

By Tatiana Tishchenko

## State budget

According to the Federal Treasury, in January-August 2012, federal budget revenues amounted to 22.0% of GDP, which is by 0.1 percentage points GDP higher than in the corresponding period of the last year. The federal budget expenditures over eight months of the year have increased by 1.0 p.p. of GDP against the same period of 2011, amounting to 20.6% of GDP. As of January-August 2012 results, the federal budget was executed with a surplus of 1.4% of GDP. The main growth of the federal budget was provided by the oil and gas revenues reached 11.2% of GDP, which exceeds the indicator of January-August 2011 by 1.4 p.p. The government domestic debt in August of this year has slightly decreased to Rb 4,427.4bn.

### Analysis of key indicators of the federal budget execution in January–August 2012

For January-August 2012, the revenues of the federal budget amounted to Rb 8353.8bn, which is by Rb 1133.4bn, or 0.1 p.p. of GDP higher than in the relevant period of the last year (See Table 1). Oil and gas revenues for the same period increased to 11.2% of GDP, or 1.4 p.p. of GDP against eight months of 2011. The budget expenditure for January-August 2012 amounted to Rb 7822.7bn, i.e., Rb 1362.6bn (by 1.0 p.p. of GDP) higher as compared to the same period of the last year.

As of January-August 2012, federal budget was executed with a surplus of Rb 531.1bn (1.4% GDP), which is 0.9 p.p. of GDP lower against eight months of the past year. The volume of non-oil deficit has grown to 9.8% of GDP, which exceeds the indicator of the relevant period of the last year by 2.3 p.p. of GDP.

Table 1

Key indicators of the RF federal budget in January-August 2011–2012

	January–August 2012		January–August 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenues, including:	8353.8	22.0	7220.4	21.9	0.1
Oil and gas revenue	4237.6	11.2	3220.5	9.8	1.4
Expenditures, including:	7822.7	20.6	6460.1	19.6	1.0
Percentage expenditures	221.5	0.6	164.2	0.5	0.1
Non-percentage expenditures	7601.2	20.0	6295.9	19.1	0.9
Federal budget surplus (deficit)	531.1	1.4	760.3	2.3	–0.9
Non-oil and gas deficit	–3706.5	–9.8	–2460.2	–7.5	–2.3
GDP estimates	38057		33055		

Source: Federal Treasury, Gaidar Institute assessments.

Dynamics of the federal budget revenues within January-August 2012 (see *Table 2*) shows the increase in revenues as compared to the same period of the last year in terms of MET by 0.3 p.p. of GDP, in customs duties - by 0.1 p.p. of GDP, in revenue from excise taxes on goods produced in the RF territory, and in VAT on imports - by 0.1 p.p. of GDP, respectively. One should note the reduction in federal revenues over 8 months of this year in domestic VAT by 0.2 p.p. of GDP against the relevant period in 2011.

Table 2

**Dynamics of Federal budget revenues from basic taxes in January-August 2011 – 2012, in absolute terms and GDP p.p.**

	January–August 2012		January–August 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
1. Revenue, including:					
corporate profit tax	271.4	0.8	239.9	0.8	0.0
VAT on goods sold in the RF territory	1221.7	3.3	1150.1	3.5	–0.2
VAT on goods imported to the RF territory	1071.5	2.9	923.1	2.8	0.1
Excise duties on goods manufactured in the RF territory	218.7	0.6	148.0	0.5	0.1
Excise duties on goods imported to the RF territory	33.6	0.1	27.3	0.1	0.0
MET	1599.0	4.2	1284.0	3.9	0.3
2. Revenue from external economic activities	3248.3	8.6	2810.6	8.5	0.1

Source: Ministry of Finance of Russia, Russian Statistical Service, Gaidar Institute assessments.

In regard to the expenditures of the federal budget (see *Table 3*), growth of expenses for January-August of this year as compared with the same period of the last year is observed under the budget lines "National security and law enforcement" - by 0.6 p.p. of GDP, «National Defense" - by 0.5 p.p. of GDP, «Healthcare» - by 0.2 p.p. of GDP, in each of the budget lines «Education", "Social Policy", "National Debt Service" - by 0.1 p.p. of GDP.

Table 3

**Federal budget expenditures in January-August 2011 - 2012**

	January–August 2012		January–August 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Expenditures, total:	<b>7822,7</b>	<b>20,6</b>	<b>6460,1</b>	<b>19,6</b>	1,0

<i>Including</i>					
Federal issues	475.3	1.3	421.3	1.3	0.0
National defense	1186.2	3.2	868.4	2.7	0.5
National defense and law enforcement	995.2	2.7	696.1	2.1	0.6
National Economy	975.0	2.6	851.6	2.6	0.0
Housing and public utilities	53.5	0.2	137.6	0.5	-0.3
Environmental protection	14.0	0.1	9.0	0.1	0.0
Education	410.5	1.1	311.6	1.0	0.1
Culture and cinematography	50.5	0.2	41.7	0.2	0.0
Healthcare	356.2	1.0	263.2	0.8	0.2
Social policy	2620.5	6.9	2218.0	6.8	0.1
Physical training and sports	28.2	0.1	27.4	0.1	0.0
Mass media	47.4	0.2	38.0	0.2	0.0
Public and municipal debt servicing	221.5	0.6	164.2	0.5	0.1
Interbudgetary transfers	388.4	1.1	411.0	1.3	-0.2

Source: Federal Treasury, Gaidar Institute assessments.

In terms of GDP share, reduction in expenses over January-August 2012 was observed against the relevant period of the last year in the budget lines "Housing and Utilities" by 0.3 p.p. of GDP and "Intergovernmental transfers" by 0.2 p.p. of GDP. In other budget lines expenditures of the federal budget over eight months of this year in GDP share remained at the level of January- August 2011.

According to the Russian Ministry of Finance, at the end of August 2012 the Reserve Fund and the National Welfare Fund volumes have slightly grown due to exchange rate changes to Rb 1953.1 and Rb 2772.5 bn, respectively.

The structure of the federal budget reflects the increasing dependence of the budget on oil and gas revenues. In the 2012 budget forecast it was planned to increase the share of non-oil revenues in the total federal revenues from 50.7% in 2011 to 52.7% in 2012 due to the increased tax revenue from VAT and excise duties, but these projections did not come true so far. As of September 1, 2012 the amount of the federal budget revenue from VAT and excise duties is recorded at 6.9% GDP (similar to the last year indicator). A higher-than-anticipated growth of federal revenues is noted in oil and gas revenues: if over eight months of this year the revenue of the federal budget amounted to 65.9% of the total estimated tax revenue, the share of oil and gas revenues of the budget execution for the same period amounted to 68.3% of the anticipated amount. It is worth noting that an increased share of revenues from foreign trade in the total federal revenues to 33.1% in January, 37.8% as of two and three months,

38.1% - as of four months and to 39.8% up to eight months of the year due to increased revenue from hydrocarbon exports.

Thus, with the forecasted reduction in the rate of economic growth, in the 2nd half of the current year there is a probability of the fiscal system stability deterioration in the short term, even at the background of continued growth of the global prices for hydrocarbons.

### RF Subjects consolidated budget execution in January-July 2012

According to the Federal Treasury, the revenue of consolidated budget of the Russian Federation Subjects in seven months 2012 amounted to 14.3% of GDP, which is by 1.0 p.p. of GDP lower than in the same period of 2011 (see Table. 4). Expenditures of the consolidated budget of the Russian Federation Subjects in January-July this year increased against the same period of the last year by 0.4 p.p. of GDP and accounted for 12.7% GDP. As of seven months of 2012 performance, the RF Subjects' consolidated budget is executed with a surplus of 1.6% of GDP (Rb 502.1bn), which is by 1.5 p.p. of GDP lower than in January-July 2011.

Table 4

Key indicators of the RF Subjects consolidated budget in January–July 2011–2012

	January–July 2012		January–July 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenues, including:	4678.0	14.3	4467.3	15.3	–1.0
- Corporate profit tax	1275.1	3.9	1230.0	4.2	–0.3
- Individual income tax	1231.5	3.8	1071.5	3.7	0.1
- Excise duties in the RF territory	253.9	0.8	209.4	0.8	0.0
- Aggregate income tax	193.4	0.6	146.8	0.5	0.1
- Property tax	482.3	1.5	419.4	1.5	0.0
- Non-repayable proceeds from other budgets of the RF fiscal system	895.5	2.8	933.7	3.2	–0.4
Expenditures,	4175.9	12.7	3580.7	12.3	0.4
Surplus/Deficit of the RF Subjects consolidated budget	502.1	1.6	886.6	3.1	–1.5
GDP estimates	32917		29 290		

Source: Federal Treasury, Gaidar Institute assessments.

The major decrease in the revenue proceeds of the consolidated budget of the RF Subjects in January-July this year versus seven months of the last year is noted in intergovernmental transfers - by 0.4 p.p. of GDP and corporate income tax - by 0.3 p.p. of GDP. According to the Rosstat operative data, the net financial result of organizations (except small businesses, banks, insurance companies and public institutions) in prices effective for seven months of 2012 amounted to Rb 4524.9bn, while over the same period of the last year – Rb 4664.3bn. It should be noted that the decrease in income tax revenue was observed only in the regional budgets, while the amount of this tax revenue of the federal budget in term of GDP share did not change against the same period of the last year. In part this can be explained by both, the immutability of the tax base on the grounds that revenue is addressed exclusively to the federal budget (for example, the corporate income tax on income earned in the form of dividends from Russian organizations to foreign ones), and the extension of local tax benefits granted at the expense of reducing the regional component of the tax rate.

Within January-July 2012 revenues of the consolidated budgets from personal income tax and tax on the total income have somewhat increased - by 0.1 p.p. of GDP against indicators thereof in the same period of the last year. Proceeds from excise tax and property tax of the regional budgets in the last seven months of the year in terms of GDP share remained at the level of the relevant period in 2011.

RF Subjects consolidated budget execution in terms of expenditures (see *Table 5*) in seven months of 2012 amounted to Rb 4175.9bn, or 12.7% of GDP, which exceeds the level of the relevant period of preceding year by 0.4% of GDP.

Table 5

## RF Subjects consolidated budget execution in terms of expenditures in January–July 2011–2012

	January–July 2012		January–July 2011		Change , p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Expenditures, total:	4175,9	12,7	3580,7	12,3	0,4
<i>Including</i>					
Federal issues	265.8	0.8	242.0	0.9	–0.1
National defense	1.9	0.0	1.6	0.0	0.0
National defense and law enforcement	42.9	0.2	135.1	0.5	–0.3
National Economy	681.2	2.1	526.9	1.8	0.3
Housing and public utilities	388.2	1.2	359.2	1.3	–0.1
Environmental protection	9.2	0.1	6.9	0.1	0.0
Education	1135.9	3.5	890.4	3.1	0.4
Culture and cinematography	136.4	0.5	111.9	0.4	0.1

Healthcare	690.4	2.1	556.0	1.9	0.2
Social policy	689.3	2.1	628.0	2.2	-0.1
Physical training and sports	69.6	0.2	63.5	0.3	-0.1
Mass media	19.2	0.1	15.6	0.1	0.0
Public and municipal debt servicing	36.1	0.1	34.1	0.2	-0.1
Interbudgetary transfers	9.8	0.1	9.0	0.1	0.0

Source: Federal Treasury, Gaidar Institute assessments.

The main growth of consolidated budget of the RF Subjects over seven months of the current year was noted under the budget lines "Education" - by 0.4 p.p. of GDP, «National economy" - by 0.3 p.p. of GDP, «Healthcare» - by 0.2 p.p. of GDP as compared to January-July 2011. Regional budget expenditures under the line "Culture and Cinematography" have grown by 0.1 p.p. of GDP over seven months of the current year against the relevant period of the last year.

As of January-July this year, there was noted an insignificant decline of expenditures under the budget lines "Federal issues" - by 0.1 p.p. of GDP, «National security and law enforcement" - by 0.3 p.p. of GDP, «Housing and communal services" - by 0.1 p.p. of GDP, «Social Policy" - by 0.1 p.p. of GDP, «Physical Training and Sports" - by 0.1 p.p. of GDP, «Public Debt Servicing" - by 0.1 p.p. of GDP against the same period of the last year. Reduction in expenditures of consolidated budgets of the RF Subjects under the line "National Security and Law Enforcement" in the current year is expected due to the transfer of responsibility for police financing from regional authorities to the federal level since the beginning of 2012. The expenditures volume of consolidated regional budgets of the RF Subjects within January-July 2012 under the lines "National Defense", " Environmental Protection", "Mass media" and "Intergovernmental transfers" as GDP percentage remained unchanged.