

RUSSIA'S REGIONAL BUDGETS IN JULY–AUGUST 2015¹

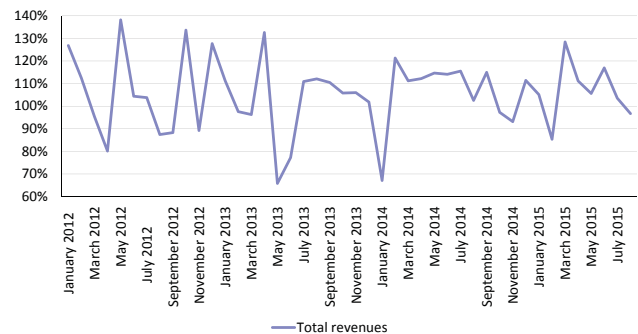
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Relatively high growth rate of regional consolidated budget revenues has been offset by even slower growth rates of the federal budget revenues, thus allowing the regional government debt to have been held under control so far. Additionally, the Russian government have used anti-crisis measures to prevent commercial debts from growing, but the debts have not been reduced substantially. Despite a general equilibrium of the regional budgets, chances are high that a substantial portion of the budget expenditure will be carried forward to the end of fiscal year, thereby triggering drastic increase in the regional government debt.

Consolidated budget revenues of the constituent territories of the Russian Federation stood at 108.1% on a year-over-year basis² (Fig. 1), which is far below the inflation level (15.8%) seen over the recent 12 months, according to the preliminary results in the first eight months during 2015.

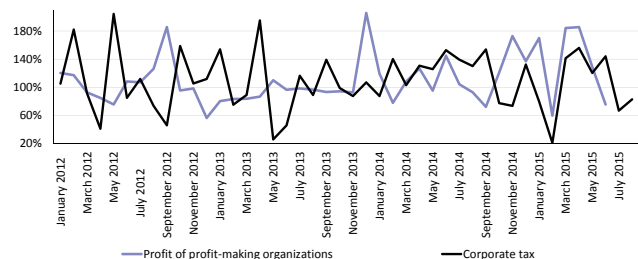
The Sakhalin Region stands out sharply against other regions, with whose YTD growth of consolidated budget revenues has been 158.4%, thereby moving the region up to 4th in volume, coming second only to Moscow, Saint-Petersburg and the Moscow Region. This is the sole region in Russia whose consolidated budget revenues are three times the expenditure. The wellbeing of the Sakhalin Region relies on corporate tax revenues (above all, enterprises operating in the oil & gas sector: in H1 2015 the type of economic activity called “production of crude oil and natural gas; providing services in these areas” accounted for 88.7% of all tax revenues generated by the regional consolidated budget), being second in volume only to Moscow. Excluding the Sakhalin Region, the consolidated budget revenues of the constituent territories of the Russian Federation increased in the first eight months during 2015, reaching 107%.

In July and August 2015, growth rates of the regional consolidated budget revenues (respectively 103.5% and 96.7%) were almost rock bottom for the year to date, only higher than in February. The key reason, like in the beginning of the financial year, was small corporate tax revenues whose growth rates in July and August stood at respectively 66.6% and 82.5% on a year-over-year basis. However, taking into consideration the entire YTD period, this tax cannot be regarded as the key driver setting back growth of regional



Source: the calculations were made using the data provided by the Russian Federal Treasury.

Fig. 1. Growth rates of the total volume of consolidated budget revenues of the constituent territories of the Russian Federation, %



Source: the calculations were made using the data provided by the Russian Federal Treasury and the Russian Federal State Statistics Service (Rosstat).

Fig. 2. Growth rates of the profit of profit-making organizations and the profit tax, %

revenues because its growth in the first eight months reached 111% on a YTD basis (105.9%, excluding the Sakhalin Region), corresponding in general to growth rates of the total volume of revenues.

It is hard to forecast the dynamics of profit tax revenues because both tax revenues and the tax base have become highly volatile since the beginning of the year (Fig. 2).

The dip in July 2015 regarding the profit tax was largely offset by other two major sources of revenues,

¹ An article from the Online Monitoring of Russia's Economic Environment (OMES). Trends and challenges of the socio-economic development. 2015. No. 12. September.

² The Regions of the Crimean Federal District are excluded, unless otherwise specified, from all the data presented hereinafter.

namely the personal income tax (110.2%), the corporate property tax (115.1%), inter-budget transfers (150.3%). However, so high growth rates of the foregoing revenues were not typical of the entire period in 2015, and in August they were much closer to their average annual values: the personal income tax stood at 105.5%, the corporate property tax was 104.3%, inter-budget transfers were at 90.6%.

The situation with pumping up the budgets is unlikely to improve by the end of the year. Personal income tax revenues rely on the total volume of wages which steadily tends to fall (Fig. 3). And despite the fact that this source of revenues is now relatively stable, its current growth rates remain far below the level of inflation.

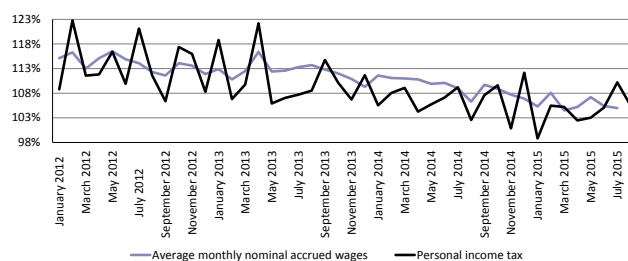
Additionally, according to the federal budget law, the total volume of inter-budget transfers from the federal budget, accounting for about 17% of the regional revenue structure, decreased to 87.7% of the respective values in the previous year.

Irrespective of the dynamics of corporate tax revenues, these factors will set back further growth of consolidated budget revenues of the constituent territories of the Russian Federation because personal income tax revenues and inter-budget transfers account for nearly 45% of the total volume of sub-federal budget revenues. Hence about a half of the regional consolidated budget revenues by the end of the year will be growing at a slower pace, considerably below the level of inflation.

The minimal level of real revenues of the regional consolidated budgets is anticipated to be the same at the year-end 2015, given the current growth rates of consolidated budget revenues of the constituent territories of the Russian Federation in the first eight months of 2015 (108.1), weaker dynamics which this indicator was showing for the last two months under review (respectively 103.5% and 96.7% in July and August), extremely low level of the actual volume of consolidated budget revenues of the constituent territories of the Russian Federation in 2014 (12.32% of GDP), the proximity of this level to the absolute low (12.22% of GDP) which was hit back in 2013, and considering the current growth rates of nominal GDP (104% as of the end of H1).

Regarding *budget expenditure*, the regional budget policy aims to cut budget expenditure despite high level of inflation and the need to fulfill the so-called Presidential May orders (the Russian President issued the orders on 7 May 2012) which provide for pay rise for a broad category of public employees.

As a result, as of the end of the first eight months of 2015 the consolidated budget expenditure of the constituent territories of the Russian Federation



Source: the calculations were made using the data provided by the Russian Federal Treasury and the Russian Federal State Statistics Service (Rosstat).

Fig. 3. Growth rates of the personal income tax and average monthly nominal accrued wages, %

advanced as little as 104.7%. The methods to be employed include streamlining the network of institutions, investment cuts and budget expenditure carry forward to the year-end. The latter arrangement was widely employed in 2014: with an overall growth of 4.6% as of the fiscal year end, the budget expenditure in December increased 2.44 times. Apparently, similar techniques of carrying forward budget expenditure to the year end will be employed this year too, but the carryforward in 2015 is expected to be performed on a smaller scale than that in 2014 because of the currently high level of budget execution in terms of expenditure (57.4% of the annual target level as of the end of the first eight months of the current fiscal year compared to 54.8% a year ago).

The current growth rate outrun of budget revenues over expenditure has enhanced equilibrium figures of the consolidated budgets of the constituent territories of the Russian Federation and facilitated in slowing down growth rates of the regional government debt which has increased in absolute terms only 1.3% on a year-to-date basis. However, in late August 2014 the regional government debt was even 0.6% smaller than that as of 1 January, but this didn't prevent its year-end increase of 20.2%. Something like that is expected at the year-end 2015 too.

While examining the changes in the structure of the regional *government debt* during 2015 (between 1 January and 1 September), one can see some replacement of loans from credit institutions (their share is down from 42.5% to 38.1%) with budget loans (whose share is up from 31.0% to 36.5%), thereby making government debt service relatively more cheaper.

Looking at the changes of the debt structure for the recent 12 months, the share of commercial loans has remained unchanged (with even a timid advancement from 37.8%). The share of budget loans has increased (from 30.6% to 36.5%) as the share of securities and state guarantees declined respectively from 24.9% to 20.3% and from 6.7% to 5.1%, the lat-

ter only conditionally can be attributed to the government debt).

The situation differs largely by region. Some regions such as the Chuvash Republic, the Nizhny Novgorod Region and the Kirov Region, the regions in the North Caucasian Federal District, except the Republic of Ingushetia and Chechen Republic during 2015 have managed to replace a substantial portion of loans from

credit institutions with budget loans, whereas other regions, namely the Ivanovo Region and the Pskov Region, the Mari El Republic, the Udmurt Republic, the Republic of Khakassia have replaced budget loans with commercial ones. Apparently, not all of the regions can equally obtain budget loans, because perhaps they differ in meeting the Finance Ministry's requirements for such loans. ●