

REGIONS – FOCUS ON REDUCTION OF EXPENSES¹

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Reduction of the deficit of the consolidated budgets of subjects of the Russian Federation in 2015 was due not to the improvement of the financial state of the regions but a decrease of borrowing possibilities and contraction of financial assistance from the federal budget. That is why ensuring non-deficit budget at the expense of cutting budget expenditure will be de-facto main priority for the fiscal policy of many regions during the current year and many years to come.¹

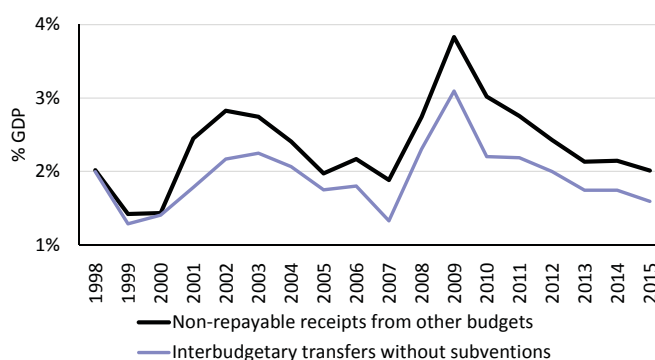
Reduction of the total budget deficit of the consolidated budgets of the Russian Federation in 2015 to 0.2% of GDP from 0.9% and 0.6% of GDP in 2013 and 2014, respectively, has given grounds to say that the most difficult from the financial point of view period for the regions was left behind and presently they find themselves in a better shape. Is that true?

One should not forget that the region can not indefinitely maintain a high level of the budget deficit because their national debt grows. This will lead to an increase in interest costs that will require even more budget funds, to the problems of debt refinancing and to breaking of restrictions set by the RF Budget Code in relation to national debt. Thus, if prior to crisis of 2008, the ration of national debt of the regions to their tax and non-tax budget revenues constituted 15.2%, then by 2015 year-end, it already reached 36.5%.

In compliance with the Budget Code, such ration should not exceed 100% and for highly subsidized regions, there is a corresponding benchmark of 50%. There is an exception for public budget loans which volume can be subtracted from mentioned restrictions but solely up to 1 January 2018.

In the wake of a prolonged absence of any signs regarding stable improvement of terms of trade as well as short-term prospects for lifting economic sanctions from Russia, the regions come to terms with a prolonged character of financial problems. They also figure that the current state of the Russian economy is not a provisional malfunction as it was in 1998 and 2009, but a new normal of its functioning. Moreover, while experiencing problems with their budgets, the Federation has been cutting since 2010 the real volume of financial assistance to regions (Fig. 1).

In this context, the regions had no other way but cut spending. For example, in 2015, expenses of the consolidated budgets of the sub-



Source: calculated on the data released by the Federal Treasury.
Fig. 1. Dynamics of interbudgetary transfers to regions from budgets of two levels, % of GDP

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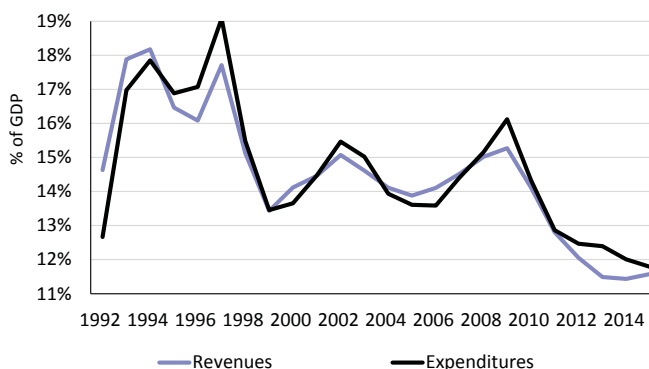
jects of the Russian Federation for the first time since 1992 were below 12% of GDP (11.8% of GDP) (Fig. 2).

Thus, relatively good parameters of the balanced regional 2015 budgets were the result not of the improvement but of deterioration of the financial state of the regions and inability to borrow in required volume.

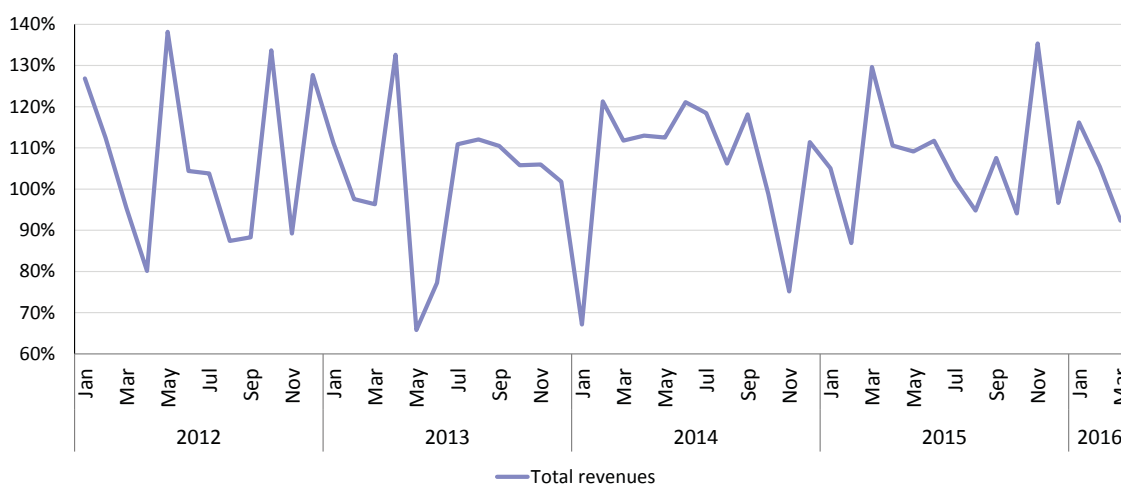
Consolidated budgets of RF subjects

According to preliminary data for Q1 2016, revenues of the consolidated budgets of the subjects of the Russian Federation contracted by 0.8% against the same period last year. At the same time, main reduction was posted in March: -7.7% against March last year (Fig. 3). Such reduction was not owing to any negative trends observed in March. It is explained by a sharp growth of corporate tax receipts in March 2015 that was due, first of all, to *переносом налоговых платежей* from the previous month. Regarding general decrease of regional budgets' revenues posted in Q1 2016, and then a reduction of non-tax revenues and interbudgetary transfers from the budget of other levels exerted the main influence on it (98.3% and 95% against Q1 2015, respectively).

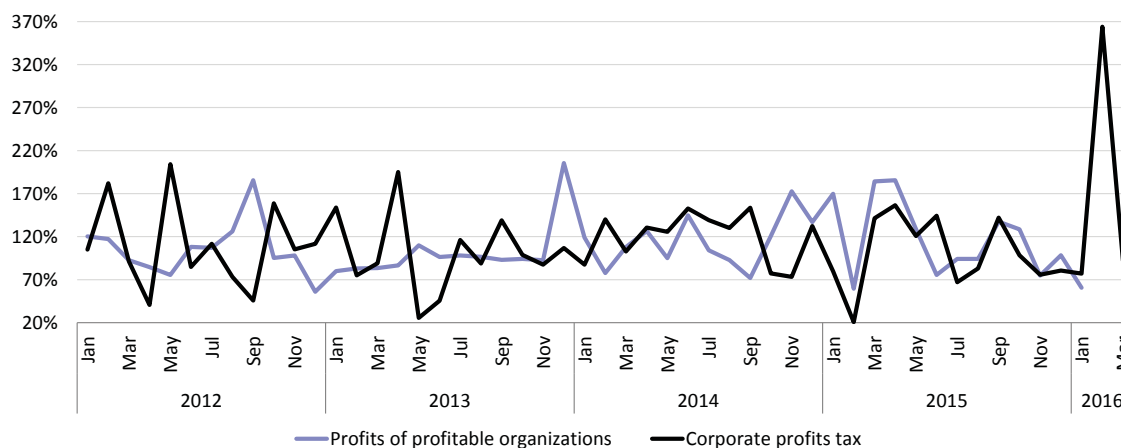
The corporate profits tax whose growth rates in 2015 somewhat exceeded the growth rates of tax and non-tax revenues (107.4% against 106.2%) on the contrary for Q1 2016, so far demonstrates lower rates (99.7% and 104.2%, respectively) and high volatility (its growth rates across the subjects of the Russian Federation vary from 5.4% in the Republic of Khakasia to 318.6% in the Magadan oblast). Volatility of the monthly dynamics of the corporate profits tax as was mentioned above was due to *переносом платежей* этого на in February 2015 (Fig. 4).



Source: calculation on the data released by the Federal Treasury
Fig. 2. Dynamics of revenues and expenditures of the consolidated budgets of the Russian Federation, % of GDP

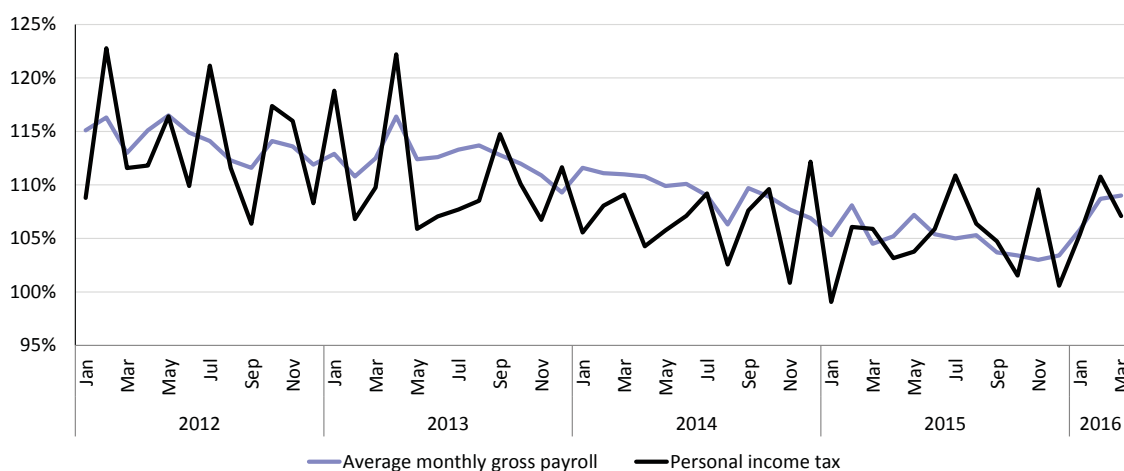


Source: calculated on data released by the Federal Treasury.
Fig. 3. Growth rates of the revenues of the consolidated budgets of the RF subjects, %



Sources calculated on data released by the Federal Treasury and Rosstat.

Fig. 4. Growth rates of profits of the profitable organizations and the profits tax receipts, %



Sources: calculated on data released by the Federal Treasury and Rosstat.

Fig. 5. Growth rates of the personal income tax and average monthly gross payroll, %

Dynamics of the personal income tax receipts, which is the main source of revenues for regions (27.3% of the overall revenue volume of their budgets in 2015), posted positive shifts following a prolonged downward trend. For the first time since November 2014, growth rates of this tax receipts as well as growth rates of the average monthly nominal wages exceeded 7% for two months in a row surpassing the inflation rate (Fig. 5). At end of 2016 Q1, the personal income tax receipts moved up by 8.1% compared to the corresponding period of the previous year. This brings some hope for the increase in the growth rates of the regional budgets in the months to come.

Growth rates of the personal income tax were affected by both three largest regional regarding collection of this tax (Moscow, St. Petersburg and the Moscow oblast) – they demonstrated growth rates that exceed the average Russian ones and the regions of the Crimean Federal District where corresponding growth rates constituted 155.4%. The picture regarding other regions is not so optimistic overall.

Excises and the corporate property tax in Q1 2016 also demonstrated positive dynamics – they have moved up by 6.2% and 10.2%, respectively.

Geographically, the situation is rather different. Growth of revenues of the consolidated budget in nominal terms proved to be positive solely in 34 subjects; only in 16 subjects it exceeded the current level of the annual inflation rate. In Q1 2016, Southern and Siberian Federal Districts registered the worst situation with revenues, and the Far Eastern District posted the best situation.

The prospects of the regional budgets' revenues face the following:

- amid reduction of the inflation rate as well as absence of the devaluation effect in 2016 one can expect overall reduction of profitability of organizations which will negatively affect on the profits tax receipts which growth rates as a whole can prove to be below the 2015 rates;
- growth of the personal income tax receipts and its tax base to a considerable extent has a targeted character. That is why, one should not expect growth of receipts from this tax in excess of the inflation rate in the majority of regions;
- growth rates of transfers from the budgets of other levels will be somewhat over the level posted in Q1 (-5%). However, during the year as a whole they will remain negative as it comes from the parameters of the Law on The Federal Budget for 2016 according to which there is their reduction by around 2%.

Thus, at the year-end one can expect further reduction of real revenues and expenditures of the subjects of the Russian Federation. ●