

REGIONS' DEBT BURDEN: AWATING BUDGET LOANS

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Over 11 months of 2015, regional debt growth came to nearly 5% against the turn of the year. Municipal debt growth during the same period constituted 1.5%. By the period-end for the entire year, the debt volume will increase further. However, growth rates, most likely, will slow down compared to 2014. By the end of 11 months, the budget loans share went up by 7.3 p.p. to 38.3% with simultaneous decline of the commercial loans share by 5.6 p.p. and state bonds by 1.4 p.p. in the debt structure. However, the situation significantly differs in various regions: there are regions with public debt growth due to mainly commercial loans with already high level of accumulated debt.

Data on the public debt volume of the subjects of the Russian Federation and municipal debt from 2010 through 1 December 2015 is provided in *Table 1*. These data show that the upward debt growth trend of regional and municipal budgets continued in 2015 (data for 11 months). Nominal increment of the debt volume of regional and municipal budgets against the turn of the year constituted nearly 5%, and without Moscow and Moscow region – 7%. Municipal debt growth over the same period came to 1.5%. By the period-end for the whole 2015 (12 months) one can expect further public and municipal debt growth. 2012–2014 showed that precisely by the year-end debt grows by 15–20% (which is due to unevenness of the budgetary expenditure and the need to meet all liabilities before the year-end). At the same time, taking into account the fact that the deficit of the consolidated budgets of the subjects of the Russian Federation at year-end 2015 came to 0.3% of GDP (preliminary data) against 0.6% of GDP in 2014, the regional debt growth rates are slowing down. This is both due to favorable dynamic of regional budgets' tax revenues in the nominal terms (although a decline in real terms) and to containment of expenditure growth (according to preliminary data their volume was executed barely by 93% of the plan by the year-end 2015)².

Overall, the regional debt dynamic during recent years shows sustainable growth trend from 1.6% of GDP in 2010 to 3.0% of GDP as of 1 December 2015. If we estimate the volume of the regional debt in terms of the budgetary system and the economy as a whole, then its volume is not so high.

It should be noted that if historically two RF subjects – Moscow and Moscow region accounted for the main regional debt share (as of 1 January 2011 estimated 40.7% of the total regional debt) then as of 1 December 2015, they account for nearly 11% of the total debt volume. This fact reflects increasing during recent years difficulty with the execution of regional budgets, which

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² For further information on retrospective analysis of regional budgets' trends please refer to Sergey Sinelnikov-Murylev, Arseny Mamedov "Regional Budgets – 2015: three ways for resolving the deficit issue". (<http://www.forbes.ru/mneniya-column/vertikal/272987-region-alye-byudzhet-2015-tri-sposoba-resheniya-problemy-defitsita>).

Table 1

STATE AND MUNICIPAL DEBT OF SUBNATIONAL BUDGETS IN 2010–2015

	Year-end 2010 Volume, Rb bn.	Year-end 2011		Year-end 2012		Year-end 2013		Year-end 2014		During 11 months 2015	
		Volume, Rb bn.	growth, % (or pp of GDP)	Volume, Rb bn.	growth, % (or pp of GDP)	Volume, Rb bn.	growth, % (or pp of GDP)	Volume, Rb bn.	growth, % (or pp of GDP)	Volume, Rb bn.	growth, % (or pp of GDP)
Regional budgets, total	1096	1172	6.9	1355	15.6	1738	28.2	2090	20.3	2191	4.9
Regional budgets, total (less Moscow and Moscow region)	650	832	28	1069	28.5	1474	37.9	1825	23.8	1953	7.0
Regions' debt, % of GDP	1.6	1.8	0.2	2.0	0.2	2.6	0.6	2.9	0.3	3.0*	0.1
Municipal budgets, total	170	216	26.9	245	13.8	289	17.8	313	8.4	318	1.5

Note. When calculating the indicator we used forecast GDP volume for 2015 provided by the Ministry of Economic Development in “Main Indicators of Socio-Economic Development Forecast of the Russian Federation through 2018” of 26 October 2015.

Source: Finance Ministry of Russia, author's calculations.

forced separate and many regions to resort to borrowing and often not for finance investment but to cover current expenditures.

Increased debt burden in many RF subjects is reflected by the data broken by regions (Table 2). However, because only data for 11 months is available, it is prematurely to jump to conclusions regarding debt dynamic broken by separate regions.

Table 2

DYNAMIC OF STATE DEBT OF RF SUBJECTS FOR 2008–2015
(IN NOMINAL TERMS)

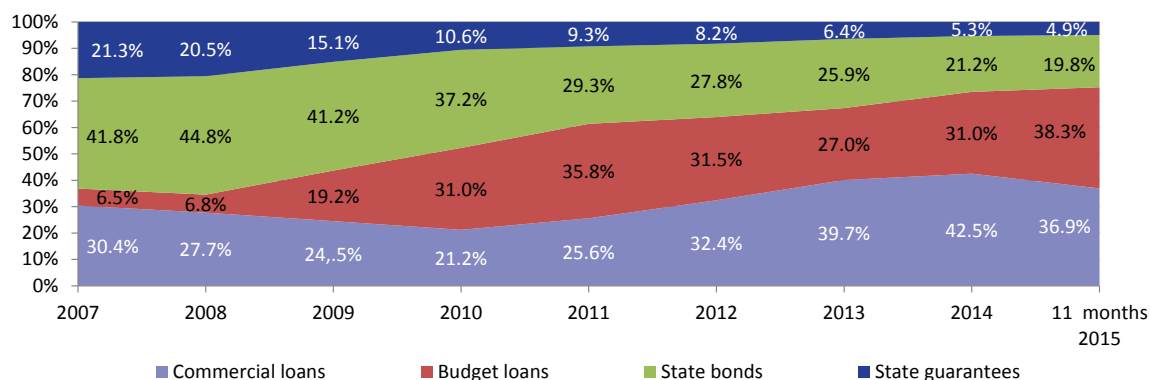
	Number of RF subjects					
	Growth by over 50%	Growth from 15 to 50%	Growth less than 15%	Reduction by less than 15%	Reduction from 15 to 50%	Reduction by over 50%
2008	21	20	10	6	12	9
2009	37	18	11	6	4	2
2010	29	24	8	11	7	0
2011	21	27	13	14	6	0
2012	18	29	14	8	10	1
2013	31	36	8	6	1	0
2014	12	44	18	5	1	2
11 months 2015	2	17	35	21	6	0

Note. Arkhangelsk region and Nenets Autonomous Region are presented as a single subject; data without Crimea federal okrug; data on Sakhalin region is n/a.

Sources: Finance Ministry of Russia, authors' calculations.

While analyzing debt structure of the RF regions for 11 months of 2015, one can observe budget loans upward trend (Fig. 1). The budget loans share has gone up to 38.3%, which is by 7.3 p.p. higher than its volume as of the

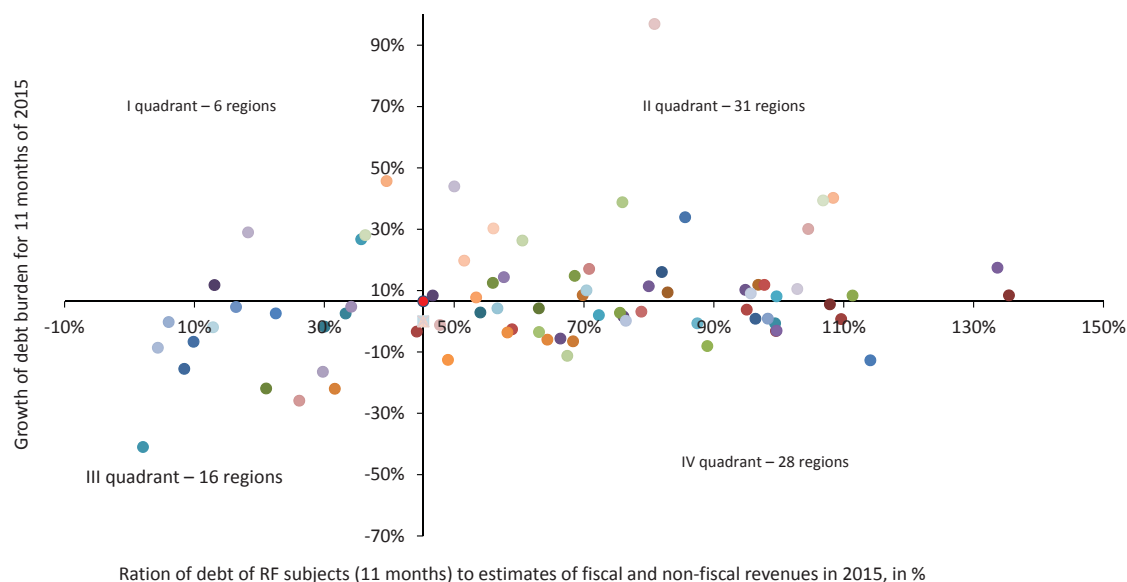
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Note. Data less Crimean federal okrug.

Fig. 1. Structure of the public debt of the RF subjects for 2007 – 11 months 2015

start of 2015. At the same time, budget debt growth was accompanied by the reduction of commercial loans share (-5.6 p.p.) and state bonds (-1.4 p.p.). Contraction of the commercial share of the RF subjects' debt (state bonds and commercial loans) constituted estimated Rb 56bn in nominal terms. Thus, we can speak about the commercial loans substitution with the budget loans regarding regional budgets as a whole, which reflects priorities of the federal center's current policy in relation to regions. However, as will be shown below the situation significantly differs regarding separate regions, which can make it necessary to further increase the budget loans share (for those regions, which still register commercial debt growth). This fact creates risks of increasing dependence of the RF subjects on the federal budget loans, which in its turn will increase political pressure on the Finance Ministry



Notes. 1) Intersection of axes in the point where debt burden and debt growth of RF subjects for 11 months of 2015 take average across Russia value (45.2% and 6.5%, respectively without Moscow); 2) The figure does not reflect: Tyumen region (0.95%, 280.7%), Republic of Mordovia (184.7%, 21.7%).

Sources: Federal Treasury, Finance Ministry of Russia, authors' calculations.

Fig. 2. Debt burden and change of state debt of RF subjects in 2015

of Russia to take decision on writing off or 'freeze payments' on budget loans. Such measure looks like a simple one for resolving the RF subjects' debt can significantly undermine budget discipline on the regional level.

Fig. 2 provides distribution of RF subjects depending on dynamic of the debt burden and the debt growth rates for 11 months of 2015. The RF subjects in II quadrant are the most vulnerable from the point of view of their budget sustainability. For example, there are 32 regions in the risk zone (II quadrant). Their level of debt burden (ratio of debt total to estimates of regional budget revenues less transfers) and debt growth rates during 11 months of 2015 turned out to be above average Russian volumes (without Moscow). The most difficult situation from the point of view of general indicators (without debt structure) is observed in the following regions: Republic of Mordovia (growth rate for 11 months of 2015 +21.7%, level of debt burden as of 1 December 2015 – 184.7%), Republic of North Ossetia (+17.5% and 133.7%), Kostroma region (+8.5% and 135.4%), Republic of Khakasia (+40.3% and 109.6%), Jewish autonomous Region (+39.4% and 106.8%), Zabaikalsky Krai (+30.1% and 104.5%), Chukotka Autonomous region (+10.5% and 102.8%) and Astrakhan region (+8.4% and 111.4%).

It is important to analyze not only general debt dynamic but also its structure in order to estimate regional budget sustainability. Analysis of debt structure in RF subjects which are in II quadrant demonstrated that the most tens situation exists in 21 regions (out of 31) where during 11 months of 2015 the volume of commercial loans and bonds went up. In remaining 10 subjects the volume of the regional debt moved up due to budget loans and state guarantees. Analysis of data for 11 months of 2015 demonstrates the most acute situation in 4 regions: Magadan region (growth of commercial loans in nominal terms +91%), Republic of Mordovia (+83%), Republic Mary El (+56%), and Republic of Khakasia (+56%). ●