

RUSSIA'S STATE BUDGET IN JANUARY–SEPTEMBER 2015

T.Tishchenko

According to the Federal Treasury, as of the period-end results for January–September 2015 the federal budget revenues contracted 1.3 p.p. of GDP and expenditures went up 2.4 p.p. of GDP in comparison with the same period of the previous year. Revenues and expenditures of the consolidated budget of the constituents of the Russian Federation over eight months of the current year against the same period of the previous year increased by 0.6 and 0.2 p.p. of GDP, respectively. The federal budget deficit as of the period-end results for January–September 2015 came to 1.5% of GDP which is by 3.7 p.p. of GDP lower than the federal budget surplus over nine months of the previous year. Consolidated budget of the constituents of the Russian Federation as of the period-end results for eight months of 2015 was executed with a surplus of 1.0% of GDP or up 0.4 p.p. against January–August of the previous year. Reduction of the federal budget deficit in the medium-term remains the principal task of the RF Government. Anton Siluanov the Russian Finance Minister noted that as of the current year-end the federal budget deficit would not exceed 3% of GDP. Draft 2016 federal budget was also compiled with a deficit of 3% of GDP. However, in the coming 2017-2018 the federal budget deficit will be decreasing by a minimum of 1 p.p. of GDP annually. Despite the firm Finance Ministry stance against the increase of the federal budget expenditure¹ reduction of the federal budget expenditure is limited in the medium-term and even during the execution of the current budget, the federal government is forced to take decisions which result to an increase in the budgetary allocations.

The preliminary estimates of the federal budget execution in January–September 2015¹

The federal budget revenues as of the period-end for January–September 2015 constituted 19.1% of GDP (Rb 10,143.1 bn) which is 1.3 p.p. of GDP below their indicator for the same period in 2014 (Table 1). In absolute terms, contraction came to Rb 554.6 bn or 5.2% in nominal terms. Oil and gas revenues down 1.9 p.p. of GDP to 8.5% of GDP (Rb 4,511.6 bn) as of the period-end for nine months of 2015 against the same period in 2014. Meanwhile, nonoil and gas revenues over January–September of the current year grew by 0.6 p.p. of GDP to 10.6% of GDP (Rb 5,631.5 bn) compared to nine months of 2014.

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

Against the planned annual indicators, the federal budget revenues over nine months of the current year constituted 80.9%, oil and gas revenues – 73.9%, nonoil and gas revenues – 82.2%, meanwhile over nine months of the previous year the federal budget revenues amounted to 75.1%, oil and gas revenues – 73.4%, nonoil and gas revenues – 77.0% of the forecast volumes for 2014.

Over nine months of 2015, the federal budget expenditures reached 20.6% of GDP up 2.4 p.p. of GDP on the same period last year. When taken in absolute terms, the federal budget expenditures increased by Rb 1,344.5 bn or by 14.0% in nominal terms. As of period-end for January–September 2015, the federal budget was executed with the deficit of 1.5% of GDP (Rb 789.6 bn) down 3.7 p.p. of GDP against the surplus

Table 1

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

	January–September 2015		January–September 2014		Изменение	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p. of GDP
Revenues, of which:	10,143.1	19.1	10,697.7	20.4	-554,6	-1,3
Oil and gas revenues	4,511.6	8.5	5,494.7	10.4	-983,1	-1,9
Non-oil and gas revenues	5,631.5	10.6	5,203.0	10.0	428,5	0,6
Expenditures, of which:	10,929.8	20.6	9,585.3	18.2	1344,5	2,4
Interest	453.1	0.8	341.4	0.6	111,7	0,2
Non-interest	10,476.7	19.7	9,243.9	17.6	1232,8	2,1
Surplus (deficit) of the federal budget	-789.6	-1.5	1,112.4	2.2	-1902	-3,7
Non-oil and gas deficit	-5,301.2	-10.0	-4,382.3	-8.3	-918,9	-1,7
GDP estimations	53,042		52,540			

Sources: Federal treasury, Finance Ministry, Gaidar Institute calculations.

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

	January–September 2015			January–September 2014			Change	
	Rb bn.	% GDP	Of planned annual volume, %	Rb bn	% GDP	Of planned annual volume, %	Rb bn	p.p. of GDP
Tax receipts, total, of which	8,913.8	16.8	80.4	9,707.7	18.5	73.2	-793.9	-1.7
Corporate income tax	403.9	0.8	95.8	320.7	0.6	78.0	83.2	0.2
VAT on merchandise sold in the territory of RF	1,900.1	3.6	94.7	1,663.8	3.2	76.3	236.3	0.4
VAT on merchandise imported to the territory of RF	1,267.8	2.4	74.2	1,230.8	2.3	70.3	37	0.1
Excises on merchandise produced in the territory of RF	383.0	0.7	75.5	376.4	0.7	72.3	6.6	0.0
Excises on merchandise imported to the territory of RF	35.6	0.07	69.2	50.3	0.09	70.3	-14.7	-0.02
Mineral extraction tax	2,437.6	4.6	78.2	2,174.5	4.1	76.1	263.1	0.5
Revenues from the foreign economic activity	2,485.8	4.7	76.1	3,891.2	7.4	71.2	-1405.4	-2.7

Sources: RF Federal Treasury, Gaidar Institute calculations.

execution of the federal budget over the same period in 2014. The non-oil and gas deficit also up to 10.0% of GDP or up 1.7 p.p. of GDP against January–September 2014.

Over nine months of 2015, the federal budget revenues in terms of share of GDP compared to the same period in 2014 (*Table 2*) had differently directed movements. Proceeds from the foreign economic activity shrank by 2.7 p.p. of GDP in comparison with the same period of the previous year to 4.7% of GDP or by 36.1% in nominal terms.

Over the period-end results for January–September 2015, receipts generated from the Mineral Extraction Tax (MET) went up 0.5 p.p. of GDP on the corresponding period of last year to 4.6% of GDP. In nominal terms, growth constituted 12.1%. Proceeds to the revenue part of the federal budget over nine months of the current year against January–September 2014 generated from domestic VAT up 0.7 p.p. of GDP (growth in nominal terms by 18.6%), meanwhile proceeds import excises shrank by 0.02 p.p. of GDP to 0.07% of GDP. Earnings from corporate income tax in January–September 2015 as a share of GDP up 0.2 p.p. of GDP or up 25.9 in nominal terms compared to the same period of the previous year.

Actual proceeds to the revenue part of the federal budget over January–September of the current year against projected annual volumes¹ constitute:

- on corporate income tax – 95.8%;

- domestic and import VAT – 94.7 and 74.2%, respectively;
- domestic and import excises – 75.5 and 69.2%, respectively;
- on mineral extraction tax and receipts from foreign economic activity – 78.2 and 76.1%, respectively.

Revenue dynamic of the federal budget across major tax receipts in terms of share of GDP over last six months of 2015 (*Fig. 1*) demonstrate that in percent of GDP, the federal budget revenues remain at the level of 19.1–19.2% of GDP from May of current year and potentially this trend will remain until the end of 2015.

Since May of the current year, a trend is observed towards reduction of proceeds from the foreign economic activity and from mineral extraction tax from 5.0% of GDP over January–September 2015 to 4.7% and 4.0% of GDP as of period-end for nine months of 2015, respectively. Similar trend is being observed on proceeds from domestic VAT which shrank from 4.3% of GDP over four months of 2015 to 3.6% of GDP as of period-end for January–September of the current year. The volume of proceeds in the revenue part of the federal budget on other taxes from May to September 2015 remains in percent of GDP: import VAT – at the level of 2.3–2.4% of GDP, on profit tax – 0.8% of GDP, on domestic excises – 0.7% of GDP.

Under the persistent dynamics of the federal budget revenues and taking into account updated GDP forecast in the amount of Rb 73,515.0 bn one can estimate the federal budget revenues by the year-end totaling Rb 14,115.0 bn.

¹ Source for projected volumes of the federal budget revenues: an explanatory note to the draft federal law "On introduction of amendments into the Federal law 'On 2015 Federal budget and on planning period 2016 and 2017'" submitted to the State Duma on 06.03.2015

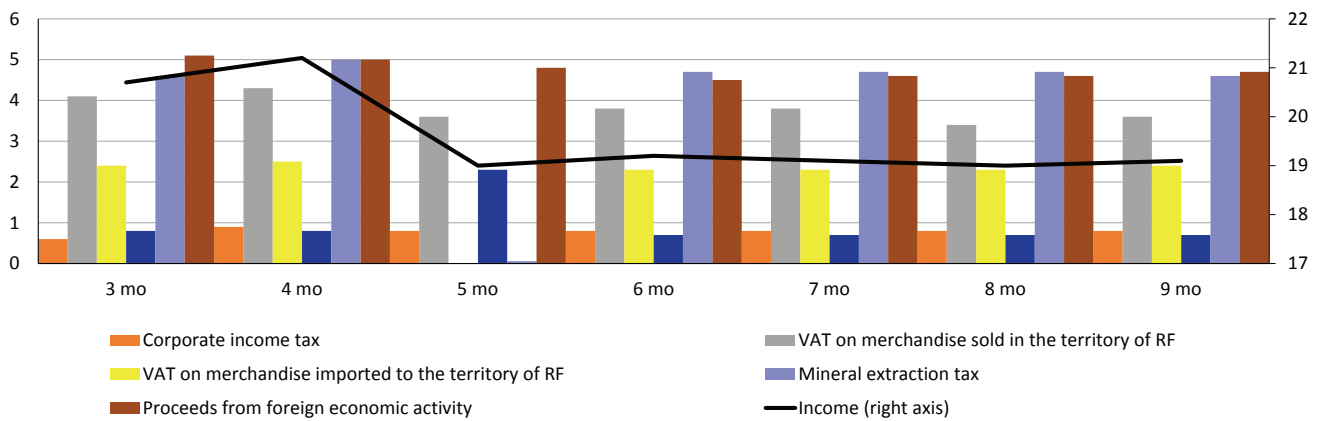


Fig. 1. Dynamics of major tax receipts of the federal budget in percent of GDP over March–September 2015

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

- Expenses on national defense and social policy up 0.9 and 1.2 p.p. of GDP or up 27.0 and 25.7% in nominal terms, respectively;
- Expenses under the line “National security and law enforcement” in a share of GDP remained at the level of 2.6% of GDP. When taken in absolute terms contraction constituted Rb 22.4 bn;
- Expenses under the line “National economy” and “General state issues” up 0.3 and 0.1 p.p. of GDP, respectively, growth in nominal terms by 16.6 and 12.0%, respectively;
- Expenses under the line “Education” and “Healthcare” declined by 0.1 p.p. of GDP, to 0.8 and 0.6% of GDP, respectively. When taken

in absolute terms expenses on education and healthcare reduced by Rb 46.6 and 27.9 bn, respectively;

- Expenses under the line “Inter-budget general transfers” decreased 0.2 p.p. of GDP or 17.7% in nominal terms;
- Expenses on public debt servicing up 0.2 p.p. of GDP to 0.8% of GDP or 1.3-fold in nominal terms;
- Other lines of the federal budget expenditure changed slightly as a share of GDP within 0.04 p.p. of GDP.

Over January–September 2015, cash execution of the federal budget expenditure constitutes 70.6% of the approved volume of budgetary allocations which is somewhat below the federal budget execution for the same period of the previous year – 74.7%. As in last year, the lowest level of cash execution of the fed-

Table 3

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

	January–September 2015			January–September 2014			Change in p.p. of GDP
	Rb bn	% GDP	of approved annual volume, %	Rb bn	% GDP	of approved annual volume, %	
Expenditures total, of which:	10,929.8	20.6	70.6	9,585.3	18.2	74.7	2.4
General state issues	699.5	1.3	63.1	624.3	1.2	73.4	0.1
National defense	2,361.4	4.4	75.7	1,858.9	3.5	75.0	0.9
National security and law enforcement	1,354.7	2.6	67.8	1,377.1	2.6	66.0	0.0
National economy	1,452.5	2.7	63.9	1,250.8	2.4	40.8	0.3
Housing and utilities sector	68.0	0.1	52.7	80.0	0.1	67.2	0.0
Environmental conservation	40.2	0.07	82.6	30.8	0.06	66.5	0.01
Education	433.5	0.8	68.6	480.1	0.9	75.2	-0.1
Culture, cinematography	58.2	0.1	64.7	63.2	0.1	64.4	0.0
Healthcare	331.3	0.6	62.3	358.5	0.7	66.9	-0.1
Social policy	3,068.5	5.8	73.3	2,441.3	4.6	70.7	1.2
Physical fitness and sports	52.7	0.1	71.5	31.5	0.06	44.4	0.04
Mass media	67.9	0.1	83.6	53.6	0.1	71.6	0.0
Servicing state and municipal debt	453.1	0.8	77.5	341.4	0.6	82.2	0.2
Inter-budget general transfers	488.1	0.9	78.0	593.5	1.1	72.7	-0.2

Sources: RF Ministry of Finance, Gaidar Institute calculations.

eral budget over nine months of 2015 is registered along the line “National economy” – 63.9%, “Housing and utilities sector” – 52.7%, healthcare – 62.3%. Budget disbursement is speeded up regarding lines “Environmental conservation” – 82.6%, Mass media – 83.6% and “Inter-budget general transfers” – 78.0%.

As of 1 October 2015, total volume of the Reserve Fund denominated in rubles amounted to Rb 4,670.5 bn (contraction over nine months of the current year by Rb 275.0 bn or by 5.6% of the accumulated volume as of the turn of 2015). Total volume of the National Welfare Fund denominated in rubles amounted to Rb 4,878.8 bn (growth by Rb 490.7 bn or by 11.2% of the accumulated volume as the turn of 2015)¹. To note, NWF assets are not for spending but the assets structure changes because according to the regulation of the RF Government² the NWF assets are invested in securities linked to the implementation of self-liquidating infrastructure projects executed by legal entities.

In early October 2015, the RF Government submitted to the State Duma a draft law on the introduction of amendments in the federal law on 2015 Federal budget which envisages introduction of the following revisions in the budget:

- Increase of projected GDP volume from Rb 73,119.0 bn to Rb 73,515.0bn;
- Increase of projected Federal budget revenues from Rb 12,539.7 bn to Rb 13,251.3bn;
- Increase of the federal budget expenditure from Rb 15,215.0 bn to Rb 15,417.3bn.

Thus, even within budget execution year the task of the federal budget expenditure cuts remains unsustainable. In the meantime, it may be noted that updated projection of the federal budget revenues by the

year-end is based on a conservative scenario but taking into consideration dynamics of tax receipts, planned inflation rate – 12.2%³, stabilization of global oil prices, feasible adjustment of the ruble exchange rate by the end of the year. It is highly feasible that the total volume of revenues will exceed the projected one which will allow to contain the federal budget deficit for 2015 in the range of 3% of GDP.

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

According to the Federal treasury, *the consolidated budget revenues of the RF constituents over eight months of 2015 amounted to Rb 6,144.6bn or 13.0% of GDP which is up 0.6 p.p. of GDP or up 7.7% in nominal terms on the same level for January–August of 2014 (Table 4)*. The consolidated budget expenditure of the RF constituents over eight months of 2015 as a share of GDP went up on the corresponding period 2014 by 0.2 p.p. of GDP to 12.0% of GDP (Rb 5,661.9bn).

By the period-end for January–August 2015, the consolidated budget of the RF constituents was executed with a surplus of 1.0% of GDP (Rb 482.7bn) up 0.4 p.p. of GDP against budget surplus as of eight 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–August 2015 and corresponding period in 2014 revealed the following trends:

1 Finance Ministry of RF official website: <http://www.minfin.ru/ru/press-center/?##ixzz3pHkNBiyM>

2 Of 19 January 2008 No.18 and of 05 November 2013 No. 990

3 Inflation as of 2015 year-end will amount to 12.2%. Anton Siluanov, Finance Minister, said in the State Duma in September 2015. Finance Ministry official website: <http://www.minfin.ru/ru/##ixzz3pHqzLres>

Table 4

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

	January–August 2015		January–August 2014		Change, p.p. of GDP
	Rb bn	% GDP	Rb bn	% GDP	
Revenues, of which:	6,144.6	13.0	5,704.7	12.4	0.6
- corporate profit taxes	1,507.3	3.2	1,354.3	2.9	0.3
- personal income tax	1,745.3	3.7	1,658.1	3.6	0.1
- excises on goods produced in the territory of RF	327.6	0.7	319.5	0.7	0.0
- taxes on total income	257.4	0.5	235.0	0.5	0.0
- property taxes	718.6	1.5	645.8	1.4	0.1
- non-repayable receipts from other budgets of the budget system of the Russian Federation	1,075.6	2.3	1,028.1	2.2	0.1
Expenditures	5,661.9	12.0	5,421.7	11.8	0.2
Surplus (deficit) of consolidated budget	482.7	1.0	283.0	0.6	0.4
GDP estimates	47,139		45,867		

Sources: RF Federal Treasury, Gaidar Institute calculations.

Table 5

**CONSOLIDATED BUDGET EXPENDITURES OF THE RF CONSTITUENTS FOR JANUARY–AUGUST 2014 –
JANUARY–AUGUST 2015**

	January–August 2015		January–August 2014		Change, p.p. GDP
	Rb bn	% GDP	Rb bn	% GDP	
Expenditures, total	5,661.9	12.0	5,421.7	11.8	0.2
of which:					
General state issues	370.0	0.8	351.8	0.8	0.0
National security and law enforcement	60.0	0.1	58.8	0.1	0.0
National economy	1,007.4	2.1	894.6	1.9	0.2
Housing and utilities sector	446.8	0.9	457.5	0.9	0.0
Environmental conservation	12.8	0.03	13.1	0.03	0.0
Education	1,556.3	3.3	1,533.2	3.3	0.0
Culture, cinematography	193.3	0.4	187.6	0.4	0.0
Healthcare	844.3	1.8	804.6	1.8	0.0
Social policy	944.3	2.0	913.6	2.0	0.0
Physical fitness and sports	104.8	0.2	105.4	0.2	0.0
Mass media	27.2	0.06	26.1	0.06	0.0
Servicing state and municipal debt	92.0	0.2	69.4	0.2	0.0

Sources: Federal Treasury, Gaidar Institute calculations.

- Profit tax receipts up 0.3 p.p. of GDP to 3.2% of GDP or up 11.3% in nominal terms;
- Personal income tax (PIT) receipts up 0.1 p.p. of GDP to 3.7% 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 0.5% of GDP, respectively, and went up 2.5 and 9.5% in nominal terms;
- Receipts from property tax as a share of GDP up 0.1 p.p. of GDP to 1.5% 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 0.1 p.p. of GDP and constituted 2.3% of GDP.

In spite of the general positive receipts dynamic into the consolidated budget of the RF constituents over eight months of the current year against eight months of the previous year, it should be noted that the growth rate of revenues began slowing down

starting from May 2015 from 14.1% of GDP as of the period-end for four months of 2015 to 13.0% of GDP (Fig. 2) as of the period-end of eight months mainly due to the corporate income tax whose proceeds fell from 4.3% of GDP over January–April 2015 to 3.2% of GDP over January–August 2014 or by 0.2 p.p. of GDP monthly. In the meantime, the federal budget revenues movement regarding profit tax is positive over recent month of 2015. However, it is due to taxation of that part of the profit tax base whose proceeds go exclusively into the federal budget: foreign companies profit, dividend profit obtained by the Russian organizations, dividend profit obtained by the foreign organizations from Russian ones, etc.

In the meantime, from March–April 2015 steady flow of revenues is observed in a share of GDP from PIT in monthly volume of 3.7% of GDP, from property tax – 1.5% of GDP, non-repayable receipts – 2.2% of GDP. In case major tax revenue dynamic remains the overall revenues of the consolidated budget of the RF constituents as of 2015 year-end can be estimated at 13% of GDP which in absolute terms

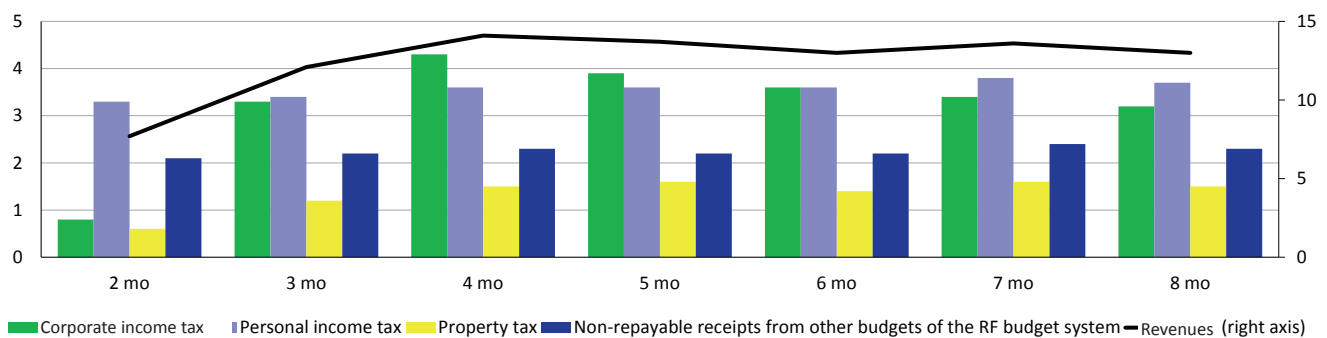


Fig. 2. Revenue dynamic of the consolidated budget of RF constituents from February to August 2015, % GDP

will amount to Rb 9,500.0bn on planned amount of Rb 10,900.3bn.

Expenditure of the consolidated budget of the constituents of the Russian Federation (*Table 5*) as of the period-end for eight months of the previous year across the majority of lines in a share of GDP remained on hold. Solely expenses went up by 0.2 p.p. of GDP on the line “National economy”.

In nominal terms, the highest growth of the consolidated budget of the RF constituents over eight months

of the current year against the corresponding period of the previous year is observed across lines: national economy by 12.6% and servicing state and municipal debt by 32.6%.

On the whole, present dynamic of revenues and expenditures of the federal budget and the consolidated budget of the RF constituents allows to conclude about certain adjustment of the budget system to economic changes. However, sustainability risks in mid-term remain rather high. ●