

RUSSIA'S STATE BUDGET IN JANUARY–DECEMBER 2015

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According to the data released by the Federal Treasury, by the period-end for January–December 2015 the federal budget revenues came to 18.2% of GDP down 2.2 p.p. of GDP against twelve months of 2014. For January–December 2015, the consolidated budget revenues of the RF subjects as a share of GDP moved up by 0.3 p.p. of GDP against eleven months of the previous year and constituted 12.2% of GDP. At the same time, proper revenues of the regional budgets for January–November 2015 went up by 0.4 p.p. of GDP in comparison with the same period 2014.

Dynamic of the federal budget revenues and the consolidate budget of the RF subjects confirm the position of the Finance Minister Anton Siluanov¹ who when speaking at the Gaidar Forum noted that the budget system had not yet adjusted to the low price on crude oil meanwhile, enterprises and private sector have already adjusted to new conditions. It should be noted that there are no any effective measured of short-term (within the current fiscal year) and of medium-term (three-year period) character aimed at balancing the federal budget in the context of continuing reduction of crude oil prices and currently the RF Government is confining to the administrative measures taking decisions on reducing expenditures of ministries and agencies on unprotected budget lines in the amount of 10% of the approved volume of budgetary allocations for 2016. This will allow to reduce expenses by Rb 1,311.6bn² with an approved volume of the federal budget deficit for 2016 totaling Rb 2,360.2bn³.

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

By the period-end for January–December 2015, the federal budget revenues constituted 18.2% of GDP (Rb 13,452.7bn), down 2.2 p.p. of GDP compared to the same period of 2014 (Table 1). In absolute terms, contraction amounted to Rb 1,044.2bn or 7.2%. The cash execution of the revenue part of the federal budget during twelve months of 2015 came to 101.5% (Rb 201.4bn) of the planned amount. Oil and gas receipts declined by the period-end for twelve months of 2015 against the same period of the previous year by 2.5 p.p. of GDP to 7.9% of GDP (Rb 5,862.5bn). Meanwhile, non-oil and gas receipts over January–December of the current year have moved up by 0.3 p.p. of GDP to 10.3% of GDP (Rb 7,590.2bn) compared to January–December of 2014. Thus, the share of oil and gas receipts in the

1 <http://www.minfin.ru/ru/press-center/?##ixzz3ylr4Mnup>

2 Estimates made on the data released by the Finance Ministry "Budgetary allocations on the 2016 federal budget spending".

http://www.minfin.ru/ru/performance/budget/federal_budget/budj_rop/index.php#ixzz3yJ2u9X5F

3 Federal Law of 14.12.2015 № 359-FZ "On 2016 federal budget".

overall volume of the revenue part of the federal budget has contracted from 51.3% over January–December of 2014 to 43.6% for the same period of 2015.

Table 1

**MAIN PARAMETERS OF THE FEDERAL BUDGET
FOR JANUARY–NOVEMBER 2014–2015**

	January– December 2015		January– December 2014		Change	
	Rb bn.	% GDP	Rb bn.	% GDP	Rb bn.	p.p. GDP
Revenues, of which:	13452.7	18.2	14496.9	20.4	-1044.2	-2.2
Oil and gas revenues	5862.5	7.9	7433.8	10.4	-1571.3	-2.5
Non-oil and gas revenues	7590.2	10.3	7063.1	10.0	156.4	0.3
Expenditures, of which:	15500.8	21.0	15052.2	21.2	448.6	-0.2
Interest	581.9	0.8	415.6	0.6	166.3	0.2
Non-interest	14918.9	20.2	14636.6	20.6	282.3	-0.4
Surplus (deficit) of the federal budget	-2048.1	-2.8	-555.3	-0.8	-1492.8	-2.0
Non-oil and gas deficit	-7910.6	-10.7	-7989.1	-11.2	78.5	0.5
GDP estimates	73708		70976			

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

During twelve months of 2015, the federal budget expenditures reached 21.0% of GDP, down 0.2 p.p. of GDP against the same period last year. When taken in absolute terms, the federal budget expenditures up Rb 448.6bn or by 13.0%. As of the period-end for January–December 2015, the federal budget was executed with a deficit of 2.8% of GDP (Rb 2,048.1bn) down 2.0 p.p. of GDP against a deficit execution of the federal budget for the same period of 2014. The non-oil and gas deficit contracted to 10.7% of GDP or by 0.5 p.p. of GDP against January–December of 2014.

During twelve months of 2015, the federal budget revenues as a share of GDP compared to the same period of 2014 (*Table 2*) had differently directed movements. Receipts generated from the foreign economic activity shrank by 3.2 p.p. of GDP in comparison with the same period of last year to 4.5% of GDP or by 39.7%. Proceeds generated from the import customs duties have contracted from Rb 277.2bn to Rb 179.8bn or by 0.2 p.p. of GDP and generated by export customs duties from Rb 4,637.1bn to Rb 2,780.2bn or by 2.8 p.p. of GDP.

By the period-end for January–December 2015, proceeds generated from the Mineral extraction tax up 0.3 p.p. of GDP against the corresponding period of the previous year to 4.3% of GDP. Taken in nominal terms, growth constituted 10.5%. Receipts to the revenue part of the federal budget over twelve months of the current year in comparison with January–December 2014, generated by domestic VAT up 0.2 p.p. of GDP to 3.3% of GDP and generated by VAT on imports remained unchanged and came to 2.4% of GDP with growth in nominal terms by 12.0 and 1.9%, 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 7.0bn); meanwhile, receipts from import excises shrank by 0.03 p.p. of GDP to 0.07% of GDP. Proceeds from the corporate profit tax up 0.1 p.p. of GDP or by Rb 79.6bn.

Table 2

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

	January– December 2015		January– December 2014		Change	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn	p.p. GDP
Tax receipts, total, of which	11753.3	15.9	13256.6	18.6	-1503.3	-2.7
Corporate income tax	490.9	0.7	411.3	0.6	79.6	0.1
VAT on merchandise sold in the territory of RF	2443.3	3.3	2181.4	3.1	261.9	0.2
VAT on merchandise imported to the territory of RF	1784.0	2.4	1750.2	2.4	33.8	0.0
Excises on merchandise produced in the territory of RF	527.8	0.7	520.8	0.7	7.0	0.0
Excises on merchandise imported to the territory of RF	53.9	0.07	71.5	0.1	-17.6	-0.03
Mineral extraction tax	3159.9	4.3	2858.0	4.0	301.9	0.3
Revenues from foreign economic activity	3293.5	4.5	5463.4	7.7	-2169.9	-3.2

Sources: RF Federal Treasury, Gaidar Institute calculations.

During twelve months in 2015 against January–December 2014, the federal budget expenditures (*Table 3*) in the context of cash execution of 97.8% (in 2014 – 98.5%) of the approved annual volume of budgetary allocations changed as follows:

Expenses on national defense and social policy went up 0.8 and 0.9 p.p. of HDP or by 28.3 and 23.5% in nominal terms, respectively. Spending growth on “National defense” is due to increased financing of the armed forces from 2.6% of GDP for January–December 2014 to 3.3% of GDP for the same period of 2015. Their share in the overall volume of defense spending constitutes by the period-end for twelve months of 2015 76.5% (for the corresponding period of 2014 – 76.0%). Spending growth on “Social policy” is due to an increased financing of the line “Pension benefits” from 3.2% of GDP for January–December 2014 to 4.0% of GDP for the same period of 2015, the share of expenses on this line in the overall volume of expenses on the social policy by the period-end results for twelve months of 2015 constitutes 69.0% (for the corresponding period of 2014 – 65.2%);

- Expenses on “National security and law enforcement” as a share of GDP moved down by 2.2 p.p. of GDP to 2.7% of GDP. In absolute terms, contraction amounted to Rb 120.2bn;
- Expenses on “National economy” down 1.4 p.p. of GDP or by Rb 901.9bn. Major reduction of spending from 2.2% of GDP to 0.7% of GDP is observed along the line “Other issues in the sphere of national economy”, spending share along this line in the overall volume of expenses on economic policy constitutes by the period-end for twelve months of 2015 25.8% (for the corresponding period of 2014 – 51.7%). Main volume of funding along the line “Other issues in the

Table 3

FEDERAL BUDGET EXPENDITURE FOR JANUARY–DECEMBER 2014-2015

	January–December 2015			January–December 2014			Chang, p.p. GDP
	Rb bn	% GDP	Cash execution, %	Rb bn	% GDP	Cash execution, %	
Expenditures total, of which:	15500.8	21.0	97.8	15052.2	21.2	98.5	-0.2
General state issues	1101.4	1.5	99.0	934.7	1.3	98.7	0.2
National defence	3181.2	4.3	99.9	2479.1	3.5	99.9	0.8
National security and law enforcement	1966.0	2.7	98.2	2086.2	2.9	100.0	-0.2
National economy	2161.0	2.9	96.2	3062.9	4.3	94.4	-1.4
Housing and utilities sector	142.0	0.2	97.3	119.6	0.2	94.9	0.0
Environmental conservation	49.6	0.07	98.8	46.4	0.07	99.6	0.0
Education	610.6	0.8	99.0	638.3	0.9	99.2	-0.1
Culture, cinematography	89.2	0.1	99.0	97.8	0.1	99.4	0.0
Healthcare	516.2	0.7	98.1	535.6	0.7	97.9	0.0
Social policy	4264.6	5.8	99.6	3452.4	4.9	99.2	0.9
Physical fitness and sports	72.9	0.1	97.8	71.2	0.1	99.6	0.0
Mass media	82.1	0.1	100.0	74.8	0.1	99.9	0.0
Servicing state and municipal debt	581.9	0.8	98.1	415.6	0.6	99.9	0.2
Inter-budget general transfers	682.0	0.9	100.0	816.1	1.1	99.8	-0.2

Sources: RF Ministry of Finance, Gaidar Institute calculations.

sphere of national economy” is allocated on provision subsidies to the budgetary, autonomous institutions and other non-profit organizations for procurement of goods, works and services for public needs. When taken in nominal terms, the highest spending growth is registered along lines “Agriculture and fishing” by 16.2% and “Public road system (road funds)” by 16.7%;

- Expenses on “General state issues” up 0.2 p.p. of GDP, when taken in nominal terms – by 17.9%;
- Expenses on “Education down 0.1 p.p. of GDP to 0.8% of GDP or by Rb 27.7bn.;
- Expenses on “Healthcare” as a share of GDP remain unchanged and came to 0.7% of GDP; when taken in absolute terms, expenses shrank by Rb 19.4bn;
- Expenses on “Inter-budget general transfers” contracted by 0.2 p.p. of GDP or by 16.4% in nominal terms;
- Expenses on public debt servicing up 0.2 p.p. of GDP to 0.8% of GDP or by 40.0% in nominal terms, including expenses on domestic public debt servicing went up by 35.2% in nominal terms for January–December 2015 against the same period of 2014, and expenses on foreign public debt servicing moved up by 54.5% in nominal terms;
- Other lines of the federal budget expenditure remained unchanged as a share of GDP.

Over twelve months of 2015, the size of the Reserve Fund¹ has contracted by Rb 1,304.9bn and as of 1 January 2016 amounted to Rb 3,640.6bn, which equals \$50.0 bn. During 2015, assets from the Reserve

1 <http://www.minfin.ru/ru/document/index.php>

Fund were allocated on financing the federal budget deficit in the amount of Rb 2,622.9bn.

The volume of the National Welfare Fund as of the turn of the current year amounted to Rb 5,227.2bn (growth over January–December 2015 by Rb 839.1bn), which equals \$71.7bn (contraction during twelve months of 2015 by \$6.3bn). During twelve months of 2015, the pattern of financial assets of the National Welfare Fund changed due to:

- Growth of debt obligations of Vnesheconombank by Rb 103.9bn;
- Growth of liabilities on T-bills of Ukraine by Rb 49.8bn to Rb 218.6bn;
- Increase of subordinated deposit in VTB bank (OAO) by Rb 26.0bn to Rb 126.0bn;
- Bonds of JSC “Yamal SPG” in the amount of Rb 150.0bn;
- Privileged shares of JSC “RZHD” in the amount of Rb 50.0bn;
- Privileged shares of AO “Nuclear Energy industrial complex” in the amount of Rb 57.5bn;
- Deposit in Gazprombank (AO) in the amount of Rb 38.4bn;
- Bonds of LLC “ZapSibNeftekhim” in the amount of Rb 118.6bn.

It should be noted that the value of issued bonds of LLC “ZapSibNeftekhim” in thousand time exceeds the amount of charter capital of this company (according to data¹, charter capital of the company amounts to Rb 500.0 thousand) and approximate period of the implementation of the infrastructure project – 2020². At the same time, the sole incorporator is the company with foreign participation – JSC “SIBUR Holding”, which, as can be presuppose, is the real custodian of more than a hundred billion rubles obtained from NWF and which will meet billion debt obligations of LLC “ZapSibNeftekhim” in the amount of its charter capital.

Taking into account the probability of poor market conditions over two-three years to come and the downward trend of falling federal budget revenues including oil and gas receipts, we see it fit to revise the spending rules of the National Welfare Fund assets with regards to:

- Approval of the annual Fund’s budget by federal law reviewed and approved in a packet of laws on the federal budget;
- Strengthened requirements to the financial assets of NWF and to the organizations implementing infrastructure projects including regarding the size of the charter capital, public accounting, special account management, which allow to follow the Fund’s assets flow;
- Requirements to projects financed by NWF, period of their realization, payback period and ensuring repayment of assets as well as restrictions for organizations to deposit temporarily free assets in banks.

Taking into consideration the need to finance the federal budget deficit in the years to come, it is necessary to analyze the possibility to merge NWF and Reserve Fund and reserve all NWF assets, which are not invested in infrastructure projects, for covering the federal budget deficit in 2017–2018 (in the event the oil prices remain at the current levels or are still lower).

1 <http://www.list-org.com/company/4652188>

2 <http://tobolsk.ru/news/130/26229/>

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

According to the Federal Treasury, the consolidated budget revenues of the RF subjects over eleven months of 2015 amounted to Rb 8,306.3bn or 12.2% of GDP, which is by 0.3 p.p. of GDP or by 6.0% in nominal terms above the level of January–November 2014 (*Table 4*). During eleven months of 2015 compared to the corresponding period of 2014, the RF subjects' consolidated budget expenditure as a share of GDP down 0.1 p.p. of GDP to 11.7% of GDP (Rb 7,907.8bn). In nominal terms growth came to 1.8%.

Table 4

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

	January– November 2015		January– November 2014		Change, p.p. GDP
	Rb bn	% GDP	Rb bn	% GDP	
Revenues, of which:	8306.3	12.2	7834.5	11.9	0.3
corporate profit taxes	1953.5	2.9	1771.1	2.7	0.2
personal income tax	2403.0	3.5	2286.9	3.5	0.0
excises on goods produced in the territory of RF	440.8	0.6	432.2	0.6	0.0
taxes on total income	335.8	0.5	304.9	0.5	0.0
property taxes	1034.6	1.5	922.9	1.4	0.1
non-repayable receipts from other budgets of the budget sys- tem of the Russian Federation	1393.8	2.1	1424.8	2.2	-0.1
Expenditures	7907.8	11.7	7769.5	11.8	-0.1
Surplus (deficit) of con- solidated budget	398.5	0.5	65.0	0.1	0.4
GDP estimates	67805		65535		

Sources: RF Federal Treasury, Gaidar Institute calculations.

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

- Profit tax receipts up 0.2 p.p. of GDP (2.9 % of GDP) or by 10.3% in nominal terms;
- Personal income tax (PIT) receipts in percent of GDP remained unchanged and came to 3.5% of GDP, taken in nominal terms receipts up 5.1%;
- Receipts from property tax as a share of GDP up 0.1 p.p. of GDP to 1.5% of GDP, growing by 12.1% in nominal terms;
- Proceeds from domestic excises and from total income taxes as a share of GDP remained unchanged and came to 0.6 and 0.5% of GDP, respectively and went up by 2.0 and 10.1% in nominal terms;
- Revenues from non-repayable receipts from other budgets of the budget system of the Russian Federation as a share of GDP down 0.1 p.p. of GDP to 2.1% of GDP, contracting by Rb 31.0bn in absolute terms.

As of the period-end for January–November of 2015 against eleven months of 2014, the consolidated budget of the RF subjects' expenditure remained

unchanged across the majority of budget lines as a share of GDP. Expenses contracted by 0.1 p.p. of GDP solely along the line “Housing and utilities sector”.

Table 5

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

	January– November 2015		January– November 2014		Change, p.p. GDP
	Rb bn	% GDP	Rb bn	% GDP	
Expenditures, total: of which	7907.8	11.7	7769.5	11.8	-0.1
General state issues					
National security and law enforcement	503.9	0.7	489.3	0.7	0.0
National economy	84.4	0.1	84.7	0.1	0.0
Housing and utilities sector	1408.6	2.1	1361.7	2.1	0.0
Environmental conservation	661.5	1.0	698.3	1.1	-0.1
Education	17.9	0.03	20.1	0.03	0.0
Culture, cinematography	2155.2	3.2	2129.8	3.2	0.0
Healthcare	265.2	0.4	270.0	0.4	0.0
Social policy	1178.4	1.7	1142.2	1.7	0.0
Physical fitness and sports	1308.5	1.9	1281.7	1.9	0.0
Mass media	152.9	0.2	148.6	0.2	0.0
Servicing state and municipal debt	38.4	0.06	36.8	0.06	0.0
Expenditures, total: of which	129.4	0.2	97.9	0.1	0.0

Sources: Federal Treasury, Gaidar Institute calculations.

In nominal terms the highest growth of the consolidated budget of the RF subjects over eleven months of the current year against the corresponding period of the previous year is observed across servicing of public and municipal debt by 32.2%. Across other items, in nominal terms expenditure changed in the following way: “Environmental conservation” contraction by 11.0% and “Mass media” growth by 4.3%.

By the period-end results for January–November 2015, the consolidated budget of the RF subjects was executed with surplus of 0.5% of GDP (Rb 398.5bn), up 0.4 p.p. of GDP against the surplus balance by the period-end results of the same period of the previous year. However, according to preliminary estimates of the Accounting Chamber released by the Chairperson the Accounting Chamber Tatiana Golikova at the Gaidar Forum, despite the positive dynamic of the regional budgets revenues the deficit of the consolidated budget of the RF subjects can come to Rb 191 bn. Out of 85 regions barely 9 RF subjects closed their fiscal year with a surplus.¹

At the collegium board meeting of the Finance Ministry of Russia held at the end of January the following challenges were determined: increased efficiency of the budget expenditures, development of new tools aimed to support economic growth; budget risks hedging from the fall of oil prices; improvement of RF borrowing on the domestic and foreign markets; development of new sources of long-term financial resources.² However, it remains unclear how proactively the government will start to resolve these issues in the context of current situation. ●

1 http://audit.gov.ru/press_center/news/25279

2 <http://www.minfin.ru/ru/##ixzz3ylqLYWED>