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FEDERAL BUDGET EXECUTION IN 2025: ARE THERE RISKS TO FISCAL SUSTAINABILITY?

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The slowdown of the Russian economy, deteriorating foreign trade environment, the key rate kept at a relatively high level, geopolitical challenges – all these factors put pressure on the federal budget, intensifying the existing imbalances. The peak of the federal budget deficit can be expected in May–June of the current year with subsequent improvement of the situation with the budget balance. Government borrowings together with the liquid assets of the National Wealth Fund are quite sufficient to make up for the shortfall in federal budget revenues.

Analysis of the parameters of the federal budget execution for the first quarter of 2025 (*Table 1*) allows us to note several points.

Table 1

Volume and structure of the federal budget in Q1 2023–2025

	2023		2024		2025	
	Rb bn	% GDP	Rb bn	% GDP	Rb bn*	% GDP**
Revenues, total	5 678.9	15.7	8 721.6	20.2	9 050.0	18.5
Oil and gas	1 634.9	4.5	2 928.4	6.8	2 642.0	5.4
Non-oil and gas	4 044.1	11.2	5 793.3	13.4	6 408.0	13.1
Expenditures, total	7 764.7	21.5	9 017.0	20.9	11 224.0	22.9
Deficit (-)/Surplus (+)	-2 085.8	-5.8	-295.3	-0.7	-2 174.0	-4.4

* Finance Ministry of Russia preliminary estimate.
** own estimate.
Sources: Finance Ministry of Russia, Rosstat, own calculations.

Firstly, the rhythm of budget execution is not in favor of revenues, which noticeably lag behind the dynamics of expenditures. However, it should be said that in Q1 of the current year revenues were executed in the volume corresponding to the average statistical benchmarks of the last 15 years (23% of the annual volume). The case with expenditures is different: 27% of all allocations planned for the year were funded in Q1, which is noticeably higher than the average level of the last decade and a half (22%). And although the active use of advance delivery of budget funds to recipients can strengthen the budgetary impetus for a short period of time, according to our calculations,

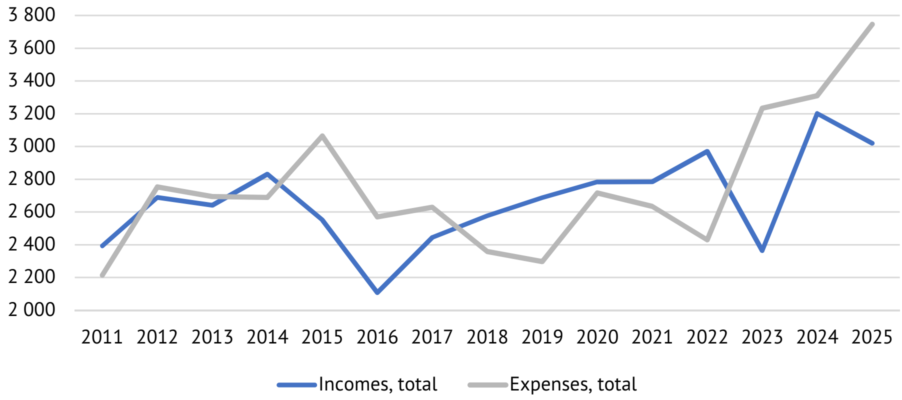

Fig. 1. Revenues and expenditures dynamic of the federal budget in Q1 2025 in 2011 prices (based on the GDP deflator)

Sources: Finance Ministry of Russia, own calculations.

the structure of federal budget expenditures has long been shifted towards the predominance of conditionally unproductive spending,[1] which, in turn, does not allow us to count on the preservation of the role of the budget as a driver of the Russian economy in the medium term perspective. In constant prices, this "gap" between expenditures and revenue dynamics (which tends to grow slightly due to a systematic increase in the tax burden over recent years) is clearly visible in *Fig. 1* (in GDP shares the situation is similar). Starting from 2023, the volume of budget expenditures financing in Q1 has left the previously established "spending range" (Rb2.2–3.1 trillion in 2011 prices), and in 2025 it has shifted to a new, even higher level (almost Rb3.8 trillion).

Secondly, federal budget revenues in Q1 2025 are still influenced by the previous year, which for Russia was completed on an optimistic note (4.1% GDP growth rate, low unemployment rate, stabilization of inflation and key rate). The fact is that VAT and profit tax were paid to the budget during Q1, calculated on the basis of the tax bases of the previous quarter/year, respectively. Receipts from mineral extraction tax have a one-month lag on budget revenues, which means that the sharp decline in oil prices, which started in April, will be fully reflected in the budget statistics only in May. Consequently, it can be assumed that the accelerating slowdown of the Russian economy, as well as the slowdown in global GDP growth primarily due to deteriorating conditions of foreign trade will increase the pressure on federal budget revenues starting from the second quarter of 2025.

The ruble devaluation at least to the levels of the budget projections (96.5 rubles/dollar) can partially compensate for the federal budget losses from the decline in the export price of Russian oil (recall that the budget envisages an average annual price of $69.7/bbl). In other words, in this context the price of a barrel of oil exported by Russia does not exceed Rb5,000, while the budget provides for an average annual level of this price of Rb6700, which means that the country's financial authorities have a certain potential for using the devaluation of the ruble for fiscal purposes. At the same time, it remains unclear how justified it is to resort to this tactic in conditions of increased inflation, since

1 For more detail see *E.O. Matveev, Il.A. Sokolov.* Application of VAR-models to assess the impact of budget expenditures on GDP dynamics // Problems of Forecasting. 2024. No. 5 (206). P. 72–85. DOI: 10.47711/0868-6351-206-72-85.

the decrease in the purchasing power of the ruble against other currencies, as the previous Russian experience shows, can spur inflation.

In our opinion, given the current structure of the Russian economy and the current "settings" of the financial system, the return of oil prices to levels acceptable for the budget (over $70/bbl) is a prerequisite for the fulfillment of the budgeted forecast for oil and gas revenues. However, high uncertainty in the oil market, primarily due to the OPEC+ decision to raise production (in May, the market will see an additional 411000 barrels per day), is accompanied by the risks of further decline in demand due to the trade wars launched by the US and the geopolitical situation around Russia and Iran. It is likely that all these factors will retain their influence until the end of spring, which means that the price rebound in the oil market may start only after clarification of the situation in these issues.

It is also important to emphasize that it is hardly possible to compensate for the drop in raw material revenues of the budget due to "super-expected" (more than planned in the budget) growth of non-oil and gas revenues, as it was, for example, in 2023, is unlikely to happen, since expectations for these categories of revenues were initially high (according to the Federal Budget Law No. 419-FZ of 30.11.2024, non-oil and gas revenues in 2025 should grow to 13.7% of GDP against 12.8% of GDP at the end of 2024), and foreign trade conditions are much worse than the parameters set out in the medium-term socio-economic forecast, on which the Russian budget was made. Moreover, if VAT is traditionally a tax strongly correlated with GDP, and, therefore, we can count on its non-zero growth in real terms at the end of the current year, which, in turn, means only a slight "lag" from the planned levels (Rb15.5 trillion), then the rather optimistic budgetary forecasts of the Russian budget (Rb15.5 trillion) are quite optimistic, then rather optimistic budget expectations of almost doubling of profit tax revenues to the federal budget due to the increase in the rate from 20% to 25% (which in nominal terms is equivalent to profit tax revenues in 2025 in the amount of Rb4.0 trillion), the increase relative to 2024 will amount to Rb1.8 trillion) may not be justified.

The fact is that the trend towards a reduction in the number of profitable organizations has already begun to show itself last year: the share of loss-making companies at the end of 2024, according to Rosstat, rose to 25.5% against 24.7% a year earlier. Moreover, the balanced financial result (profit minus loss) of organizations (without SMEs, credit and non-credit financial organizations, state (municipal) institutions) in current prices decreased by almost 7% against the level of 2023. Given the processes observed in the Russian economy, this trend will not only persist but will accelerate this year. Therefore, in our opinion, under-receipt of the planned volumes of income tax revenues in 2025 is no less important and more realistic risk for the Russian budget than the increased probability of falling oil and gas revenues.

In addition, as noted in the research literature, the profit tax plays a "distorting" role, its increase has a negative impact on the level of investment of companies, on the decision to choose a source of funding, on the dividend policy, on the decision to choose a legal form of organization, etc.[1] In other words, an increase in the profit tax rate worsens the estimates of long-term profitability of Russian companies under the general taxation regime, which in conditions of recession

1 For more details see: *Sokolov Il.A., Kazakova Yu.E.* Specifics and risks of the federal budget for the next three years // Russia's Economic Development. No. 10, 2024. P.93–98.

or near-zero dynamics of economic growth may lead to a gradual reduction in the level of investment of companies, on the decision to choose a legal form, etc. In other words, the growth of the profit tax rate worsens the estimates of long-term profitability of Russian companies under the general taxation regime, which in conditions of recession or near-zero dynamics of economic growth may lead to a gradual reduction of the tax base in real terms at a rate higher than the increase in the tax rate can compensate.

Growing revenues from the scrappage fee (which exceeded Rb1.1 trillion at the end of last year), as well as dividends from state-owned companies and one-time revenues from foreign businesses for leaving the Russian jurisdiction will remain a certain support for the federal budget in 2025. In total, these revenue items can be expected to bring in Rb1.7–2.0 trillion by the end of this year.

If the growth rates of federal budget expenditures gained in Q1 are maintained, we can expect a monthly increase in the size of the deficit by Rb1–1.5 trillion during the entire Q2. However, there is every reason (both from the point of view of macroeconomic conditions, tax payment schedule and geopolitical situation) to believe that in the second half of the year the situation will turn around and the dynamics of revenues will partially "catch up" the formed lag from the rates of cash fulfillment of expenditure obligations.

The federal budget deficit, recorded at the end of Q1 2025 in the amount of Rb2.2 trillion, does not fully reflect all the above-mentioned circumstances (which manifested in late March – early April of this year) and has a clear upward trend. Government borrowings remain the main source of repayment of the budget deficit: in the first quarter the domestic government debt, according to the data of the Ministry of Finance of Russia, grew by Rb1 trillion to Rb24.7 trillion. Under the current market conditions, when the interest in the government debt is fueled by the expectation of the RF Central Bank's decision to reduce the key rate, the RF Ministry of Finance has so far been quite successful in placing federal loan bonds with fixed yields. If the growth rates of federal budget expenditures gained in Q1 continue, we can expect a monthly increase in the size of the deficit by Rb1–1.5 trillion throughout Q2. However, there is every reason (both from the point of view of macroeconomic conditions, tax payment schedule and geopolitical situation) to believe that in the second half of the year the situation will turn around and the dynamics of revenues will partially "catch up" with the lagging behind the rates of cash fulfillment of expenditure obligations.

As of April 1, 2025, the NWF funds have not been expended, which means that after the exchange rate revaluation the balances of sovereign assets amount to about Rb11.8 trillion. At the same time, the liquid part of the NWF currently does not exceed Rb3.3 trillion, which, on the one hand, is quite enough for the Russian Ministry of Finance not to worry about the source of funds to compensate for the falling oil and gas revenues of the budget, and, on the other hand, in case of a prolonged drop in oil prices and a strengthening ruble, may be spent within one year.