

REGIONAL BUDGETS: DEBT REDUCTIONS AMID AUSTERITY¹

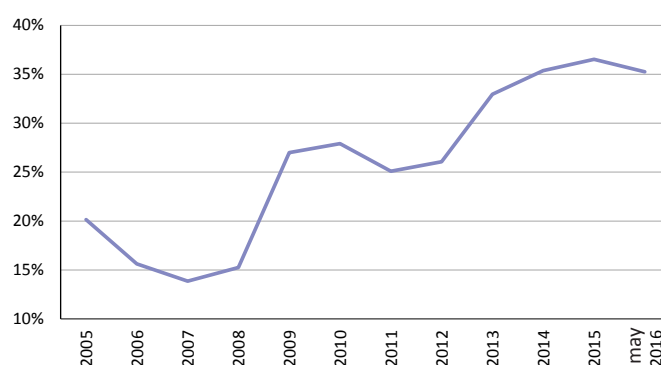
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In May–June 2016, there was an insignificant growth of regional revenues together with restraint of spending growth, which resulted in contraction of regions' public debt. Moreover, tight commercial loans were partially replaced by the budget loans. In the meantime, overall low income growth rates commenced since the turn of the year and restrictions on borrowings will not allow regions to achieve positive growth rates of budget spending in real terms and, thus, depart from the austerity policy.

Public debt

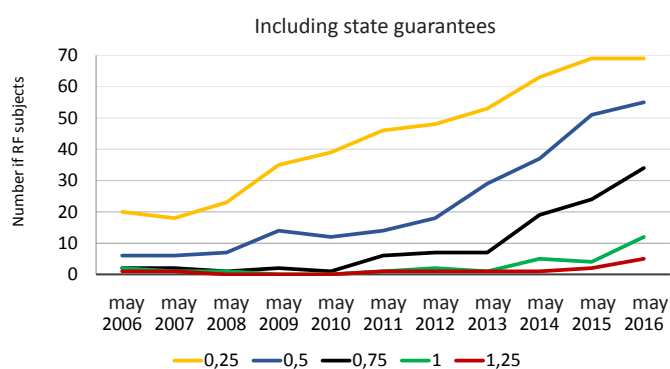
By the end of 2016, the regional debt totaled 35.3% of the overall tax and non-tax revenues of the RF subjects. They somewhat decreased in comparison with the values reached by early 2016 (*Fig. 1*). This level still allows to increase borrowings but many regions have already reached the benchmark target set by the Budget Code according to which the volume of the public debt of RF subject should not exceed 100% (for highly subsidized ones – 50%) of the approved total annual volume of revenues of RF subject (excluding approved volume of non-repayable receipts)².

Throughout last ten years, the number of RF subjects whose public debt exceeds the target in relation to regional budgets revenues has sharply gone up (*Fig. 2* and 3³). For instance, the ratio of debt to the tax and non-tax revenue of the budgets exceeding 75% has gone up since 2006 from 6 to 55 regions. In May 2016, public debt of twelve regions exceeded 100% meanwhile in 2006 there were barely 2 such regions.



Source: calculated on data released by the Finance Ministry of Russia and by Federal Treasury.

Fig. 1. Dynamics of the volume of public debt accumulated by the RF subjects, in % to the volume of tax and non-tax revenues



Source: calculated on data released by the Finance Ministry of Russia and by Federal Treasury.

Fig. 2. Dynamics of the number of RF subjects where the ratio of public debt to tax and non-tax revenue exceeds the target

1 This paper was originally published in *Online Monitoring of Russia's Economic Outlook* No.13(31).

2 Prior to 1 January 2018, this restriction does not apply to public budget loans.

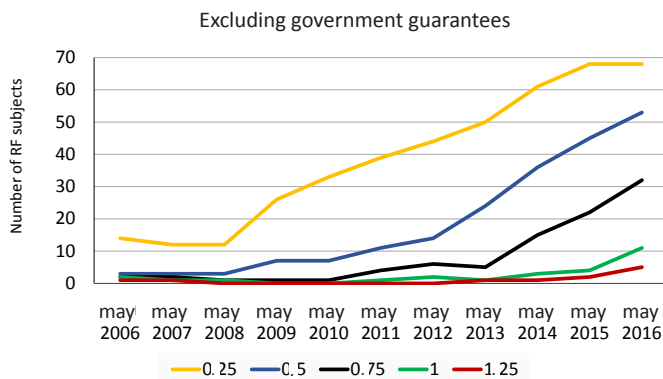
3 State guarantees, which are not definitely liabilities and consequently to a considerable degree formally increase the level of debt burden, now are small (4% of the overall volume of public debt as of May 2016). That is why their exclusion from the analysis does not significantly affect the overall conclusion regarding aggravation of the debt problems of the regions.

Five subjects of the Russian Federation (Kostroma region, Republics of North Osetia-Alania, Karelia, Mordovia and Khakasia) register the volume of the public debt excluding government guarantees in excess of 125% of the total volume of revenue.

Thus, many RF subjects have already approached or are approaching legal restrictions regarding the accumulated public debt, which represent a factor of mandatory contraction of the total regions' budget deficit. On retention of legal norms regarding budget deficit and public debt in coming years one can suppose that the level of budget deficit of the regional will be relatively low.

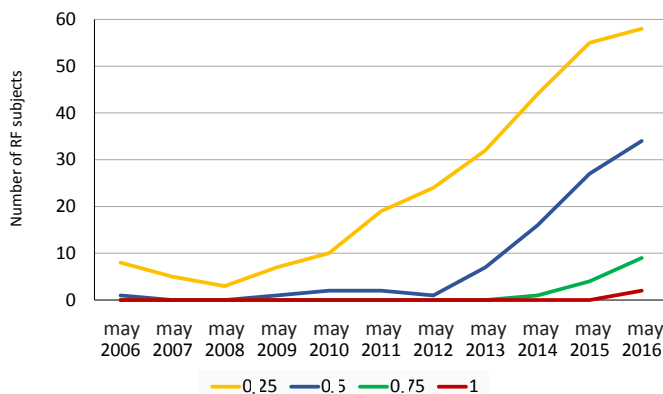
If we analyze regions' debt problem outside the context of legal restrictions linked to account for only tax and non-tax revenue but to take into account all receipts exclusive subventions (in other words, revenue for the implementation of their powers), then this will not significantly change the situation: the number of regions with high level of debt burden during 10 year have grown significantly (Fig. 4).

The pattern of the regions' public debt features an upward trend in the share of federal budget credits, which commenced in 2014, and which as of May 2016 hit 45.2% in



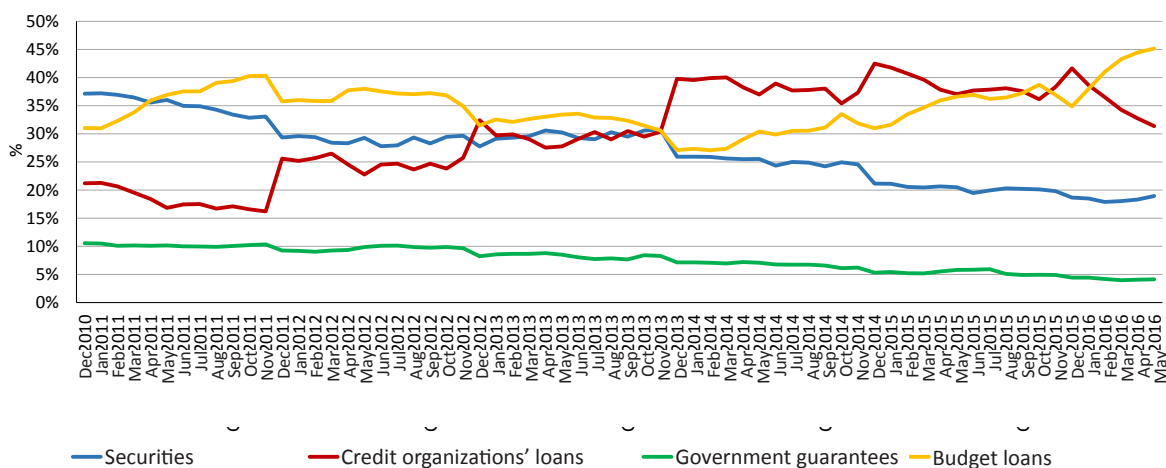
Source: calculated on data released by the Finance Ministry of Russia and by Federal Treasury.

Fig. 3. Dynamics of the number of RF subjects whose ratio of public debt to tax and non-tax revenues exceeds the target



Source: calculated on data released by the Finance Ministry of Russia and by Federal Treasury.

Fig. 4. Dynamics of the number of RF subjects whose ratio of public debt (excluding government guarantees) to their budget revenue (excluding subventions) exceeds the target



Source: calculated on data released by the Finance Ministry of Russia.

Fig. 5. Pattern of public debt of RF subjects

response to tight commercial loans (*Fig. 5*). In 2014–2015, an increase of budget loans rather led to the contraction of borrowings in the form of government securities, but in 2016, commercial loans were replaced and their share by the end of Mas shrank to 31.4%, which is the lowest level since December 2013.

On retention of high volumes of budget loans origination and low budget deficit of RF subjects, one can project further contraction of the volume and share of tight commercial loans in the pattern of regions' public debt in years to come. This can result in a slowdown of growth rates and, possible, somewhat decrease of budget expenditure on regions' public debt servicing.

Revenues and expenditures

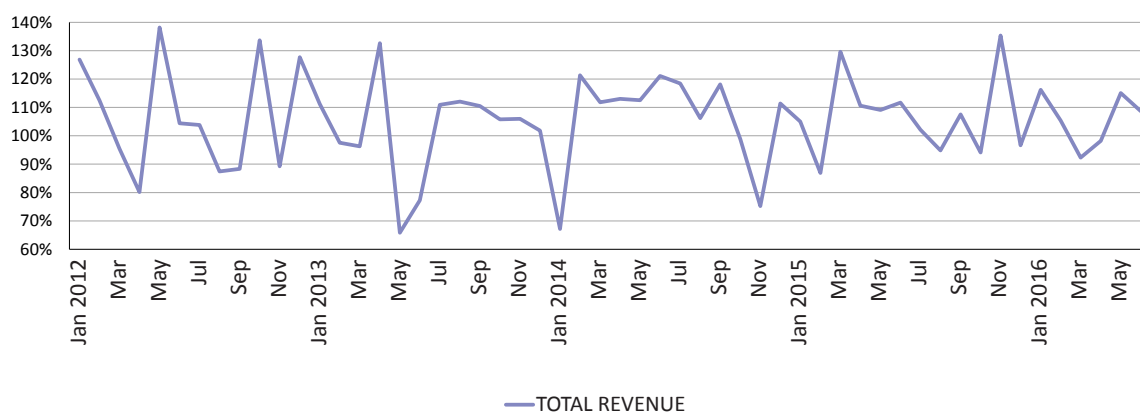
According to preliminary data, as of H1 2016, the revenues of the consolidated budgets of RF subjects moved up by 2.7% in comparison with the same period of last year. This was achieved thanks to high growth rates posted in May–June when the revenues went up by 15.1% and 8.7%, respectively against the corresponding period of the previous year (*Fig. 6*).

At H1 2016 as a whole, growth rates of the revenues remained low taking into account the inflation level (107.5% in June 2016 against June 2015). In real terms, these rates are negative.

At the same time, for May and June 2016, dynamics of tax and non-tax revenue of the consolidated budgets of RF subjects (117.6% and 114.9%) hold out some hope for higher growth rates of revenues in H2. For example, grow of receipts generated by profits tax following low values in March and April, in May and June remained at the level of 120% (to the corresponding period of 2015), which allowed to achieve the revenue schedule of the last year (100.7% at H1-end).

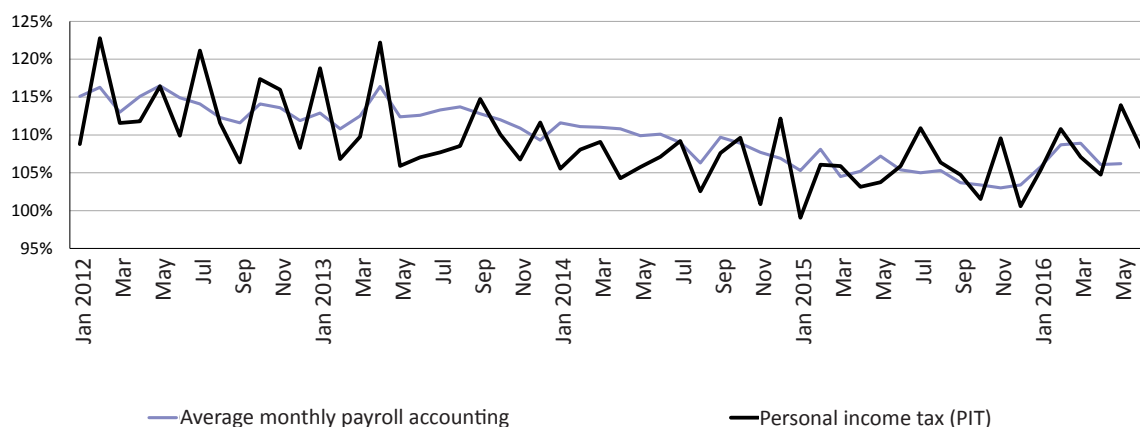
Growth rates of PIT posted in May–June although were not so impressive (113.9% and 108.4% against May and June of last year), nevertheless are also above the inflation level, and at H1-end amount to 108.5%. At the same time, it is worth noting positive dynamics of the PIT tax base, which since the turn of this year has moved out of the prolonged downward trend (*Fig. 7*).

These two taxes, profits tax and PIT, constituting over half of the total volume of receipts of the consolidated budgets of RF subjects, in May–June 2016, had a significant positive impact on the general growth trends of



Source: calculated on data released by the Finance Ministry of Russia.

Fig. 6. Growth rates of the total volume of revenue of consolidated budgets of RF subjects, %



Source: calculated on data released by the Finance Ministry of Russia and by Rosstat.

Fig. 7. Growth rates of the total receipts generated by PIT to the consolidated budgets of RF subjects and average monthly nominal payroll accounting, in % to the corresponding period of the previous year

regional revenue. Excises, corporate property tax, as well as non-tax receipts of the regions grew at the rates, which exceeded inflation during that period.

Interbudgetary transfers, which grew at the rate of 89.6% at H1-end was a factor, which significantly curbed the regional revenues growth. In compliance with parameters of the 2016 Federal Budget Law, by the year-end growth rates of transfers from budgets of other levels are projected at a higher level than at H1-end, although they will remain in the negative zone (-2.0%).

Geographically, the situation is rather manifold: each federal district has regions with relatively high and relatively low growth rates of budget revenues. At H1-end 2016, the situation with revenues of the consolidated budgets of RF subjects is relatively not very good in the Central, Southern, Urals, and Siberian federal districts and is relatively better in the North-Western, and Far-Eastern federal districts. Twenty-four RF subjects register revenues of the consolidated budget, which exceed the current level of annual inflation.

At the end of six months of 2016, total expenditure growth of the consolidated budgets of RF subjects came to 105.3%, which is below the inflation level. Main containment of spending was due to remuneration of labor and granting of subsidies to federal and autonomous organizations, which in nominal terms have remained at the last year level. At the same time, one can note rather significant growth of welfare payments (116.6% as of H1 2016) and capital investment (149.7%). Growth of welfare payments is due to their significant indexation and at year-end these expenses should grow by around 18.0%. Capital investment growth, in contrast to welfare payments, is due not to growth of planned allocations (at year-end they, on the contrary, should shrink by around 1.0%), but by a more effective disbursement: during H1 2016, nearly 30% of the annual allocations have been disbursed, meanwhile during the same period of the previous year – barely 20.0%. Both significant level of indexation of welfare payments, and higher rates of disbursement of budget funds allocated on capital investment can be explained by current phases of electoral cycle in the Russian Federation. ●