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## State Budget

In 2012, federal budget revenues increased by 0.6 p.p. of GDP against the previous year. As per results of 11 months of 2012, revenues to the consolidated budget of the Subjects of the Russian Federation have decreased by 1.4 p.p. of GDP as compared with the same period of the last year. In general, the situation with the execution of the federal and consolidated budgets can be estimated today as balanced. However, the slowdown in economic growth and investment rates at the background of sustained uncertainty in the prospects of the world economy development can provide a negative impact on the budget system.

### **Tentative estimates of federal budget execution over January-December 2012**

According to the Russian Ministry of Finance, federal budget revenues in January-December 2012 amounted to Rb 12,858.3bn (21.0% of GDP), which exceeds the indicator of the same period in 2011 by 0.6 p.p. of GDP (see *Table 1*). The federal budget execution in cash terms made 99.6% within 12 months of 2012 and totaled Rb 12,871.1bn (21.0% of GDP), which is by 1.4 p.p. of GDP higher than the value of late 2011. Oil and gas revenues increased by 0.4 p.p. of GDP to Rb 6,452.9bn (10.5% of GDP); as of 2012 results, execution of the budget revenue in cash terms made 100.7% against the estimated value.

*Table 1*

#### **Key indicators of the RF federal budget within January-November 2011–2012**

	January-December 2012		January-December 2011		Execution vs. estimated annual budget 2012, %	Change	
	Rb bn	GDP%	Rb bn	GDP%		Rb bn	p.p. of GDP
Revenue, including:	12858.3	21.0	11367.6	20.4	99.6	1490.7	0.6
Oil and gas revenue	6452.9	10.5	5641.7	10.1	100.7	811.2	0.4
Expenditures, including:	12871.1	21.0	10935.6	19.6	99.3	1935.5	1.4
Percentage expenditures	320.0	0.5	262.7	0.5	96.4	57.3	0.0
Non-percentage expenditures	12551.1	20.5	10672.9	19.1	99.4	1878.2	1.4
Federal budget surplus (deficit)	-17.2	0.0	432.0	0.8		-449.2	-0.82
Non-oil and gas deficit	- 6470.1	-10.5	- 5209.7	-9.3		-1260.4	-1.2
GDP estimates	61149.3		55798.6				

Source: Ministry of Finance of Russia (estimated values), RF Federal Treasury, Gaidar Institute assessments

The expenditures growth as broken down by federal budget items (see *Table 2.*) in terms of GDP share within January-December 2012, as compared with the same period of the last year was noted in "National Security and Law Enforcement" - by 0.8 p.p. of GDP, «Social Policy" - by 0.7 p.p. of GDP, "National defense» - by 0.3 p.p. of GDP, «Healthcare» - by 0.1 p.p. of GDP. As per 2012 results, federal budget expenditures were reduced in three items, namely: "Intergovernmental Transfers" - by 0.2 p.p., «Housing and public utilities" - by 0.1 p.p. of GDP, «Physical Training and Sports" - by 0.01 p.p. of GDP, as compared with January-December 2011. In the other federal budget items expenditures in the twelve months of 2012 in terms of GDP shares remained at the level of January-December 2011.

Table 2

**Federal budget execution in terms of expenditures in January-November 2011–2012**

	January- December 2012		January-December 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Expenditures, total, including:	12871.1	21.0	10935.6	19.6	1.4
Federal issues	796.3	1.3	777.7	1.3	0.0
National defense	1812.8	3.0	1515.9	2.7	0.3
National defense and law enforcement	1833.0	3.0	1259.8	2.2	0.8
National Economy	1968.2	3.2	1790.1	3.2	0.0
Housing and public utilities	228.8	0.4	279.8	0.5	-0.1
Environmental protection	22.5	0.03	17.6	0.03	0.0
Education	603.8	1.0	533.4	1.0	0.0
Culture and cinematography	89.8	0.1	83.8	0.1	0.0
Healthcare	613.9	1.0	499.5	0.9	0.1
Social policy	3859.5	6.3	3128.5	5.6	0.7
Physical training and sports	45.7	0.07	44.2	0.08	-0.01
Mass media	77.5	0.1	61.1	0.1	0.0
Public and municipal debt servicing	320.0	0.5	262.7	0.5	0.0
Intergovernmental transfers	598.9	1.0	651.2	1.2	-0.2

Source: Federal Treasury, Gaidar Institute assessments

In December 2012 the Ministry of Finance of Russia has carried out two payments to OAO "Sberbank of Russia" to perform liabilities under the state guarantee of the Russian Federation in the amount of:

- ☐ Rb 1.6bn under the liabilities of OAO "LMZ Svobodny Sokol" provided in 2009;
- ☐ Rb 1.5bn under the liabilities of "Volgograd concrete products plant No. 1", provided in 2010.

The list of organizations of strategic importance, which includes those two producers, was approved by the Government Commission on Sustainable Development of the Russian Economy at the end of December 2008 in the framework of anti-crisis measures of the Russian Government. However, the feasibility of some organizations' inclusion in this list and the need for government guarantees on loans granted in the post-crisis period is questionable. For example, Lipetsk metallurgical works «Svobodny Sokol" is not (with regard to production scope of Novolipetsk steel mill located in the same region) a strategic enterprise or manufacturer of innovative products (according to quarterly reporting, its intangible assets are assessed at Rb 45,000). Moreover, the key shareholders of the company are legal entities registered outside the Russian Federation.

Despite the significant growth of budget expenditures by 1.4 p.p. of GDP in 2012 against the preceding year and the slowdown of the federal budget revenue growth, the budget deficit in 2012 increased only by 0.8 p.p. of GDP as compared with 2011 and amounted to Rb 17.2bn, or by 0.02% of GDP. Non-oil deficit in 2012 increased by 1.2 p.p. of GDP, while oil and gas budget revenue increased by 0.4 p.p. of GDP and accounted for 50.1% of the total federal budget revenue in 2012 against 49.7% of revenues in 2011.

As of 01.01.2013, the Reserve Fund amounted to Rb 1,885.7bn, and the National Welfare Fund – Rb 2,6906bn.

## Key indicators of the RF Subjects consolidated budget in January-November 2012

Consolidated budget of the RF Subjects was executed with a surplus of Rb 236.4bn (0.4% of GDP), with the execution of budget expenditures in cash terms at the level of 76.2% (see *Table 3*). Consolidated budget revenues for January-November 2012 amounted to Rb 7,150.7bn (12.9% of GDP), expenditures – Rb 6,914.3bn (12.5% of GDP). Compared with the relevant period of the last year, there was a reduction of the budget revenue by 1.4 p.p. of GDP, expenditures decreased by 0.2 p.p. of GDP. Nevertheless, even with this reduction in expenditures, within 11 months of 2012 against the previous year, according to tentative data of the Russian Ministry of Finance, revenues of RF the Subjects in 2012 have exceeded by Rb 250bn the initial forecast<sup>1</sup> of Rb 7,900bn.

A comparison of taxes and levies revenue of the consolidated budget of the RF Subjects over 11 months of 2012 against the preceding year demonstrates:

- ☒ reduction of corporate income tax revenue in terms of GDP share by 0.4 p.p.; in absolute terms revenue from this tax in 2012 made Rb 1,844.2bn against Rb 1,806.5bn in 2011;
- ☒ there were no changes in estimated in GDP share revenues from personal income tax (3.5% of GDP), excise tax on the goods produced in the RF territory (0.7% of GDP), property tax (1.4% of GDP), aggregate income tax - (0, 4% of GDP).

Table 3

### Key indicators of the RF Subjects consolidated budget in January-November 2011-2012

	January-November 2012		January-November 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Revenues, including:	7150.7	12.9	6928.4	14.3	-1.4
Corporate profit tax	1844.2	3.3	1806.5	3.7	-0.4
Individual income tax	1940.3	3.5	1699.2	3.5	0.0
Excise duties in the RF territory	403.4	0.7	339.7	0.7	0.0
Property tax	759.2	1.4	660.0	1.4	0.0
Aggregate income tax	264.2	0.4	208.3	0.4	0.0
Expenditures, including:	6914.3	12.5	6156.7	12.7	-0.2
Surplus/Deficit of the RF Subjects consolidated budget	236.4	0.4	771.7	1.6	-1.2
GDP estimates		55460		48541	

Source: Federal Treasury, Gaidar Institute assessments.

Within the first 11 months of 2012 the surplus was preserved in most regions and only in seven Subjects of the RF consolidated budget was executed with a deficit, while the situation with the performance of the consolidated budgets, as compared with January-November 2011 has changed for the worse: then the budget surplus was observed only in seven RF Subjects.

Expenditures of the RF Subjects consolidated budget in the first 11 months of 2012 have decreased by 0.2 p.p. of GDP against the same period of 2011 (see *Table 4*) with cash execution at 76.2% (73.5% in January-November 2011) due to expenses for items "National Security and

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

Law Enforcement" by 0.4 p.p. of GDP, «Housing and public utilities" by 0.3 p.p. of GDP, «Federal Issues" and "Social Policy" by 0.1 p.p. of GDP each. Growth of consolidated RF Subjects regional budget expenditures over January-November 2012 as compared with the same period of the last year was noted only under the line "Education" by 0.3 p.p. of GDP.

Table 4

### Dynamics of the RF Subjects consolidated budget expenditures in January-November 2011–2012

	January-November 2012		January-November 2011		Change, p.p. of GDP
	Rb bn	GDP%	Rb bn	GDP%	
Expenditures, total:	6914.3	12.5	6156.7	12.7	-0.2
including					
Federal issues	423.5	0.7	390.8	0.8	-0.1
National defense	3.2	0.0	2.8	0.0	0.0
National defense and law enforcement	73.9	0.1	221.8	0.5	-0.4
National Economy	1233.3	2.2	1004.5	2.1	0.1
Housing and public utilities	691.9	1.2	731.7	1.5	-0.3
Environmental protection	16.7	0.03	13.5	0.03	0.0
Education	1767.2	3.2	1425.9	2.9	0.3
Culture and cinematography	219.7	0.4	188.6	0.4	0.0
Healthcare	1142.5	2.0	958.1	2.0	0.0
Social policy	1107.3	2.0	1010.9	2.1	-0.1
Physical training and sports	124.8	0.2	108.6	0.2	0.0
Mass media	32.2	0.05	27.9	0.05	0.0
Intergovernmental transfers	18.1	0.0	14.1	0.0	0.0
Public and municipal debt servicing	59.7	0.1	56.9	0.1	0.0

Source: Federal Treasury, Gaidar Institute assessments

Debt of the RF Subjects consolidated budgets on 01.12.2012 amounted to Rb 1,164.8bn, or 16.8% of revenues for eleven months of 2012. In 2013, due to financing of social liabilities for performance of the President's Decree dated May 7, 2012 from the RF Subjects consolidated budgets, and public debt, according to tentative estimates of the Ministry of Finance of Russia may be increased by 11%.

Therefore, if the trends of reduction the growth rate of the regional budgets revenues are sustained in 2013, a number of Russian regions might need more subsidies from the federal budget. Thus, the state of regional budgets can become one of the negative internal factors, which affect the stability of the national financial system throughout this year.