,941.8	9.7	347.5	0.8
Expenditures, of which:	8,915.7	21.9	7,516.5	18.6	1,399.2	3.3
Interest	291.8	0.7	225.9	0.6	65.9	0.1
Non-interest	8,623.9	21.2	7,290.6	18.0	1,333.3	3.2
Surplus (deficit) of the federal budget	-1,121.3	-2.8	739.2	1.8	-1,860.5	-4.6
Non-oil and gas deficit	-4,626.4	-11.4	-3,574.7	-8.9	-1,051.7	-2.5
GDP estimations	40,692		40,380			

Sources: RF Federal Treasury, Ministry of Finance, Gaidar Institute calculations.

Table 2

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

	January–July 2015		January–July 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p. of GDP
Tax receipts, total, of which:	6,894.3	16.9	7,560.3	18.7	-666.0	-1.8
Corporate income tax	314.6	0.8	239.8	0.6	74.8	0.2
VAT on merchandise sold on the territory of RF	1,537.6	3.8	1,302.3	3.2	235.3	0.6
VAT on merchandise imported to the territory of RF	936	2.3	950.2	2.3	-14.2	0.0
Excises on merchandise produced on the territory of RF	288.8	0.7	283.3	0.7	5.5	0.0
Excises on merchandise imported to the territory of RF	25.8	0.06	38.3	0.09	-12.5	-0.03
Mineral extraction tax	1,921.0	4.7	1,706.3	4.2	214.7	0.5
Revenues from the foreign economic activity	1,870.5	4.6	3,040.1	7.5	-1,169.6	-2.9

Sources: RF Federal Treasury, Gaidar Institute calculations.

Table 3

FEDERAL BUDGET EXPENDITURE FOR JANUARY–JUNE 2014 – JANUARY–JUNE 2015

	January–July 2015		January–July 2014		Change in p.p. of GDP
	Rb bn	% of GDP	Rb bn	% of GDP	
Expenditures total, of which:	8,915.7	21.9	7,516.5	18.6	3.3
General state issues	573.0	1.4	506.0	1.2	0.2
National defense	2,092.0	5.1	1,551.6	3.8	1.3
National security and law enforcement	1,057.8	2.6	1,061.7	2.6	0.0
National economy	1,166.8	2.9	935.5	2.3	0.6
Housing and utilities sector	57.4	0.1	67.2	0.2	-0.1
Environmental conservation	36.9	0.1	21.7	0.06	0.04
Education	385.2	0.9	386.0	0.9	0.0
Culture, cinematography	49.0	0.1	48.7	0.1	0.0
Healthcare	279.8	0.7	260.5	0.7	0.0
Social policy	2,437.7	5.6	1,927.1	4.8	1.2
Physical fitness and sports	44.8	0.1	24.3	0.06	0.04
Mass media	48.9	0.1	46.5	0.1	0.0
Servicing state and municipal debt	291.8	0.7	225.9	0.6	0.1
Inter-budget general transfers	394.4	1.0	453.7	1.1	-0.1

Sources: RF Ministry of Finance, Gaidar Institute calculations.

of GDP up 0.2 p.p. of GDP or up 31.4% in nominal terms compared to the same period of the previous year.

Federal budget expenditure (*Table 3*) in terms of share of GDP over seven months 2015 against January–July 2014 have changed as follows:

- Expenses on the national defense up 1.3 p.p. of GDP or up 1.3 time in nominal terms;
- Expenses under the line “Social policy” up 1.2 p.p. of GDP or up 1.3 time in nominal terms;
- Expenses under the line “National security and law enforcement” as a share of GDP have remained on hold and constituted 2.6% of GDP; when taken in absolute terms contraction constituted Rb 3.9bn;
- Expenses under the line “National economy” and “General state issues” up 0.6 and 0.2 p.p.

of GDP, respectively, growth in nominal terms by 24.7 and 13.2%, respectively;

- Expenses under the line “Education” and “Healthcare” have remained flat and constituted 0.9 and 0.7% of GDP, respectively; in absolute terms expenditure of education down Rb 0.8bn, and expenditure on healthcare up Rb 19.3bn;
- Expenses under the line “Inter-budget general transfers” and “Housing and utilities sector” in terms of share of GDP decreased 0.1 p.p. of GDP, or down 13.1 and 14.6%, respectively in nominal terms;
- Expenses on public debt servicing up 0.1 p.p. of GDP to 0.7% of GDP or by 29.2% in absolute terms;

FEDERAL BUDGET EXPENDITURE FOR JANUARY–JULY 2014– JANUARY–JULY 2015 ACROSS MAIN LINES OF “NATIONAL ECONOMY” ITEM

	January–June 2015		January–June 2014		Change	
	Rb bn	% of GDP	Rb bn	% of GDP	Rb bn	% of GDP
Expenditures total:	7418.5	21.5	6402.1	19.0	1016.4	2.5
National economy, of which:	830.1	2.4	789.1	2.3	41.0	0.1
General economy issues	8.4	0.02	8.2	0.02	0.2	0.0
Fuel and energy sector	6.9	0.02	1.3	0.00	5.6	0.02
Research and use of space	10.3	0.03	14.1	0.04	-3.8	-0.01
Replacement of the mineral raw material base	14.3	0.04	15.3	0.04	-1.0	0.0
Agriculture and fishing	101.0	0.3	65.3	0.2	35.7	0.1
Water sector	4.2	0.01	8.3	0.02	-4.1	-0.01
Forest sector	11.1	0.03	21.1	0.06	-10.0	-0.03
Transport	88.9	0.2	99.7	0.3	-10.8	-0.1
Public road system (road funds)	205.6	0.6	174.3	0.5	31.3	0.1
Communications and information technologies	11.7	0.03	16.2	0.05	-4.5	-0.02
Applied national economy research	116.0	0.3	119.1	0.3	-3.1	0.0
Other national economy issues	251.6	0.7	246.1	0.7	5.5	0.0

Sources: Federal Treasury, Gaidar Institute calculations.

- Other lines of the federal budget expenditure changed slightly as a share of GDP within 0.04 p.p. of GDP.

Amid economic growth slowdown, it is necessary to secure effectiveness and efficiency of state support of the real sector of the economy both on the federal and regional levels. Analysis of the federal budget expenditure under the item “National economy” across lines/directions over six months 2015 against the same period 2014 (Table 4) has revealed:

- Expenditure on agriculture and fishing up 0.1 p.p. of GDP or up Rb 35.7bn;
- Expenditure on public road system up 0.1 p.p. of GDP or up Rb 31.3bn;
- Expenditure under the line “Transport” down 0.1 p.p. of GDP or down Rb 10.8bn and under the line “Forest sector” down 0.03 p.p. of GDP or down Rb 10.0bn;
- Insignificant increment of expenditure on support of fuel and energy sector by 0.02 p.p. of GDP or up Rb 5.6bn;
- Other lines of the federal budget expenditure changed insignificantly as a share of GDP or in absolute terms within 0.03 p.p. of GDP or Rb 5.5bn.

Thus, the pattern of the federal budget expenditure corresponds to the priorities set by the state policy regarding strengthening support of the agricultural sector and development of the public road infrastructure.

Along types of expenses of the federal budget under the item “National economy” over six months 2015 the following is noted:

- Cash execution of expenses in terms of budgetary investments in construction of state property facilities constituted 25.4% (Rb 119.6bn against the planned volume of Rb 468.8bn). This fact demonstrates the trend to put off construction delivery financed from the federal budget to the end of the year. Problems face implementation of subprogram “Development transport services export”. State enterprise “Development of Transport System” which received but failed to execute budgetary provisions in the amount of Rb 50.2bn in terms of capital contribution to JSC “Russian Railways”¹;
- aggregate volume of expenses allocated for the activities and functioning of the government bodies (including payroll, staff payments, procurement of goods, works and services for state needs) and extension of subsidies to budgetary institutions and financial insurance of state order regarding provision of services/execution of works amounted to Rb 236.0bn or 28.4% of total expenses under the item “National economy” which implies high level of costs of the state in the sphere of regulation of the economy;
- volume of inter-budget general transfers from the federal budget constitutes Rb 181.6bn against the planned volume of Rb 434.4bn. They failed to finance efforts of state support to small and medium businesses including farmers, as well as within similar sub-program

¹ It is likely that postponement is due to change of management of JSC RZHD.

state enterprise “Economic development and innovation economy” (approved volume of budget allocations for 2015 amounts to Rb 16.9bn) and efforts aimed at preparation and hosting of the FIFA 2018 World Cup under sub-program “Motorways” Federal Target Program “Development of transport system” with approved volume of budget allocations in the amount of Rb 10.7bn. Low level of cash execution of the federal budget along inter-budget transfers over six months demonstrates shortcomings in planning and lack of full control over the budget execution;

- the volume of financial investment in terms of property contribution into state corporations/companies amounted to Rb 112.3bn, including Vnesheconombank got Rb 14.5bn, state company “Rosatom” received Rb 92.8bn, Rostekh – Rb 4.2bn. Moreover, Rb27bn were extended as subsidies to state corporation/companies for the execution of sub-program “Motorways”. Overall, on financing of activities of state corporations they spend nearly 7% of the volume of approved budget allocations of the federal budget under the item “National economy” for 2015.

Several ways of support are economically inexpedient and are not aimed at final result. For example, over six months 2015, expenses of the federal budget for:

- subsidies extended to enterprises of light and textile industry for partial reimbursement for interest payment on loans obtained for technical retooling in 2006-2012 came to Rb14.3bn;
- subsidies extended to enterprises of light and textile industry for partial reimbursement for interest payment on loans obtained in 2013-2015 for the implementation of new investment projects of technical retooling – Rb7.8bn.

Thus, issues of quality and efficiency of public finance management aimed at support of the economy remain. The need to review efforts of support of the real sector probably using zero based budget approach¹ in the course of drawing up 2016 federal budget and one for next two years.

Analysis of the Main Parameters of the Consolidated Budget Execution by RF constituents in January–June 2015

As reported by the RF Federal Treasury, the consolidated budgets revenues of the RF constituents over six months of 2015 amounted to Rb 4,495.6bn or 13.0% of GDP, which is up 1.0 p.p. of GDP, or up 10.9% in nominal terms on the same indicator for January–June last year (Table 5). The consolidated budgets expenditure of the RF constituents over six months of 2015, as a share of GDP, went up on the corresponding figure for the same period of 2014 by 0.3 p.p. of GDP to 12.0 % of GDP, or Rb 4,131.1bn.

By the period-end of January–June 2015, the consolidated budget revenues of the RF constituents was executed with a surplus of 1.0% of GDP (Rb 364,5bn) up 0.7 p.p. of GDP against budget surplus of the same period last year.

Public debt of the RF constituents as of 01.08.2015 amounted to Rb 2,128.3bn (up Rb 395.2bn. over year), of which:

- loans to the RF constituents by depository institutions, foreign banks and international financial organizations – Rb 805.8bn (+Rb 152.4bn);
- budgetary loans from other budgets of the budget system of the Russian Federation – Rb 771.0bn (+Rb 242.0bn);

¹ Zero base budget (ZBB) – zero level approach to the budget planning.

Table 5

MAIN PARAMETERS OF THE CONSOLIDATED BUDGETS OF THE RF CONSTITUENTS FOR JANUARY–JUNE 2014 AND JANUARY–JUNE 2015 .

	January–June 2015		January–June 2014		Change, p.p. of GDP
	Rb bn	% GDP	Rb bn	% GDP	
Revenues, of which:	4,495.6	13.0	4,052.1	12.0	1.0
- corporate profit taxes	1,234.0	3.6	976.5	2.9	0.7
- personal income tax	1,245.4	3.6	1,197.0	3.5	0.1
- excises on goods produced in the territory of RF	230.6	0.6	215.6	0.6	0.0
- taxes on total income	186.6	0.5	170.7	0.5	0.0
- property taxes	472.8	1.4	428.0	1.3	0.1
- non-repayable receipts from other budgets of the budget system of the Russian Federation	773.7	2.2	756.8	2.2	0.0
Expenditures	4,131.1	12.0	3,961.8	11.7	0.3
Surplus (deficit) of consolidated budget	364.5	1.0	90.3	0.3	0.7
GDP estimates	34,447		33,,689		

Sources: RF Federal Treasury, Gaidar Institute calculations.

**CONSOLIDATED BUDGETS EXPENDITURES OF THE RF CONSTITUENTS
FOR JANUARY–JUNE 2014 – JANUARY–JUNE 2015**

	January–June 2015		January–June 2014		Change, p.p. of GDP
	Rb bn	% GDP	Rb bn	% GDP	
Expenditures, total	4131.1	12.0	3961.8	11.7	0.3
of which:					
General state issues	260.5	0.7	248.2	0.7	0.0
National security and law enforcement	43.6	0.1	41.0	0.1	0.0
National economy	648.2	1.9	605.6	1.8	0.1
Housing and utilities sector	304.9	0.9	309.9	0.9	0.0
Environmental conservation	9.1	0.03	8.8	0.03	0.0
Education	1231.9	3.6	1210.7	3.6	0.0
Culture, cinematography	142.2	0.4	137.5	0.4	0.0
Healthcare	615.9	1.8	579.6	1.7	0.1
Social policy	707.4	2.0	668.6	2.0	0.0
Physical fitness and sports	74.9	0.2	74.5	0.2	0.0
Mass media	20.0	0.06	19.0	0.06	0.0
Servicing state and municipal debt	70.8	0.2	53.5	0.1	0.1

Sources: Federal Treasury, Gaidar Institute calculations.

- State bonds of RF constituent – Rb 424.6bn (– Rb 8.8bn).

Analysis of the composition and movement of tax-generated and non-tax revenues of the consolidated budgets of the RF constituents for January–June 2015 and January–May of 2014 revealed the following trends:

- Profit tax revenues up 0.7 p.p. of GDP to 3.6% of GDP or up 26.4% in nominal terms;
- Personal income tax revenues up 0.1 p.p. of GDP to 3.6% of GDP or up 4.0% in nominal terms;
- Receipts from domestic excises and from total income taxes as a share of GDP remained on hold and amounted to 0.6 and 0.5% of GDP, respectively, and went up 6.9 and 9.3% in nominal terms, respectively;
- Receipts from property tax as a share of GDP up 0.1 p.p. of GDP to 1.4% of GDP, growing by 10.3% in nominal terms, respectively;
- Revenues from non-repayable receipts from other budgets of the budget system of the Russian Federation remained flat and amounted to 2.2% of GDP and increased by 2.2% in nominal terms.

Expenditure of the consolidated budgets of the constituents of the Russian Federation (Table 6) by the period-end results for January–June 2015 against six months last year across the majority of items as a share of GDP remained on hold. Barely increased (up 0.1 p.p. of GDP) expenses across three items: “National economy”, “Healthcare”, and “Servicing state and municipal debt”.

Across main expenditure items of the consolidated budgets of the constituents of the Russian Federation over six months 2015 against six months 2014 under

the item “National economy” the following dynamics is revealed (Table 7):

- increment of financing volumes of agriculture/ fishing and public road system by 0.1 p.p. of GDP or by 20.5% and 11.6%, respectively in nominal terms;
- Contraction of expenses under the line “Other national economy issues” by 0.1 p.p. of GDP or by 17.4% in nominal terms.
- Other expenditure items of the consolidated budgets of the constituents of the Russian Federation barely changed.

Thus, the expenditure pattern of the consolidated budgets of the constituents of the Russian Federation reflects the priority of support for agriculture and public road infrastructure.

Along types of expenditure of the consolidated budgets of the RF constituents over six months 2015 under the “National economy” item can be underscored that significant share of expenses is allocated for financing of administrative bodies and for support of public sector organizations, in particular:

- Expenses on communications services, transport and housing services, lease and property maintenance constituted Rb 308.8bn;
- Expenses on payroll and payroll accruals constituted Rb 44.6bn, including expenditure on payroll for employees at public institutions and contributions to mandatory social security – Rb 22.7bn;
- Volume of subsidies extended to budgetary, autonomous institutions and other non-profit organizations amounted to Rb 50.5bn or 7.8% of the overall expenditure volume on the item national economy;

**EXPENDITURES OF THE CONSOLIDATED BUDGETS OF THE RF CONSTITUENTS FOR JANUARY–JUNE 2014–2015
ACROSS THE LINES OF “NATIONAL ECONOMY” ITEM**

	January–June 2015		January–June 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	% GDP
Expenditures, total:	4131.1	12.0	3961.8	11.7	169.3	0.3
Of which across main lines:						
National economy, of which:	648.2	1.9	605.6	1.8	42.6	0.1
General economy issues	17.4	0.05	16.5	0.05	0.9	0.0
Fuel and energy sector	12.5	0.04	6.5	0.02	6	0.02
Agriculture and fishing	138.6	0.4	115.0	0.3	23.6	0.1
Transport	155.5	0.5	157.1	0.5	-1.6	0.0
Public road system (road funds)	236.6	0.7	212.0	0.6	24.6	0.1
Communications and information technologies	16.4	0.05	15.9	0.05	0.5	0.0
Other national economy issues	52.3	0.1	63.3	0.2	-11	-0.1

Sources: Federal Treasury, Gaidar Institute calculations.

- Expenses on purchase shares and other forms of participation in capital constituted Rb 74.3bn or 11.5% of the expenses on National economy. The following RF constituents have significantly increased their volumes of financial assets under the “National economy” item: Moscow – Rb 64.0bn under the line “Transport”, Moscow region – Rb 3.0bn under the line “Transport”, Perm Krai – Rb 844.2bn under the line “Public road system”, Leningrad region – Rb 630.0bn, Krasnoyarsk Krai and Sakhalin region – Rb 477.5 and 472.5bn, respectively.

Total volume of expenses on capital investment into state (municipal) property constituted barely Rb 174.2bn or 26.9% of the overall volume of financing from the consolidated budgets of the constituents of the Russian Federation for six months 2015 under the item “National economy”.

It should be noted that 88.4% (Rb 573.8bn) of the total expenditures of the consolidated budgets of the constituents of the Russian Federation for support of the economy is concentrated at the regional budgets level, meanwhile, the municipal budgets expenditure which felt the aftermath of the economic slump very acutely constituted solely Rb 28.7bn.

Analysis of the expenditure pattern of the federal budget and consolidated budgets of the constituents of the Russian Federation over six months 2015 under the item “National economy” raises a number of questions, Main question is availability and efficiency of economic policy including expediency of growth of public financial assets and efficiency of government measures aimed at supporting the economy.