

RUSSIA'S STATE BUDGET IN JANUARY–OCTOBER 2015

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According to the data released by the Federal Treasury, by the period-end for January–October 2015 the federal budget revenues contracted by 1.1 p.p. of GDP and expenditures moved up by 2.2 p.p. of GDP compared to the same period last year. As a result, the federal budget deficit constituted 1.3% of GDP. Revenues and expenditures of the consolidated budget of the subjects of the Russian Federation over nine months of the current year against January–September 2014 increased by 0.8 and 0.4 p.p. of GDP, respectively. The surplus of the consolidated budget of RF subjects has come to 0.7% of GDP as of the period-end for nine months of the current year.

Over January–September 2015, the volume of expenditure part of the extended government's budget reached 38.2% of GDP, which is by 4.5 p.p. of GDP above the same period of the previous year. The head of the Finance Ministry of Russia Anton Siluanov called excessive the level of redistribution of resources in the Russian economy via the budget system and called for a change in the structure of the budgetary expenditure¹ by assigning more funds to the infrastructure and human capital.

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

By the period-end for January–October 2015, the Federal budget revenues came to 19.0% of GDP (Rb 11,334.3bn) which is 1.1 p.p. of GDP below their index for the same period of 2014 (Table 1). In absolute terms, contraction came to Rb 557.3bn or 4.7%. Oil and gas receipts down 2.0 p.p. of GDP to 8.3% of GDP (Rb 4,971.0bn) as of the period-end for ten months of 2015 against the same period in 2014. Meanwhile, during January–October of the current year, non-oil and gas receipts up 0.9 p.p. of GDP to 10.7% of GDP (Rb 6,363.3bn) in comparison with ten months of 2014.

Table 1

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

	January–October 2015		January–October 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p. GDP
Revenues, of which:	11334.3	19.0	11891.6	20.1	-557.3	-1.1
Oil and gas revenues	4971.0	8.3	6113.1	10.3	-1142.1	-2.0
Non-oil and gas revenues	6363.3	10.7	5778.5	9.8	584.8	0.9
Expenditures, of which:	12102.6	20.3	10713.9	18.1	1388.7	2.2
Interest	495.0	0.8	368.7	0.6	126.3	0.2
Non-interest	11607.6	19.5	10345.2	17.5	1262.4	2.0
Surplus (deficit) of the federal budget	-768.3	-1.3	1177.7	2.0	1946.0	-3.3
Non-oil and gas deficit	-5739.3	-9.6	-4935.4	-8.3	-803.9	-1.3
GDP estimates	59734		59258			

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

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

Table 2

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

	January–October 2015		January–October 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p GDP
Tax receipts, total, of which	9905.2	16.6	10823.5	18.3	-918.3	-1.7
Corporate income tax	443.8	0.7	351.6	0.6	92.2	0.1
VAT on merchandise sold in the territory of RF	2138.7	3.6	1816.3	3.1	322.4	0.5
VAT on merchandise imported to the territory of RF	1432.7	2.4	1394.2	2.3	38.5	0.1
Excises on merchandise produced in the territory of RF	432.3	0.7	423.2	0.7	9.1	0.0
Excises on merchandise imported to the territory of RF	41.0	0.07	57.2	0.1	-16.2	-0.03
Mineral extraction tax	2687.0	4.5	2401.0	4.1	286	0.4
Revenues from foreign economic activity	2729.7	4.6	4380.0	7.4	-1650.3	-2.8

Sources: RF Federal Treasury, Gaidar Institute calculations.

During ten months of 2015, the federal budget expenditures reached 20.3% of GDP up 2.2 p.p. of GDP against the same period last year. When taken in absolute terms, the federal budget expenditures up Rb 1,388.7bn or by 13.0%. As of the period-end for January–October 2015, the federal budget was executed with a deficit of 1.3% of GDP (Rb 768.3bn) down 3.3 p.p. of GDP against a surplus execution of the federal budget over the same period of 2014. The non-oil and gas deficit also up to 9.6% of GDP or by 1.3 p.p. of GDP against January–October of 2014.

During ten months of 2015, the federal budget revenues in terms of share of GDP compared to the same period of 2014 (*Table 2*) had differently directed movements. Receipts from the foreign economic activity shrank by 2.8 p.p. of GDP in comparison with the same period last year to 4.6% of GDP or by 1.6-fold. As of the period-end for January–October 2015, proceeds from the Mineral Extraction Tax (MET) up 0.4 p.p. of GDP against the corresponding period of the previous year to 4.5% of GDP. In nominal terms, growth constituted 11.9%.

Proceeds to the revenue part of the federal budget over ten months of the current year against January–October 2014 generated from domestic VAT and import VAT up 0.5 and 0.1 p.p. of GDP to 3.6 and 2.4% of GDP with growth in nominal terms by 17.7 and 2.7%, respectively. The federal budget revenues as a share of GDP from domestic excises remained on hold and constituted 0.7% of GDP (growth in absolute terms by Rb 9.1bn); meanwhile, receipts from import excises shrank by 0.03 p.p. of GDP to 0.07% of GDP. The federal budget expenditures (*Table 3*) as a share of GDP during ten months in 2015 against January–October 2014 changed as follows:

- Expenses on national defence and social policy went up 0.8 and 1.0 p.p. of GDP or by 26.8 and 22.8% in nominal terms, respectively;
- Expenses on national security and law enforcement went down by 0.1 p.p. of GDP to 2.5% of GDP. In absolute terms, contraction came to Rb 32.6bn;

- Expenses on national economy and general state issues moved up by 0.3 and 0.1 p.p. of GDP with growth in nominal terms by 11.0 and 13.6%, respectively;
- Expenses on education and healthcare remained unchanged and came to 0.9 and 0.7% of GDP, respectively. In absolute terms, expenditure on education and healthcare moved down by Rb 14.6 and 17.9bn, respectively;
- Expenses on inter-budget general transfers shrank by 0.2 p.p. of GDP or by 23.7% in nominal terms;
- Expenses on public debt servicing up 0.2 p.p. of GDP to 0.8% of GDP or up 1.3-fold in nominal terms;

Other lines of the federal budget expenditure changed slightly as a share of GDP within 0.03 p.p. of GDP.

In January–October 2015, principal sources of domestic refinancing of the federal budget remain operations with assets balance on uniform budgets' accounts – Rb 981.8bn, exchange rate – Rb 807.6bn (including exchange rate on assets of the Reserve Fund – Rb 444.5bn, on assets of the National Welfare Fund – Rb 322.7bn), placement of state securities issued in roubles in the volume of Rb 602.1bn. Proceeds from the sale of shares and other forms of participation in the capital, which are in federal ownership and allocated to repay the federal budget debt as of the period-end for ten months came to merely Rb 5.1bn.

In January–October 2015, proceeds from the sale of precious metals and stones on domestic market from the state stocks allocated to repay domestic budget deficit amounted to Rb 1.9bn. Meanwhile, purchase of precious metal and stones to replenish state stocks amounted to Rb 12.0bn. Nearly Rb 3.0bn of which were allocated for purchase of diamonds from the state company 'Kristal' (city of Smolensk). The principal volume of precious metals purchase falls on gold and silver. However, according Interfax¹, in 2015 for the first time

1 <http://www.interfax.ru/business/481573>

Table 3

FEDERAL BUDGET EXPENDITURE FOR JANUARY–OCTOBER 2014-2015

	January–October 2015		January–October 2014		Change pp GDP
	Rb bn	% GDP	Rb bn	% GDP	
Expenditures total, of which:	12.102.6	20.3	1.0713.9	18.1	2.2
General state issues	803.8	1.3	707.2	1.2	0.1
National defence	2.462.2	4.1	1.942.1	3.3	0.8
National security and law enforcement	1.509.8	2.5	1.542.4	2.6	-0.1
National economy	1.588.0	2.7	1.431.7	2.4	0.3
Housing and utilities sector	83.8	0.1	84.6	0.1	0.0
Environmental conservation	43.2	0.07	33.7	0.06	0.01
Education	522.3	0.9	536.9	0.9	0.0
Culture, cinematography	70.0	0.1	71.9	0.1	0.0
Healthcare	393.8	0.7	411.7	0.7	0.0
Social policy	3.468.0	5.8	2.823.9	4.8	1.0
Physical fitness and sports	57.0	0.09	36.2	0.06	0.03
Mass media	72.7	0.1	64.3	0.1	0.0
Servicing state and municipal debt	495.0	0.8	368.7	0.6	0.2
Inter-budget general transfers	532.9	0.9	658.4	1.1	-0.2

Sources: RF Ministry of Finance, Gaidar Institute calculations.

after a long interval Gokhran (State Precious Metals and Gems Repository) purchased platinum and palladium¹ to the State fund. Unlike gold, which is an investment metal, platinum-group metals and silver are required for the industrial needs. Meanwhile, over couple of years to come Gokhran does not plan selling metals.

During ten months in 2015, thanks to domestic sources of financing the budget deficit, it was possible to redeem state securities issued in foreign currency in the volume of Rb 180.1bn and repay foreign credits to the tune of Rb 48.4bn which allows reducing dependence of the budget system from foreign financial markets.

Analysis of the Main Parameters of the Execution of the RF Subjects Consolidated Budget for January–September 2015

According to the Federal treasury, the consolidated budget revenues of RF subjects over nine months in 2015 amounted to Rb 6,812.1bn or 12.8% of GDP, which is by 0.8 p.p. of GDP or by 7.7% in nominal terms above the level of January–September 2014 (Table 4). The RF subjects' consolidated budget expenditure during nine months in 2015 went up in terms of shares of GDP in comparison with the corresponding period in 2014 by 0.4 p.p. of GDP to 12.1% of GDP (Rb 6,415.4bn).

By the period-end results for January–September 2015, the consolidated budget of RF subjects was executed with a surplus of 0.7% of GDP (Rb 396.7bn) up 0.4 p.p. of GDP against budget surplus as of nine months-end of the previous year.

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

- Profit tax receipts up 0.4 p.p. of GDP to 3.2% of GDP or by 13.9%;

1 Purchases were not carried out when the only palladium producer 'Norilsk Nickel' as the turn of 1990s got the right to independently export its products, bypassing Gokhran. Stocks of the 'Soviet' palladium ran dry in 2013–2014.

Table 4

MAIN PARAMETERS OF THE CONSOLIDATED BUDGETS OF THE RF SUBJECTS FOR JANUARY–SEPTEMBER 2014–2015

	January–September 2015		January–September 2014		Change pp GDP
	Rb bn	% GDP	Rb bn	% GDP	
Revenues, of which:	6,812.1	12.8	6,325.3	12.0	0.8
- corporate profit taxes	1,690.3	3.2	1,483.2	2.8	0.4
- personal income tax	1,953.2	3.7	1,857.8	3.5	0.2
- excises on goods produced in the territory of RF	365.3	0.7	357.7	0.7	0.0
- taxes on total income	264.3	0.5	241.0	0.5	0.0
- property taxes	777.2	1.5	672.9	1.3	0.2
- non-repayable receipts from other budgets of the budget sys- tem of the Russian Federation	1,168.2	2.2	1,175.2	2.2	0.0
Expenditures	6,415.4	12.1	6,150.4	11.7	0.4
Surplus (deficit) of consolidated budget	396.7	0.7	174.9	0.3	0.4
GDP estimates	53042		52540		

Sources: RF Federal Treasury, Gaidar Institute calculations.

- Personal income tax (PIT) receipts up 0.2 p.p. of GDP to 3.7% of GDP or by 5.2%;
- 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 moved up by 2.2 and 9.5%;
- Receipts from property tax as a share of GDP up 0.2 p.p. of GDP to 1.5% of GDP, growing by 15.6% in nominal terms;
- Revenues from non-repayable receipts from other budgets of the budget system of the Russian Federation as a share of GDP remained on hold and amounted to 2.2% of GDP, contracting by Rb 7.0bn in absolute terms.

As of the period-end for January–September of 2015, the consolidated budget of RF subjects' expenditure (*Table 5*) remained unchanged as a share of GDP against nine months in 2014. Expenses across four items went up: 'General state issues', 'National economy', 'Education', and 'Healthcare'.

In nominal terms, the highest growth of the consolidated budget of RF subjects over nine months of the current year against the corresponding period of the previous year is observed across public debt servicing by 32.1%. Across other items, expenditure changed in the range of: down 4.6% and up 8.3% in nominal terms.

During nine months of the current year, the amount of the RF subjects' consolidated budget's public debt moved up by Rb 83.4bn (or by 3.8%) and as of 1 October 2015, it came to Rb 2,172.9bn. In the course of January–September 2015, the debt composition reveals the following adjustments:

- Insignificant contraction of debt liabilities on RF subject's state securities by Rb 2.5bn or Rb 439.6bn (20.2% of the total debt of RF subjects);
- Reduction of debt on loans granted to RF subjects by the credit organizations by Rb 71.7bn to Rb 816.4bn (37.6% in the total volume of debt accrued by the RF subjects);
- Debt amount growth on public budget loans raised to budget of RF subject from other budgets of the budget system of the Russian Federation by Rb 162bn to Rb 809.5bn (37.3% of the total debt of the RF subjects).

Table 5

**CONSOLIDATED BUDGET EXPENDITURES OF THE RF SUBJECTS
FOR JANUARY–SEPTEMBER 2014–2015**

	January–September 2015		January–September 2014		Change p.p. GDP
	RB bn	% GDP	RB bn	% GDP	
Expenditures, total: of which	6,415.4	12.1	6,150.4	11.7	0.4
General state issues	414.2	0.8	395.6	0.7	0.1
National security and law enforcement	68.0	0.1	67.3	0.1	0.0
National economy	1,122.2	2.1	1,036.5	2.0	0.1
Housing and utilities sector	519.9	1.0	533.9	1.0	0.0
Environmental conservation	14.5	0.03	15.2	0.03	0.0
Education	1,781.2	3.3	1,711.3	3.2	0.1
Culture, cinematography	216.9	0.4	214.1	0.4	0.0
Healthcare	959.3	1.8	911.5	1.7	0.1
Social policy	1,058.4	2.0	1,030.5	2.0	0.0
Physical fitness and sports	123.0	0.2	119.5	0.2	0.0
Mass media	30.4	0.06	29.5	0.06	0.0
Servicing state and municipal debt	104.5	0.2	79.1	0.2	0.0

Sources: Federal Treasury, Gaidar Institute calculations.

Therefore, one can observe a trend to substitute debt obligations of the RF subjects' budgets on commercial loans by cheaper public budget loans granted by the Finance Ministry of Russia to regional budgets (which corresponds the Finance Ministry stated policy on regional debts).

The budgets of RF subjects keep their total public debt at budget sustainability safe level¹. However, over nine months of the current year against nine months last year, expenditure of the consolidated budgets of RF subjects on public debt servicing went up by 32.1%. Their share in the total amount of expenditure moved up from 1.3% by the end of twelve months of last year to 1.6% as of the period-end for nine months 2015.

Regional authorities view resolution of debt issues by way of writing off RF subjects' debts. In October 2013, authorities of Smolensk region turned to 'Edinaya Rossia' faction in regional дума requesting regional debt relief incurred before the federal budget². In March 2015, deputies of the legislative assembly of Arkhangelsk region also submitted a request to the Finance Minister Anton Siluanov regarding partial public debt relief of the region³. At the start of the current year, Head of the Finance Ministry spoke against the moratorium on regional debt servicing because any freeze on debts devise a different ideology, in particular, feasibility not to pay on the new drawings. Herewith, 'the situation with the regions is such that in any case we will have to help them to refinance as yet expensive commercial loans'⁴.

Examples of such initiatives manifest risks of the current policy implemented by the Finance Ministry of Russia regarding the solution of regional issues with the highest debt burden. Phasing out of commercial loans with the public budget ones only temporarily reduces acuteness of the problem for the period of freeze. However, if the situation in the Russian economy does not improve markedly and correspondingly the revenue part of the regional budgets will not be growing further, the issue of regional debt relief or freeze before the federal centre (on public debt loans) will be raised ever more urgently. Taking this factor into consideration, usage of the inter-budget transfers' tool (in this case, subsidies to ensure balance) would have been a more transparent type of assistance to RF subjects in distress compared to the public budget loans.

As of 1 January 2015, according to the ratio of public debt to the revenues of the consolidated budgets of RF subject, the most distressed regions are (in descending order): Republic of Mordovia – 71.6%, Smolensk region – 67.0%, Astrakhan region – 62.3%, Vologda region – 61.8%, Chukotka autonomous okrug – 61.4%, Udmurt Republic – 59.3%, Krasnodar krai – 58.2%, Saratov region – 57.7%, Ryazan region – 56.2%, Republic of Karelia – 55.8%, Belgorod region – 53.9%, Amur region – 52.5%, and Novgorod region – 51.8%. On the list of the most distressed regions there are innovatively active RF subjects (Belgorod region), investment-attractive regions (Krasnodar krai⁵), region boasting of high mineral resource base potential (Chukotka autonomous

1 This is supported by S&P report (June 2015) which stated that during three years to come ration of debt to current regional revenues will remain low by international standards.

2 <http://www.rbc.ru/economics/24/10/2013/884652.shtml>

3 http://www.gazeta.ru/business/news/2015/03/25/n_7048553.shtml

4 <http://www.minfin.ru/ru/press-center/?##ixzz3rmqmrBlz>

5 For example, before the end of 2015, they plan to complete thirty large projects in Krasnodar krai totaling Rb 44.2bn, which envisage creation of 1.9 thousand jobs. Source: <http://economy.krasnodar.ru/macroeconomics/analiz/monitoring/monitoring-of-socio-economic-development-of-krasnodar-region-report/>

okrug) which allows us to speak about different reasons (including subjective ones determined by a low quality of financial management and corruption) causing regions' debt.

The period-end results for nine months in 2015, regarding expenditure of the consolidated budgets of RF subjects allocated on public debt servicing in the total amount of expenditure, the most distressed regions are (in descending order): Astrakhan region – 5.7%, Yaroslavl region and Udmurt Republic – 4.4%, Kostroma and Novgorod region – 4.2%, Saratov region – 4.1%, Nizhny Novgorod region – 3.8%, Republic of Khakasia – 3.6% Vologda and Amur regions – 3.5%. Thereat, in two RF subjects with the highest amount of public debt against budget revenues the share of expenditure on public debt servicing in the total volume of expenditure is significantly lower, for example, in the Republic of Mordovia – 2.7% and in Smolensk region – 3.0%.

By the end of nine months of the current year, regions with high share of debt liabilities which for whatever reason they do not replace with public budget loans are categorized as regions with high share of debt servicing expenditure judging by RF subjects' public debt composition. The period-end results for 9 months of 2015, in Astrakhan region debt on commercial loans went up from Rb 16.8bn to Rb 19.4bn whilst the public debt grew over January–September 2015 from Rb 24.6bn to Rb 25.7bn. In the Udmurt Republic and Kostroma region, the amount of the public debt on commercial loans comes to 49.9 and 44.2%, respectively (Rb20.7bn and Rb7.1bn) of the total debt. In Novgorod and Saratov regions – 43.4% and 50.4%, respectively (Rb6.3bn and Rb24.3bn).

At the same time, in the Republic of Mordovia and Smolensk region the amount of commercial loans comes to 39.4% and 27.0%, and the volume of public budget loans – 48.8% and 62.3% in the overall volume of public debt which allows to control expenses allocated on the public debt servicing at a fairly safe level. During nine months of the current year, in Arkhangelsk region substitution of commercial loans from Rb 21.6bn to Rb 8.5bn with public budget loans (growth from Rb 10.7bn to Rb 20.4bn or from 32.6% to 69.6% in the total amount of public debt) also allowed to curb expenditure allocated on public debt servicing at an acceptable level of 2.3% of the expenditure volume of the consolidated budget of RF subject.

Increased social obligations remain one of the reasons of the RF subjects consolidated budgets deficit and, consequently, need for borrowing. However, not everything is so straightforward. During January–September 2015, growth of expenditure volume of the consolidated budgets of the RF subjects across items 'Education', 'Healthcare', and 'Social policy' against the same period last year amounts to 4.0% in nominal terms, meanwhile, across items 'General state needs' and 'National economy' expenditures went up by 4.7% and 8.3%, respectively. Herewith, the share of expenses across three major social sections in the overall volume of expenditures of the consolidated budget of the RF subjects moved down from 59.6% to 52.2% over nine months in 2015 against nine months in 2014.

Analysis of the expenditure part composition of the consolidated budgets of RF subjects has not revealed a direct link between social expenses and the amount of public debt. In particular, on the list of ten regions with the highest share of expenses across three major social sections in the overall amount of expenditures of the consolidated budgets of RF subjects (in descending order) are: Chechen Republic – 74.0%, Republic of Karelia – 69.9%, Republic

of North Osetia-Alania – 68.0%, Stavropol krai – 68.5%, Sverdlovsk region – 68.4%, Chelyabinsk region – 68.3%, Zabaikalsky krai – 67.7%, Perm krai and Republic of Dagestan – 67.6%, and Vladimir oblast – 67.3%. Only one region Republic of Karelia has a high level of public debt against revenues of the budget of RF subjects. Meanwhile, in the most distressed region Republic of Mordovia the share of expenses across three major social sections constitutes less than the average Russian level of 47.2% of the total expenditure volume.

In arriving at which subject of the Russian Federation largely needs assistance from the center to maintain budget sustainability it is necessary to bear in mind that commercial represent short-term liabilities of the RF subjects. Meanwhile, debt liabilities on securities have medium- and long-term effect. As of 1 October 2015, the highest amount of debt liability on RF subjects' securities is registered in the following regions (in descending order): Khanty-Mansiisk autonomous district – 96.8%, St. Petersburg – 65.5%, Moscow – 63.9%, Krasnoyarsk krai – 63.7%, Samara region – 56.7%, Nizhny Novgorod region – 50.9%, Komi Republic – 38.5%, Orenburg region – 47.7%, Tomsk region – 45.3% and Lipetsk region – 39.9%.

Significant difference in the debt composition and debt burden require the Finance Ministry to implement a differentiated policy by the Finance Ministry on ensuring budget sustainability of RF subjects. ●