

BUDGET LOANS AND SUBSIDIES TO REGIONS: WHO AND HOW MUCH RECEIVED IN 2015?¹

A.Mamedov, E.Fomina

The volumes of financial aid extended by the federal budget via instruments of budget loans² and grants designed to secure regional budgets balance (hereinafter – grants designed to balance regional budgets) in 2015 contracted against 2014 volumes, meanwhile their decline rates differ considerably. For example, the volume of budget loans (balance) across the Russian Federation as a whole fell by 1% in nominal terms meanwhile that of grants designed to properly balance regional budgets contracted by 34% (43% less the Crimea). Distribution of budget loans and grants designed to balance regional budgets among the subjects is defined by significant unevenness. In 2015, around 70% of the total budget loans volume were distributed among 20 subjects of the Russian Federation (out of 85). Grants designed to balance regional budgets were also distributed unevenly: nearly 60% of their total volume were received by 20 regions in 2015.

In 2015, the RF subjects received via budget loans about Rb 167.4bn (balance including repayments) and grants aimed to balance regional budgets around Rb 152.4bn. Consequently, via these two instruments of “prompt” financial support to regional budgets as a whole, the federal budget allocated comparable amounts. How these volumes were distributed among RF subjects: financial support was provided to the same regions or different groups of regions.

In 2015, around 70% of the overall volume of budget loans were distributed among 20 RF subjects (of 85), which speaks about their high distribution unevenness across regions (*Table 1*). Khabarovsk Krai and Kirov oblast got the highest volume of budget loans: Rb 9bn each region. Distribution of grants intended to balance regional budgets was also uneven: around 60% of the total volume of grants in 2015 were received by 20 regions. Chechen Republic (around Rb 20bn) and Republic of Crimea (about Rb 17bn) display a significant gap regarding grants aimed to balance budgets.

Unevenness of the allocation of “prompt” financial aid, significant part of which is already being distributed during the federal budget execution is considered to be a normal practice. Theoretically, these types of aid should be granted to the regions facing maximum problems in their budgets execution. As a result, for further analysis we have selected two major indicators, which determine problems in the budget sphere of the RF subjects: debt burden including the share of commercial debt and dynamics of tax and non-tax revenues (revenues less interbudgetary transfers). They are easily verified by budget statistics and totally comparable among regions (i.e. it is possible to verify justification of the fact why one region received more funds than another did).

¹ This paper was originally published in Online Monitoring of Russia's Economic Outlook No.3(21).

² Balance (receipt minus repayment) of budget loans from other budgets of the budgetary system.

Table 1

**RF SUBJECTS WHO RECEIVED LARGEST AMOUNTS OF BUDGET LOANS
IN 2015, RB MN**

RF subjects	Budget loans from other budgets of budgetary system	RF subjects	Grants intended to secure regional budgets in 2015
Total for all RF subjects	167 354	Total for all RF subjects	152 369
Total for 20 subjects with largest volume of financing	114 966	Total for 20 subjects with largest volume of financing	92 299
including:		including:	
Khabarovsk Krai	9 351	Chechen Republic	20 413
Kirov oblast	9 166	Republic of Crimea	16 970
Republic of Tatarstan	8 938	Krasnodar Krai	5 738
Kaluga oblast	8 477	City of Sebastopol	4 804
Krasnoyarsk Krai	7 581	Irkutsk oblast	4 231
Perm Krai	7 479	Samara oblast	4 178
Yaroslavl oblast	6 358	Republic of Dagestan	3 271
Chuvash Republic – Chuvashia	5 544	Nizhny Novgorod oblast	3 095
Sverdlovsk oblast	5 494	Primorsky Krai	2 967
Republic of Komi	4 973	Rostov oblast	2 823
Stavropol Krai	4 857	Omsk oblast	2 695
Volgograd oblast	4 841	Republic of Bashkortostan	2 546
Primorsky Krai	4 724	Moscow Oblast	2 541
Arkhangelsk oblast	4 434	Perm Krai	2 484
Kursk oblast	4 385	Khabarovsk Krai	2 473
Republic of North Ossetia – Alania	4 084	Sverdlovsk oblast	2 353
Zabaikalsky Krai	3 931	Novosibirsk oblast	2 267
Tver oblast	3 674	Krasnoyarsk Krai	2 216
Astrakhan oblast	3 347	Arkhangelsk oblast	2 121
Samara oblast	3 329	Chelyabinsk oblast	2 114
Share of funds allocated to subjects with highest volume of financing, % of total volume across RF as a whole	68.7%	Share of funds allocated to subjects with highest volume of financing, % of total volume across RF as a whole	60.6%

Note. By semi-bold type are identified those RF subjects, which are on the list of regions with maximum volume of both budget loans and grants intended to balance budgets.

Sources: Federal Treasury, authors' calculations.

Table 1 shows that 7 out of 33¹ regions received maximum volumes regarding both financial instruments. Therefore, on the whole we cannot say that one and the same regions received financial support via two reviewed instruments.

Table 2 provides a list of 24 RF subjects grouped depending on the state of debt burden as of early 2015 (over 80%). Among them, a group of 5 RF subjects is identified with high share of commercial debt (over 62% – average indicator for Russia without Moscow, and Crimea Federal District) in the structure of regional debt. In the table, budget loans and grants intended to balance regional budgets are on per capita basis, which allows to ensure bet-

1 33=20+20-7 regions including the fact that 7 regions are on both lists.

ter comparability of identified regions with financing volumes (i.e. rate fixing was implemented). With the help of analysis of data given below, we will try to answer two questions:

1. Is there a correlation between the level of a region's budget debt burden as of the beginning of 2015 and volumes of financial support via instruments of budget loans and grants designed to balance regional budgets in 2015;

2. Did regions with maximum debt burden (especially with a large share of commercial debt in the overall debt volume) have an advantage in receiving support via budget loans? Whether they were able to replace an expensive in servicing commercial debt (bank loans and debentures) with cheap budget loans.

Table 2

**VOLUME OF BUDGET LOANS AND GRANTS INTENDED TO BALANCE
REGIONAL BUDGETS (PER CAPITA) IN 2015 IN RF SUBJECTS
WITH HIGH DEBT BURDEN**

RF subject	Debt burden as of 1 Jan. 2015, %	Share of commercial debt as of 1 Jan. 2015, %	Per capita budget loans for 2015, Rb/person	Per capita grants for 2015, Rb/person	Total budget loans and grants per capita for 2015, Rb/person	Share of grants in total volume of budget loans and grants per capita, %
Regions with debt burden over 80% and with share of commercial debt in total debt volume above 62%	92	68	3291	1294	4585	28
Republic of Khakasia	86	71	590	1189	1779	67
Udmurt Republic	95	69	810	942	1752	54
Arkhangelsk oblast	101	68	3278	1957	5235	37
Zabaikalsky Krai	88	66	3616	1864	5480	34
Kirov oblast	85	64	7029	752	7781	10
Over 80% of debt burden and below 62% of commercial debt	100	49	925	1049	1974	53
Amur oblast	98	62	99	1527	1626	94
Ryazan oblast	99	59	581	586	1167	50
Kostroma oblast	121	58	1304	1594	2898	55
Republic of Mari El	95	58	-1485	607	-877	-
Novgorod oblast	83	58	2835	506	3341	15
Penza oblast	87	55	0	901	901	100
Republic of Karelia	119	55	1064	3026	4090	74
Pskov oblast	88	55	504	799	1303	61
Vologda oblast	100	54	1031	704	1735	41
Orel oblast	86	54	1446	915	2361	39
Republic of North Ossetia – Alania	115	52	5784	1050	6835	15
Saratov oblast	100	51	270	702	972	72
Belgorod oblast	106	48	1256	1192	2448	49
Smolensk oblast	116	46	3057	569	3626	16
Krasnodarskysky Krai	93	45	499	1052	1551	68
Karachaevo-Cherkessk Republic	104	37	-353	424	71	-

Table 2, cont'd

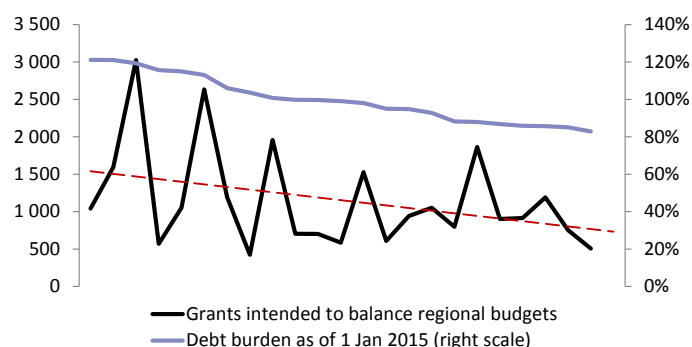
RF subject	Debt burden as of 1 Jan. 2015, %	Share of commercial debt as of 1 Jan. 2015, %	Per capita budget loans for 2015, Rb/person	Per capita grants for 2015, Rb/person	Total budget loans and grants per capita for 2015, Rb/person	Share of grants in total volume of budget loans and grants per capita, %
Republic of Mordovia	121	36	2472	1041	3513	30
Republic of Ingushetia	113	0	2103	2635	4737	56
Chukotka Autonomous Okrug	144	0	-19412	14799	-4613	-
RF on the whole	35	64	1144	1042	2186	48
RF on the whole (without Moscow and Crimean FD)	44	62	1271	991	2262	44

Sources: Federal Treasury, authors' calculations.

Analysis of *Table 2* data as a whole does not allow to reveal a clear dependence of extended budget loans and grants intended to balance regional budgets in 2015 on the value of debt burden of RF subjects as of the beginning of 2015 and share of commercial debt in the structure of regions' debt. However, replacement of commercial credits with budget loans is observed in a number of regions. In 8 regions (out of 24 regions reviewed in *Table 2*) the volume of commercial debt in the structure of debt fell during 2015: Republic North Ossetia –

Alania (-43%), Kirov oblast (-34%), Astrakhan oblast (-11%), Novgorod oblast (-9%), Zabaikalsky Krai (-6%), Ryazan oblast (-2%), Vologda oblast (-2%), Kostroma oblast (-1%). At the same time, during 2015, 10 regions (of 24) on the contrary were building up their commercial debt: Republic of Mai El (+15%), Karachaevo-Cherkessk Republic (+11%), Republic of Khakasia (+9%), Republic of Mordovia (+8%), Orel oblast (+5%), Amur oblast (+3%), Pskov oblast (+2%), Krasnodarsky Krai (+2%), Saratov oblast (+1%), Republic of Karelia (+1%).

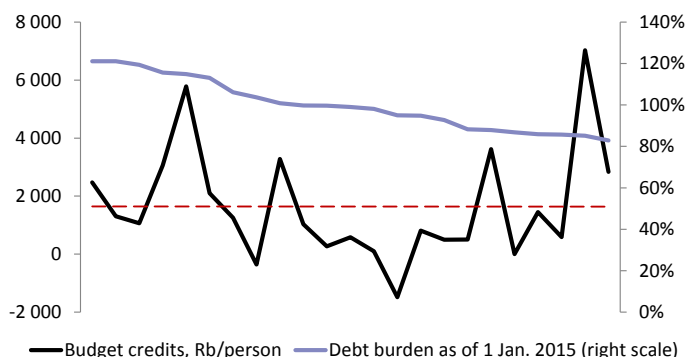
Fig. 1 and 2 demonstrate more vividly the lack of clear dependence of the volume (per capita) of allocated funds on the regions' debt burden as of the beginning of the year



Note. Less Chukotka Autonomous Okrug.

Sources: Federal Treasury, Finance Ministry of Russia.

Fig. 1. Volume of grants intended to balance regional budgets and debt burden as of beginning of year (24 regions)



Note. Less Chukotka Autonomous Okrug.

Sources: Federal Treasury, Finance Ministry of Russia.

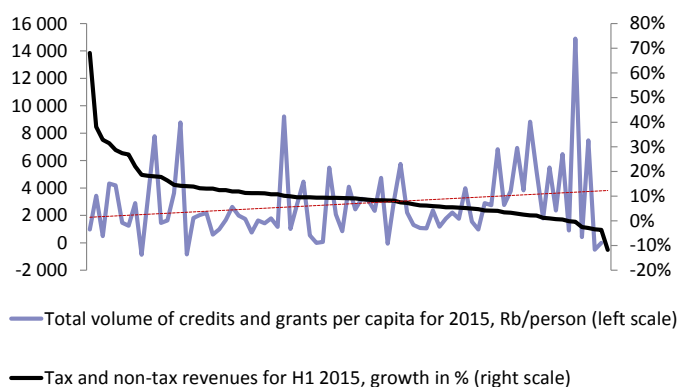
Fig. 2. Volume of budget credits per capita in 2015 and debt burden as of 1 January 2015 (24 regions)

(in group of regions with high debt burden of over 80%).

We conducted further analysis regarding dependence of budget credits and grants on balance of regional budgets in 2015 depending on dynamics of tax and non-tax revenues of the RF subjects in H1 2015 against the same period of 2014 (Fig. 3). We asked ourselves a question, was it really via interbudgetary instruments the “prompt” financial support was provided above all to the regions facing problems with revenue side of the budgets in the course of the year?¹ Given below figure shows that dynamics of tax and non-tax revenues of regional budgets in H1 apparently was not the main indicator taken by the Finance Ministry of Russia as a benchmark for allocation of additional financial support.

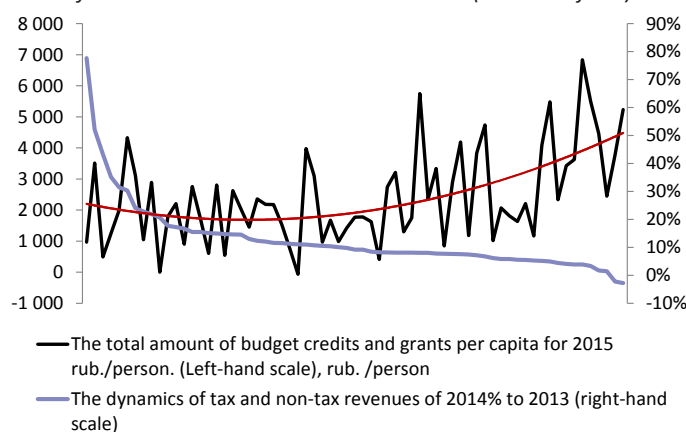
Additionally, we analyzed an issue as to whether during 2015 the volumes of additional aid (budget credits and grants intended to balance regional budgets) to a greater degree were affected by dynamics of tax and non-tax revenues of the regional budgets as of the period-end for 2014 (against 2013, Fig. 4). If we exclude RF subjects with maximum and minimum values regarding reviewed indicators, the Figure shows certain regularity: with a decrease of growth rate of tax and non-tax revenues in 2014, general volume of “prompt” financial aid somewhat increased on average as of the period-end for 2015. Nevertheless, a significant range of values is observed regarding volumes of budget credits and grants intended to balance regional budgets. Subsequently, we can say that other factors exerted no less but even greater influence while determining volumes of additional financial aid.

Finally, let us analyze main indicators used in the aforementioned analysis separately for 7 RF subjects which were identified as regions which received absolute maximum volumes of financial aid both in terms of grants intended to balance regional budgets and in terms of budget credits (Table 3).



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

Fig. 3. Total volume of budget credits and grants intended to balance regional budgets per capita in 2015 and dynamics of tax and non-tax revenues in H1 2015 (all RF subjects)



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

Fig. 4. Total volume of budget credits and grants intended to balance regional budgets (per capita) in 2015 and dynamics of tax and non-tax revenues of regional budgets in 2014 (less maximum and minimum values)

¹ In order to facilitate analysis it is assumed that additional volumes are primarily allocated in H2 based on results of regional budgets execution carried out in H1. Partially, this reflects real practice.

Table 3

SAMPLED BUDGET INDICATORS ON 7 RF SUBJECTS WITH MAXIMUM VOLUMES OF BUDGET CREDITS AND GRANTS INTENDED TO BALANCE REGIONAL BUDGETS IN 2015

	Level of tax capacity prior to equalization transfer	Total volume of budget credits and grants intended to balance regional budgets per capita in 2015, Rb/person	Share of grants intended to balance regional budgets in total volume of financial aid, %	Debt burden as of early 2015, %	Share of commercial debt as of early, %	Share of spending on public and municipal debt servicing in 2015, %	Dynamic of tax and non-tax revenues for H1 2015, (growth in % to H1 2014)	Dynamic of tax and non-tax revenues in 2014 (growth in % to 2013)
Average on Russia	1.000	2 186	48	35	64	1.6	12.3	9
Khabarovsk Krai	0.776	8 837	21	42	78	2.0	2.2	2
Arkhangelsk oblast	0.593	5 750	32	72	66	2.1	7.5	6
Primorsky Krai	0.717	3 979	39	14	79	0.9	5.2	7
Perm Krai	0.894	3 778	25	17	83	0.3	3.3	-5
Krasnoyarsk Krai	0.900	3 426	23	60	84	2.9	38.1	5
Samara oblast	1.148	2 336	56	49	81	3.2	8.4	3
Sverdlovsk oblast	1.099	1 814	30	35	84	1.5	13.9	1

Note. Debt burden indicator is given for the budgets of RF subjects, and dynamics of tax and non-tax revenues is given for the consolidated budgets of RF subjects.

Sources: Federal Treasury, Finance Ministry of Russia, own calculations.

Reviewed 7 regions significantly differ across volumes of “prompt” financial aid in terms of per capita. At the same time, in this group there are RF subjects with different level of calculated tax capacity (prior to distribution of grants for 2015). In the meantime, general per capita volumes of budget credits and grants designed to balance regional budgets have no clear correlation with a single of reviewed budget indicators: debt burden, share of commercial debt, share of spending on debt servicing, and movement of tax and non-tax revenues. At the same time, as in the analysis across all regions, some correlation is observed solely with dynamic of revenues less transfers in 2014 (i.e. with 1-year lag): regarding this indicator, all regions were below average value across Russia. However, this indicator does not explain differences in volumes of financial aid inside this group.

What major conclusions can be drawn from this analysis? First, significant volumes of “prompt” federal financial aid transferred to regions via instruments of budget credits and grants intended to balance regional budgets are concentrated in a limited group of RF subjects. Second, there are regions, which concentrate significant amounts of both credits and grants. However, the share of such regions turned out to be below 50% (7 out of 20 in each group with maximum volumes of credits and grants respectively, total 7 out of 33). Accordingly, various regions were supported via these instruments. Third, volumes of “prompt” federal financial aid to regions are barely correlated with such indicators, which reflect the scale of problems in regional finances, as the level of debt burden (including share of expensive in servicing commercial debt) and movement of tax and non-tax revenues.

Incidentally, one cannot say that allocated volumes of financial aid do not correlate at all with any indicators and are allocated arbitrarily. In our case,

another factor is paramount: volumes of budget credits and grants designed to balance regional budgets have turned out to be barely correlated with the most simple, transparent and comparable among regions indicators, which reflect the magnitude of problems during the regional budgets execution. This significantly reduces transparency and justification of usage of these tools for interbudgetary relations. This can create conditions for soft budget constraints for subnational authorities and thus worsen their fiscal incentives.

The lack of correlation can also be indicative of a conflict between the objectives of interbudgetary relations regulation and applied budget instruments. Allocation of a share of grants to balance regional budgets in order to offset additional regional budgets spending serves as a striking example of such practice. As a matter of fact, these grants serve as subsidies. Such practice also decreases efficiency and transparency of interbudgetary relations.

Distribution of grants designed to balance regional budgets has an element of politics. This is reflected in the fact that maximum volumes of financial aid were sent to Chechnya and Crimea. The amount of additional financial aid depends on the political heft and consequently lobbying capacity of specific governor. All this results in the fact that total distributed amounts hardly correlate with general and objective indicators, which reflect the scale of the problem manifested in regional finances. ●