

RUSSIA'S STATE BUDGET IN JANUARY–AUGUST 2015

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According to the Federal Treasury, as of the period-end results for January–August 2015 the federal budget revenues contracted 1.6 p.p. of GDP, and expenditures went up 2.5 p.p. of GDP in comparison with the same period of the last year. Revenues and expenditures of the consolidated budget of the constituents of the Russian Federation as of the period-end results for seven months of the current year against seven months of the previous year went up 1.1 and 0.4 p.p. of GDP, respectively. The federal budget deficit as of the period-end results for January–August 2015 amounted to 2.1% of GDP down 4.1 p.p. of GDP against the federal budget surplus over seven months of the last year. The consolidated budget of the constituents of the Russian Federation as of the period-end results for seven months 2015 was executed with a surplus of 1.4% of GDP or up 0.6 p.p. against seven months of the previous year.

On 22 September 2015, the RF President held a meeting¹ to determine 2016 federal budget priorities including: ensuring balance and sustainability of public finances by significant reduction of budget dependence on oil prices; meeting by the government of social obligations before the population, transition to targeted social assistance of the most vulnerable groups of citizens, preservation of the federal budget role as one of the leading instruments of development, among others. Issues of fiscal and budgetary policy remain unchanged over recent years. Main changes relate to the taxation of additional revenues of enterprises generated from export. So far, unresolved remain decisions regarding indexation of pensions and retirement age increase. Nevertheless, there are no plans to drastically reduce the federal budget outlays for the next year and the acceptable volume of budget deficit is set at 3% of GDP

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

The federal budget revenues as of the period-end results for January–August 2015 constituted 19.0% of

GDP down 1.6 p.p. of GDP on the same period 2014 (Table 1). In absolute terms, the reduction constituted Rb 480.4bn or 5.1%. Oil and gas revenues down 2.2 p.p. of GDP to 8.6% of GDP (Rb 4,033.2bn) as of the period-end for eight months 2015 against the same period 2014. Meanwhile, non-oil and gas revenues for January–August of the current year up 0.6 p.p. of GDP to 10.4% of GDP (Rb 4,925.3bn) compared to eight months 2014. The share of oil and gas revenues in the total federal budget revenues declined from 52.1% for eight months 2014 to 45.0% as of the period-end for January–August 2015.

Over eight months 2015, the volume of the federal budget expenditures reached 21.1% of GDP up 2.5 p.p. of GDP on the same period last year. When taken in absolute terms, the federal budget expenditures went up by Rb 1,417.7bn or by 16.6%. By the period-end for January–August 2015, the federal budget was executed with the deficit of 2.1% of GDP (Rb 991.1bn) down 4.1 p.p. of GDP against the surplus balance of the federal budget for the same period 2014. The non-oil and gas deficit also up to 10.7% of GDP or 1.9 p.p. of GDP against January–August 2014.

1 <http://kremlin.ru/events/president/news/50344>

Table 1

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

	January–August 2015		January–August 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p. GDP
Revenues, of which:	8,958.5	19.0	9,438.9	20.6	-480.4	-1.6
Oil and gas revenues	4,033.2	8.6	4,917.3	10.8	-884.1	-2.2
Non-oil and gas revenues	4,925.3	10.4	4,521.6	9.8	403.7	0.6
Expenditures, of which:	9,949.6	21.1	8,531.9	18.6	1,417.7	2.5
Interest	372.4	0.8	283.2	0.6	89.2	0.2
Non-interest	9,577.2	20.3	8,248.7	18.0	1,328.5	2.3
Surplus (deficit) of the federal budget	-991.1	-2.1	907.0	2.0	-1,898.1	-4.1
Non-oil and gas deficit	-5,024.3	-10.7	-4,010.3	-8.7	-1,014	-1.9
GDP estimations	47,139		45,867			

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

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

	January–August 2015		January–August 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p. of GDP
Tax receipts, total, of which:	7,810.9	16.6	8,519.9	18.6	-709	-2.0
Corporate income tax	354.2	0.8	278.1	0.7	76.1	0.1
VAT on merchandise sold in the territory of RF	1,621.9	3.4	1,393.9	3.0	228	0.3
VAT on merchandise imported to the territory of RF	1,092.3	2.3	1,082.4	2.3	9.9	0.0
Excises on merchandise produced in the territory of RF	333.7	0.7	328.4	0.7	5.3	-0.03
Excises on merchandise imported to the territory of RF	30.3	0.06	43.8	0.09	-13.5	0.0
Mineral extraction tax	2,197.1	4.7	1,941.7	4.2	255.4	0.5
Revenues from the foreign economic activity	2,181.4	4.6	3,451.6	7.5	-1,270.2	-2.9

Sources: RF Federal Treasury, Gaidar Institute calculations.

Over eight months 2015, the federal budget revenues in terms of share of GDP compared to the same period 2014 (Table 2) had differently directed movements. Proceeds from the foreign economic activity shrank by 2.9 p.p. of GDP compared to the same period last year to 4.6% of GDP or by 36.8% in nominal terms.

Over the period-end results for January–July 2015, receipts generated from the Mineral Extraction Tax (MET) went up 0.5 p.p. of GDP on the corresponding period last year to 4.7% of GDP. In nominal terms, growth constituted 13.2%. Proceeds to the revenue part of the federal budget over eight months of the current year against January–August 2014 generated from domestic VAT up 0.4 p.p. of GDP to 3.4% of GDP, and from imports VAT in terms of share of GDP have remained flat and came to 2.3% of GDP. Over January–August 2015 against eight months 2014, receipts of the federal budget generated from domestic excises remained flat and came to 0.7% of GDP. Meanwhile, proceeds generated from import excises down 0.03 p.p. of GDP to 0.06% of GDP. Earnings from corporate income tax in January–August 2015 as a share of GDP up 0.1 p.p. of GDP or up 30.8% compared to the same period of the previous year.

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

- Expenses on the national defense up 1.1 p.p. of GDP or up 1.3 times in nominal terms;
- Expenses under the line “Social policy” up 1.1 p.p. of GDP or up 1.3 times in nominal terms;
- Expenses under the line “National security and law enforcement” as a share of GDP down 0.1 p.p. of GDP and constituted 2.5% of GDP; when taken in absolute terms contraction constituted Rb 16.1bn;

- Expenses under the line “National economy” and “General state issues” up 0.5 and 0.1 p.p. of GDP, respectively, growth in nominal terms by 23.9 and 11.6%, respectively;
- Expenses under the line “Education” up 0.1 p.p. of GDP and “Healthcare” down 0.1 p.p. of GDP to 0.8% and 0.6%, respectively; in absolute terms expenditure on education down Rb 22.3bn, and expenditure on healthcare down Rb 9.6bn;
- Expenses under the line “Inter-budget general transfers” decreased 0.2 p.p. of GDP or 14.6% in nominal terms;
- Expenses on public debt servicing up 0.2 p.p. of GDP to 0.8% of GDP or by 1.3 times in absolute terms. It should be noted that significant growth of interest expenditure of the federal budget took place in August 2015. If over H1 2015 expenditure on public debt servicing constituted Rb 263.3bn or 45.0% of the authorized annual volume and in July–Rb 26.6bn, then in August interest payments were executed in the amount of Rb 83.2bn. Thus, as of the period-end results for eight months of the current year cash execution of expenditure for public debt servicing amounted to 63.8% of the authorized annual expenditure volume;
- Other lines of the federal budget expenditure changed slightly as a share of GDP within 0.04 p.p. of GDP.

Drawing of 2016 draft federal budget¹ where the rule of the budget law is suspended² is in

1 The government adopted a decision on one year budget due to high volatility on the markets and difficulty of forecasting both oil prices and other macroeconomic indicators on which the budget is drawn.

2 According to which marginal volume of expenditure is calculated parting from the average oil price for previous years (monitoring

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

	January–August 2015		January–August 2014		Change in p.p. of GDP
	Rb bn	% GDP	Rb bn	% GDP	
Expenditures total, of which:	9,949.6	21.1	8,531.9	18.6	2.5
General state issues	634.7	1.3	568.7	1.2	0.1
National defense	2,253.8	4.8	1,717.2	3.7	1.1
National security and law enforcement	1,202.8	2.5	1,218.9	2.6	-0.1
National economy	1,330.4	2.8	1,073.7	2.3	0.5
Housing and utilities sector	64.0	0.1	72.6	0.1	0.0
Environmental conservation	37.5	0.08	29.1	0.06	0.0
Education	404.6	0.8	426.9	0.9	0.1
Culture, cinematography	52.0	0.1	51.9	0.1	0.0
Healthcare	304.1	0.6	313.7	0.7	-0.1
Social policy	2,753.6	5.8	2,183.0	4.7	1.1
Physical fitness and sports	46.0	0.1	26.3	0.06	0.04
Mass media	50.6	0.1	47.0	0.1	0.0
Servicing state and municipal debt	372.4	0.8	283.2	0.6	0.2
Inter-budget general transfers	443.0	0.9	519.6	1.1	-0.2

Sources: RF Ministry of Finance, Gaidar Institute calculations.

the final stage and in October will be submitted to the State Duma. The following changes in the fiscal policy are envisaged:

- The budget receives additional revenues generated by the Russian exporters resulting from the ruble devaluation (primarily, oil companies are on the hook);
- Recapitalization of institutions supporting export.

The task of improving budget expenditure efficiency also remains a government policy priority and we can declare that the Finance Ministry so far manages to keep down certain types of expenses below the inflation level. Data concerning dynamics of the federal budget expenditure across state management sector over eight months 2015 against eight months 2014 can not be used for valid conclusions (because part of certain types of expenses are part of subsidies for state orders for the budgetary and autonomous organizations which distorts expenditure structure). However, on the whole, they reflect current trends of 2014–2015¹ (Table 4), specifically:

- growth of expenditure on wages and salaries (communication, utilities and transport services) came to 1.2% and 6.1%, respectively. At a higher pace grew expenses on other types of services at 7.3%. Nevertheless, expenditure movement is considerably lower than inflation².

period grew annually by one year).

1 In proposal regarding the lack of significant changes of proportions of “direct” expenses and outlay for subsidies for state orders; feasibility of this precondition partly can be substantiated by nearly unchanged volume of expenses on the line “non-repayable transfers to state and municipal organizations” (Table 4).

2 The RF Finance Ministry expects inflation at the level of 12.2% at end-2015. Source: <http://www.minfin.ru/ru/#>

Expenses down 9.0% on the lease for the use of property and for payment for works and services on the upkeep of property. However, this group of expenses does not reflect compensation for labor and services, lease and upkeep of property which is financed within state orders by state organizations. In medium term, reduction of expenses on compensation is feasible by way of decrease/optimization of administrative, domestic functions of administrative bodies;

- non-refundable transfers to state organizations up 3.6% of GDP which is also below inflation. Contraction of expenses on funding healthcare and educational institutions can be justified solely within optimization of the budgetary network without reducing quality of services rendered. However, as the Accounting Chamber and public organizations reports demonstrate problems of quality of services rendered and expenses efficiency both in healthcare and education remain;
- significantly increased non-refundable transfers to NGOs – by 34.9% in nominal terms or by 0.3 p.p. of GDP. In spite of the fact that expenses on shares value and other forms of participation in capital declined by 19.1% or by 0.1 p.p. of GDP, justification and efficiency of expenses on support of certain companies raise doubts. Procurator’s office, the Accounting Chamber and independent experts repeatedly called attention to breach of law in handling budget funds, lack of transparency and insufficient control over the activities of state corporations which were major recipients of budget funds.

**FEDERAL BUDGET EXPENDITURE FOR JANUARY–AUGUST 2014 – JANUARY–AUGUST 2015
ACROSS MAIN TYPES OF EXPENSES**

	January–August 2015		January–August 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	% in nominal terms	% GDP
Expenditures total:	9,949.6	21.1	8,531.9	18.6	16.6	2.5
Wages and salaries, other payments, payroll accruals	1,558.1	3.3	1,539.9	3.3	1.2	0.0
Communication services, transport services, utilities sector services	126.7	0.3	119.4	0.3	6.1	0.0
Rental payment for property use, works, services for upkeep of property	330.0	0.7	364.1	0.8	-9.4	-0.1
Other works and services	542.3	1.1	505.2	1.1	7.3	0.0
Non-repayable transfers to state and municipal organizations	717.2	1.5	692.0	1.5	3.6	0.0
Non-repayable transfers to organizations minus state and municipal organizations	540.3	1.1	400.4	0.9	34.9	0.3
Shares value increase and other forms of participation in capital	159.8	0.3	197.5	0.4	-19.1	-0.1
Social safety net, including:	568.5	1.2	514.5	1.1	10.5	0.1
- pensions, benefits payable by organizations of the state administration sector	395.0	0.8	359.5	0.8	9.9	0.05
Value increase of fixed assets	1,402.1	3.0	882.7	1.9	58.8	1.1
Value increase of tangible assets, intangible and non-production assets	367.6	0.8	331.5	0.7	10.9	0.1
Transfers to other budgets of the budget system of RF	3,073.7	6.5	2,582.3	5.6	19.0	0.9
Other expenses, including servicing public debt	563.3	1.3	402.4	1.1	40.0	0.2

Sources: Federal Treasury, Gaidar Institute calculations.

Taking into consideration the fact that any support both on the part of government and private investors should be limited by term and not be permanent, one can expect significant reduction of such expenses of the federal budget in 2016 and beyond;

- substantially by comparison with expenses on wages and salaries increased expenses on social safety net (by 10.5% in nominal terms) as the expense of pensions and benefits payable to organization of the state administration sector (increment of 9.9% in nominal terms). It should be noted that the federal budget expenditure on pensions and benefits (0.8% of GDP) are comparable with expenditure on transfers to the private sector organizations (1.1% of GDP). Accelerated growth of financing of whole life annuity and social support of public servants and certain categories amid freeze of pension savings of working citizens¹, control over pen-

sions indexation and proposals to raise retirement age raise questions regarding social justice in revenue distribution and targeted assistance.

On 9 September 2015, the Accounting Chamber² released a report which demonstrates that the findings of the analysis show the lack of adequate registration of incomplete construction projects including volume of work completed, reasons for commencing construction and allocation of budget funds, date on commencing construction and reasons for termination of construction. Inspection results demonstrate that as of 1 January 2015 total volume of incomplete construction across 71 agencies together with their organizations constituted Rb 1.97 trillion and the number of buildings and facilities unfinished comes to 5,420 units by end-2014. Compared to 1 January 2014 the volume of incomplete construction up Rb 278.2bn or 16.5%.

which should have been directed to the funded component were directed to the unfunded component. However, there is yet no decision concerning freezing the funded component for the next year.

² http://www.ach.gov.ru/press_center/news/23518

¹ For 2014 and 2015, the RF government introduce moratorium on the funded component of a retirement pension, 6% of the salaries

- the federal budget funds transferred to other budgets of the budget system up 19.0% or 0.9 p.p. of GDP and the major share of expenses along this line goes to the Pension Fund budget. Note that the problem of the Pension Fund budget balance popped up when the budget revenues significantly exceeded expenditure. To resolve this problem now at the expense of the population, in particular, by freezing pension savings, indexation as well as urgently raising the retirement age¹ means that in some sense the government recognizes its shortsightedness and insufficient competence. The Finance Minister Anton Siluanov confirmed that one of the reasons of challenging economic situation in Russia is an excessive soft budgetary policy of the previous years.²

Thus, increase of the quality and efficiency of the public finance management is the government's priority and should be guided not by the provisional measures but in the long-term.

Analysis of the Main Parameters of the Execution of the RF Constituents Consolidated Budget for January–July 2015

According to the Federal treasury, the consolidated budget revenues of the RF constituents over seven months 2015 amounted to Rb 5,540.4bn or 13.6% of GDP which is up 1.1 p.p. of GDP or up 9.3% in nominal terms on the same level for January–July 2014 (Table 5). The consolidated budget expenditure of the RF constituents over seven months 2015 as a share of GDP went up on the corresponding period 2014 by 0.4 p.p. of GDP to 12.2% of GDP (Rb 4,954.1bn).

1 Source: <http://www.rg.ru/2015/09/23/siluanov-site.html>

2 <http://www.minfin.ru/ru/#>

By the period-end for January–July 2015, the consolidated budget of the RF constituents was executed with a surplus of 1.4% of GDP (Rb 586.3bn) up 0.6 p.p. of GDP against budget surplus as of seven months-end of the previous year.

Analysis of the composition and movement of tax-generated and non-tax revenues of the consolidated budget of the RF constituents over January–July 2015 and corresponding period 2014 revealed the following trends:

- Profit tax receipts up 0.4 p.p. of GDP to 3.4% of GDP or up 14.3% in nominal terms;
- Personal income tax receipts up 0.2 p.p. of GDP to 3.8% of GDP or up 5.2% in nominal terms;
- Receipts from domestic excises and from total income taxes as a share of GDP remained on hold and amounted to 0.7 and 0.6% of GDP, respectively, and went up 4.0 and 9.2%;
- Receipts from property tax as a share of GDP up 0.1 p.p. of GDP to 1.6% of GDP, growing by 11.3% in nominal terms;
- Revenues from non-repayable receipts from other budgets of the budget system of the Russian Federation went up 0.2 p.p. of GDP and constituted 2.4% of GDP.

Expenditure of the consolidated budgets of the constituents of the Russian Federation (Table 6) by the period-end results for January–July 2015 against seven 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 four lines: “National economy”, “Education”, “Healthcare”, and “Servicing state and municipal debt”.

On the whole, movement of revenues and expenditures of the consolidated budgets of the RF constituents over seven months 2015 is positive. However, certain risks of increased imbalance of the budget

Table 5

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

	January–July 2015		January–July 2014		Change, p.p. of GDP
	Rb bn	% GDP	Rb bn	% GDP	
Revenues, of which:	5,540.4	13.6	5,067.5	12.5	1.1
- corporate profit taxes	1,402.5	3.4	1,227.3	3.0	0.4
- personal income tax	1,539.1	3.8	1,463.0	3.6	0.2
- excises on goods produced in the territory of RF	284.0	0.7	273.5	0.7	0.0
- taxes on total income	248.7	0.6	227.4	0.6	0.0
- property taxes	658.8	1.6	591.8	1.5	0.1
- non-repayable receipts from other budgets of the budget system of the Russian Federation	964.0	2.4	893.7	2.2	0.2
Expenditures	4,954.1	12.2	4,758.5	11.8	0.4
Surplus (deficit) of consolidated budget	586.3	1.4	309.0	0.8	0.6
GDP estimates	40,692		40,380		

Sources: RF Federal Treasury, Gaidar Institute calculations.

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

	January–July 2015		January–July 2014		Change, p.p. GDP
	Rb bn	% GDP	Rb bn	% GDP	
Expenditures, total	4,954.1	12.2	4,758.5	11.8	0.4
of which:					
General state issues	317.1	0.8	307.1	0.8	0.0
National security and law enforcement	52.3	0.1	50.4	0.1	0.0
National economy	823.2	2.0	768.7	1.9	0.1
Housing and utilities sector	383.6	0.9	382.2	0.9	0.0
Environmental conservation	11.1	0.03	11.4	0.03	0.0
Education	1,424.8	3.5	1,396.4	3.4	0.1
Culture, cinematography	171.3	0.4	167.8	0.4	0.0
Healthcare	740.3	1.8	697.3	1.7	0.1
Social policy	831.0	2.0	796.4	2.0	0.0
Physical fitness and sports	91.6	0.2	91.3	0.2	0.0
Mass media	23.9	0.06	23.0	0.06	0.0
Servicing state and municipal debt	81.7	0.2	61.4	0.1	0.1

Sources: Federal Treasury, Gaidar Institute calculations.

by the year-end amid surplus in the amount of 1.4% of GDP remain because experience of the previous years demonstrated the considerable volume of sub-

national borrowings falls for the year-end and “intermediate” surplus is easily changed to a deficit by the year-end. ●