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The review provides a detailed analysis of main trends in Russia's economy in 2012. The paper contains **6** big sections that highlight single aspects of Russia's economic development: the socio-political context; the monetary and credit spheres; financial sphere; the real sector; **social sphere**; institutional challenges. The paper employs a huge mass of statistical data that forms the basis of original computation and numerous charts.

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Russia's State Budget in 2012

In 2012 the Russian budget system, despite emergence of some risk factors, remained stable. In H2 of the year there were serious concerns of the second wave of crisis or a long-term recession in the global and domestic economy, as well as potential significant depreciation of the European currency and high volatility of the global oil prices, which required for the purpose of the stability of the Russian budget not only to adjust the macroeconomic parameters forecast, but also to develop new fiscal rules that define the limits of the federal budget and the amount of federal budget and its deficit¹.

In the second half of the year, with some stabilization of the global economy and the rise in oil prices to the level that ensured a balanced budget system, the key internal risk factor, particularly for regional budgets, was a slowed growth rate of the Russian economy. In particular, as of the results of eight months in 2012, the consolidated budget of the Subjects of the Russian Federation has decreased by 0.5 p.p. of GDP against the eight months of 2011

As of the results of 2012, the extended government budget revenues have decreased to 37.7% of GDP, which is by 0.5 p.p. of GDP lower than the revenue of the budget system in 2011. Nevertheless, due to the tightening of control over the growth of expenditures in 2012, the extended government budget was executed with some surplus (0.4% of GDP).

However, defining the prospects of further fiscal policy, one should take into account the following:

- IMF² recommends to cut down expenditures at a moderate pace, and for countries with a balanced budget and enjoying lenders' trust, in the situation of economic growth deceleration, a policy of the budget deficit increasing should be pursued, rather than expenditures reduction;
- on average, budget expenditures expansion approximately by 3-4 p.p. was typical for the OECD countries in 2009-2010. approximately 3-4 p.p. of GDP due to the expansion of government support in the period of crisis, and then, in the framework of the policy of budget deficit and public debt reduction, the reduction and fixation of expenditures at a slightly higher level than before the crisis.

At the beginning of 2012 the position of Russia in comparison with other countries in terms of deficit and public debt indicators was estimated as favorable: budget deficit in Eurozone countries (in general 6.2% of GDP), in the USA (9.6% of GDP) and in Japan (10.3% of GDP) and of a huge public debt (more than 80% of GDP in the Eurozone, 69% of GDP in the USA and 208% of GDP in Japan), but in terms of GDP growth, in regard to the BRIC countries, Russia falls behind other countries as of 2012 results (Brazil - 4.0%, China - 7.5%, India - 4.5%, Russia - 3.4%). Thus, fiscal policy in the medium term should be built on the basis of a compromise between promoting economic growth and providing a framework of financial stability in the country.

¹ See "Prospects of Fiscal Policy" for details.

² www.elibrary.imf.org

General characteristics of the budget system of the Russian Federation

In 2012, the dynamics of revenue and expenditure of the extended government budget has changed against the trends of preceding two years. If in 2010 revenues increased by 0.5 p.p. of GDP and in 2011 a further by 2.7 p.p. of GDP against the previous year, in 2012 they were reduced to 37.7% of GDP, which is by 0.5 p.p. of GDP below the level of 2011 (See *Table 6*). At the same time, the extended government budget expenditures in 2012 have increased versus the preceding year by 0.7 p.p. of GDP after two years of decline.

In the context of the budgetary system revenue and expenditure dynamics is also volatile. If the federal budget revenues in 2012 continued to grow in absolute terms and in GDP percentage, the consolidated budget revenue of the Subjects of the Russian Federation in 2012 once again declined in terms of GDP share, which is a further evidence of the unbalanced distribution of taxes between the different levels of the budgetary system (the major taxes assigned to the federal budget). The centralization of revenues has been intensified by the year-end results: the share of federal budget in the extended government total revenues in 2012 has increased to 55.7%. (against 54.4% in 2011), while the share of intergovernmental transfers in the total income of consolidated regional budgets has declined from 21.4% in 2011 to 19.6% in 2012.

Table 6

Revenue and Expenditures of Budgets in 2008–2012

	2012		2011		2010		2009		2008		Change, p.p. of GDP, 2012 vs. 2011
	Rb bn	GDP, %	Rb bn	GDP, %	Rb bn	GDP, %	Rb bn	GDP, %	Rb bn	GDP, %	
Federal Budget											
Revenue	12 853.7	21.0	11 366.0	20.8	8 305.4	18.4	7 337.7	18.9	9 275.9	22.5	0.2
Expenditures	12 890.7	21.1	10 935.2	20.0	10 117.5	22.4	9 660.9	24.9	7 570.8	18.3	1.1
Deficit (-)/ Surplus (+)	-37.0	-0.06	430.8	0.8	-1 812.1	-4.0	-2 322.3	-6.0	1705.0	+4.1	-0.9
Consolidated Budget of the RF Subjects											
Revenue	8 064.3	13.2	7 643.9	14.0	6 537.3	14.5	5 926.6	15.3	6 253.1	15.1	-0.8
Including intergovern- mental trans- fers	1 623.9	2.6	1 644.0	3.0	1 398.9	3.1	1 487.4	3.8	1 132.6	2.7	-0.4
Expenditures	8 342.7	13.6	7 679.3	14.0	6 636.9	14.7	6 255.7	16.1	6 253.5	15.1	-0.4
Deficit (-)/ Surplus (+)	-278.4	-0.45	-35.4	-0.06	-99.6	-0.2	-329.0	-0.8	-54.4	-0.1	-0.4
Budget of the extended government											
Revenue	23 088.7	37.7	20 853.7	38.2	16 031.9	35.5	13 599.7	35.0	16 169.0	39.2	-0.5
Expenditures	22 825.8	37.3	20 004.8	36.6	17 616.6	39.0	16 048.3	41.3	14 157.0	34.3	0.7
Deficit (-)/ Surplus (+)	262.9	0.4	848.9	1.6	-1 584.7	-3.5	-2 448.6	-6.3	+2 012.0	+4.9	-1.2

Source: Russian Statistical Service, RF Ministry of Finance.

Expenditures of the federal budget in 2012 have increased to 21.1 of % of GDP, which is by 1.1 p.p. of GDP higher than in 2011. At the same time, expenditures of consolidated re-

gional budgets demonstrate a strong tendency to reduction from 14.7% of GDP in 2010 to 13.6% of GDP. In 2012 the share of expenditures of the federal budget in the total expenditures of the extended government has increased to 56.6% (against 54.6% in 2011).

As compared with the previous year, the situation with cash execution of the federal budget in 2012 has improved (See *Table 7*): the budget is executed in terms of expenditures for 98.9% (against 98.3% in 2011). However, the problem of regular budget execution is still remained: in the last months of 2012 there were spent 17.7% (Rb 2,255.9 bn)¹ of the annual budget allocations. The RF Subjects consolidated budget execution in cash terms has decreased from 91.4% in 2011 to 90.4% in 2012. In terms of budget expenditure lines, the most critical situation is with the execution of expenditures in 2012 under the section "Housing and Public Utilities" for 85.0%, "Physical Culture and Sports" for 85.7%, "National Economy" for 86.1%.

Table 7

Cash Execution of the federal budget and the RF Subjects Consolidated Budget in 2011–2012

	Federal Budget				Consolidated Budget of the RF Subjects			
	2012		2011		2012		2011	
	Approved, Rb bn	Cash execution, %	Approved, Rb bn	Cash execution, %	Approved, Rb bn	Cash execution, %	Approved, Rb bn	Cash execution, %
Expenditures, total	13035.3	98.9	11126.0	98.3	9182.9	90.8	8400.7	91.4
<i>including</i>								
Federal issues	816.4	98.6	815.0	96.6	569.8	89.5	510.8	91.70
National defense	1832.2	98.9	1524.4	99.5	4.1	97.6	3.6	94.4
National defense and law enforcement	1820.9	101.2	1258.1	100.0	104.7	90.3	291.3	96.9
National Economy	2051.9	95.9	1861.7	96.2	1864.6	86.1	1485.5	88.6
Housing and public utilities	239.8	95.4	282.9	98.9	1036.8	85.0	1135.8	85.2
Environmental protection	22.8	98.8	17.8	98.9	24.6	88.8	24.0	90.6
Education	608.9	99.2	556.0	99.5	2137.1	95.8	1791.3	96.4
Culture and cinematography	92.8	96.8	86.9	96.3	270.7	94.8	248.0	94.3
Healthcare	626.7	97.8	513.0	97.4	1479.0	91.8	1333.2	89.4
Social policy	3866.8	99.8	3185.9	98.2	1363.0	93.3	1273.8	93.5
Physical training and sports	46.0	99.3	45.0	98.2	182.4	85.7	168.5	85.8
Mass media	77.6	99.9	61.2	99.9	39.0	98.2	35.0	98.0

Source: Ministry of Finance.

As of the end of 2012 extended government budget was executed with a surplus of Rb 262.9bn (0.4% of GDP). Deficit of the federal budget amounted to Rb 37.0 bn, or 0.06 % of GDP. Deficit of the consolidated budget of the RF Subjects increased in 2012 by 0.4 p.p. of GDP from the previous year and amounted to Rb 278.4 bn; herewith, if in 2011 the budget deficit of was noted in 40 regions of the Russian Federation, in 2012 the consolidated budget expenditures have exceeded revenues in 68 regions. The deficit amount is on average 3.4% of revenues from the RF Subjects consolidated budget, but in some regions the level of deficit is greater. For example, in the Chukotka Autonomous Okrug the deficit made 28.7% of reve-

¹ For comparison, in December 2011 there were executed about 20% of the total federal budget expenditures.

nues in 2012, in the Yamal-Nenets Autonomous District – 16.2%, in the Krasnoyarsk Region – 13.0%, in the Republic of Udmurtia -11.3%, in the Amur Region - 11.4%.

According to the Ministry of Finance, the amount of external public debt over 2012 has increased by nearly \$15.0bn and made \$50.8bn, while the basic growth was due to the state guarantees of the Russian Federation denominated in foreign currency from \$1.0bn to \$11.4bn. Herewith, in the initial version of the law on the federal budget for 2012, the upper limit of the external public debt of the Russian Federation was set at \$ 48.4bn. Since the principal objective of providing state guarantees is the external support to the industrial exports of JSC "Roseximbank", involved, among other international financial institutions, in supporting the export of industrial goods (works, services), one can expect that this growth of government guarantees in foreign currency in the long term will lead to the growth of high-tech exports.

According to the Ministry of Finance, the amount of domestic government debt (including guarantees issued by the government) by the end of 2012 amounted to Rb 4,977.9 bn or 8.1% of GDP (in 2011 - Rb 4,003.3 bn or 7.3 % of GDP). in 2012 the share of government guarantees in the total domestic debt has increased: if by the results of 2011 the volume of state guarantees amounted to Rb 459.3 bn or 11.5% in the total domestic debt, in 2012 the volume of government guarantees almost doubled Rb to 906.6 bn and reached 18.2% in the total volume of domestic government debt. Public debt of the RF Subjects in late 2012 has somewhat decreased to Rb 13.6 bn in comparison with the previous year, amounting to Rb 1,137.9 bn.

Despite the decline in the public debt of the Russian Federation Subjects in 2012, disparities in the level of fiscal capacity of regions is likely to be increasing. The Head of the Chamber of Accounts¹ has highlighted the problem of the substantial increase in the consolidated budgets deficit, including the additional liabilities on wages, back in the fall of 2012 and supported the initiative of the Federation Council, disapproved by the Ministry of Finance Russia, the debt write-off regions on budgetary credits provided earlier by the Ministry of Finance of Russia. According to the Ministry of Finance, on August 1, 2012 in the structure of the public debt of the RF Subjects there dominated the debts liabilities under budget loans - 37.1% (or Rb 412.6 bn). Privolzhsk Region is the leader in the debt liabilities under the budget loans (Rb 133 bn), followed by and the Central Federal Regions (Rb 114.1 bn).

Meanwhile, in the position of the Federation Council in reducing the debt burden on regional budgets, there prevailing a populist position, since the debt situation of regional budgets is not so critical. For the most regions the cost of servicing of the public debt makes less than 1% of the revenues of the RF Subjects. In 2012 the revenue of the RF Subjects in the consolidated budget made Rb 40.9bn from the allocated budget funds. In 2013 it is expected to increase the revenue of the RF Subjects consolidated budget in excise taxes in view of changed standard for the distribution of income between the budgets of the Russian budgetary system in the direction of increasing the share of income allocated to the budgets of the Subjects of the Russian Federation². Thus, it is recognized in the document, that the Ministry of Finance had enough valid arguments to reject proposals on writing-off the debts of the regions on budgetary loans.

However, some solutions on reducing deficit of the regional budgets, especially for the RF Subjects, which are incapable to increase their revenue or significantly reduce expenditures,

¹ <http://www.rbc.ru/digest/index.shtml?izvestia/2012>.

² At the ratio of 28% to the federal budget and 72% to the budgets of the RF Subjects.

should be developed at the federal level of the Ministry of Finance of Russia, involving both, the Deputies and the Accounting Chamber as independent experts. The problem of regional development disparities has been reflected in the Report of Fitch¹ rating agency on the development of the institutional framework, presented in April 2012. It was reflected in the Report, that Russia's regional policy provides opportunities for the development only to the capital city and a few regions, selected by the government.

Analysis of the Basic Tax Revenues to the Budget System of the Russian Federation

In 2012, as compared with 2011, the tax burden was reduced by 0.6 p.p. of GDP and has grown by 1.8% in prices of 2012 (See *Table 8*), which is an evidence of the backlog of tax revenue growth from GDP growth.

It is clear from the above data, that there was a decline in the majority of taxes in terms of GDP revenue. Thus, revenues from income tax were lower than in 2011, revenue from the individual income tax remained at the level of the previous year and that from VAT and insurance contributions have reduced by 0.1 p.p. of GDP. The exceptions were revenues from MET (4.0% of GDP in 2012 against 3.7% of GDP in 2011) and excise duties (1.3% of GDP in 2012 against 1.2 % of GDP in 2011).

Table 8

Revenue from the Basic Taxes to the Budget of Extended Government of the Russian Federation in 2007-2012, GDP, %

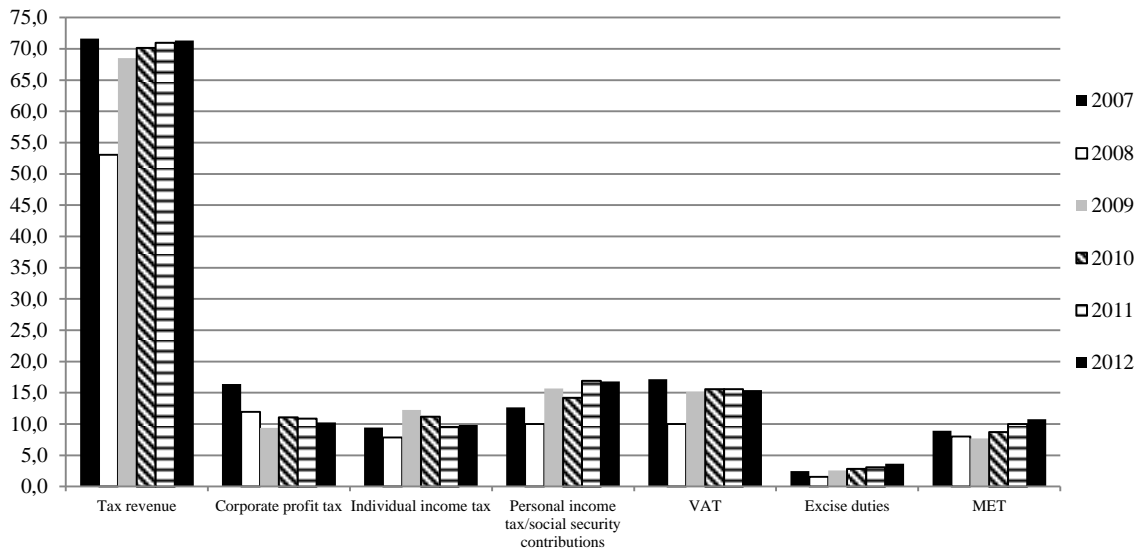
	2007	2008	2009	2010	2011	2012	Change in 2012 against 2011	
							In % of GDP	In prices of 2012, %
Tax burden level	36.1	35.7	30.8	31.9	34.8	34.3	-0.5	1.8
Corporate profit tax	6.6	6.1	3.3	3.8	4.1	3.8	-0.3	-3.9
Individual income tax	3.8	4.0	4.3	4.0	3.6	3.6	0.0	4.9
Unified social tax /social security contributions *	5.1	5.1	5.5	5.0	6.3	6.2	-0.1	1.5
VAT	6.9	5.1	5.3	5.5	5.8	5.7	-0.1	1.0
Excise duties	1	0.8	0.9	1.0	1.2	1.3	+0.1	19.1
MET	3.6	4.1	2.7	3.1	3.7	4.0	+0.3	10.1
Customs duties and levies	7.3	8.6	6.8	7.0	8.3	8.0	-0.3	-0.9

* From 2010, there was a transfer from the unified social tax to the social insurance contributions, credited directly to the extra-budgetary funds.

Source: RF Ministry of Finance, Russian Statistical Service.

The structure of tax revenues of the extended government budget is shown in *Fig. 12*. One can note two trends developed over recent years in the restructuring of tax revenue to the budget of extended government. First, the increased revenues from excise duties, whereas the share of excise duties is relatively low in the structure of budget revenues. Second, the enhanced role of MET in the total tax revenue to the budget of extended government. In 2012, revenue from MET has reached 4% of GDP for the first time since 2008, which unfortunately, confirms the sustained or even somewhat increased significance of sectoral factors in the Russian budget.

¹ www.fitchratings.com.

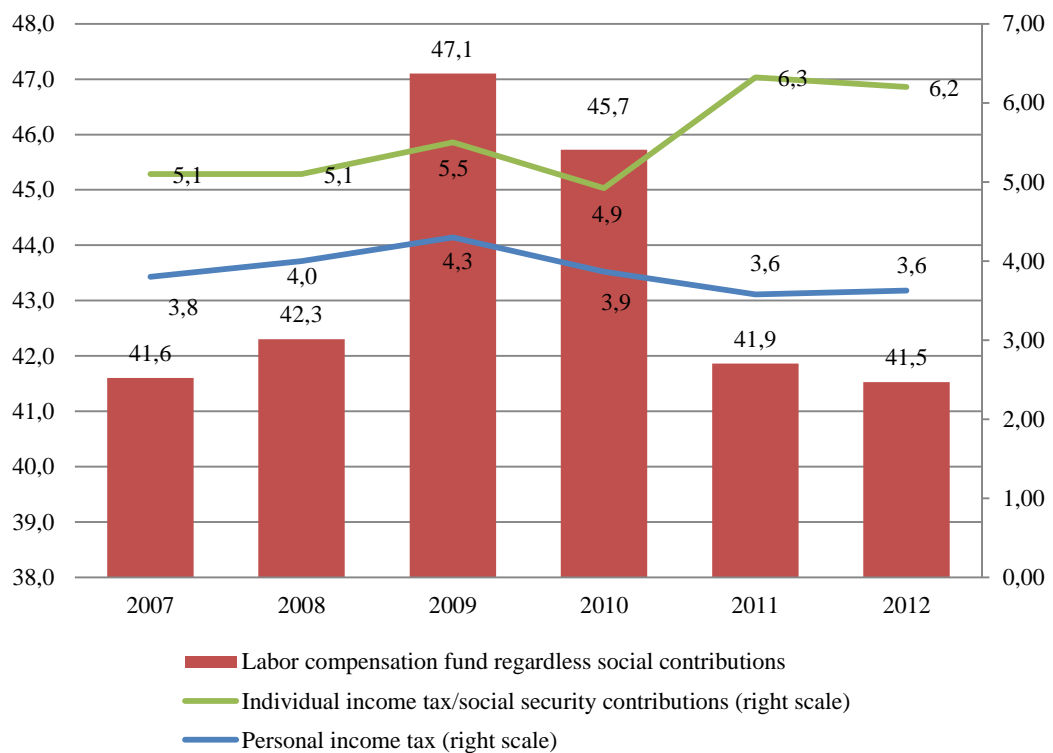


Source: the RF Tax Service.

Fig. 12. The Share of Tax Revenues in the Total Budget Revenues of the Extended Government in 2007-2012, %

The main change in tax legislation of 2012 was the reduction the base rate¹ of insurance contribution from 34% to 30%. This measure was urged by the negative reaction of employers to the increase of the base rate in 2011 from 26% to 34%, which provoked, in particular, the rejection of the previously planned salary raises and the transition to the gray schemes of payment. As shown in *Fig. 13*, as a result, the share of the labor compensation fund regardless social contributions in GDP in 2011 has declined by almost 4 p.p. of GDP. Reduction of the base rate in 2012 was a kind of concession in connection with those negative trends. In the end, the base rate reduction did not lead to a serious reduction of insurance contributions to GDP (only by 0.1 p.p. of GDP), and in terms of 2012 prices, even to a rise by 1.5%. This result can be attributed to the partial rejection of gray schemes in salaries payment.

¹ In 2012, the rate of wages did not exceed Rb 512,000.



Source: RF Tax Service, Russian Statistical Service.

Fig. 13. A comparison of the Individual Income Tax/Social Security Contributions and Personal Income Tax Dynamics with the Dynamics of the Labor Compensation Fund regardless Social Contributions in 2007–2012, GDP, %

As for the oil and gas revenues, as compared to the 2011, the level in revenues has somewhat increased (See *Table 9*). In particular, the increase in tax revenue from MET by 0.3 p.p. of GDP was due in part to the increased production of energy resources (516.8 million tons of oil, including gas condensate in 2012 against 509.4 in 2011). The second factor contributing to the higher revenues from MET was some reduction of ruble rate¹.

Table 9

**Revenues from Gas and MET
in 2008–2012**

	2008	2009	2010	2011	2012
Oil and gas revenue, % in GDP	10.6	7.7	8.3	10.1	10.5
MET, % in GDP	4.1	2.7	3.0	3.7	4.0
Oil production, including gas condensate, m tons	488	494	507.2	509.4	516.8
The annual average price level of Urals, for the year, \$/barrel	94.0	60.7	78.1	109.6	110.7

¹ The tax rate on MET includes a coefficient reflecting the dynamics of global oil prices, tailored to the average dollar exchange rate for the tax period.

Annual average official exchange rate of the Central Bank, RB/\$ ¹ .	24.78	31.90	30.37	29.31	31.05
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Source: Russian Statistical Service; RF Tax Service data; IEP estimates.

The level of proceeds from the second component of oil and gas revenues, i.e., export duties on energy resources, remained unchanged as compared with 2011 (about 6.5% of GD in 2011 and in 2012). The reason is that the natural values of exports of each category of energy resources in 2012 remained at the level of 2011. Thus, according to the Russian Statistical Service, oil exports volume in natural terms made 99.5% as compared with 2011, those of natural gas – 98.2%. Changes in the cost structure of exports of energy resources were also insignificant. A decline in revenues from oil exports duties were leveled by increased fees from exported oil (See *Table 10*). At the same time, the total reduction of import and export volumes in terms of GDP share in 2012 provided a negative impact on the amount of proceeds from customs duties and charges not related to energy resources.

Table 10

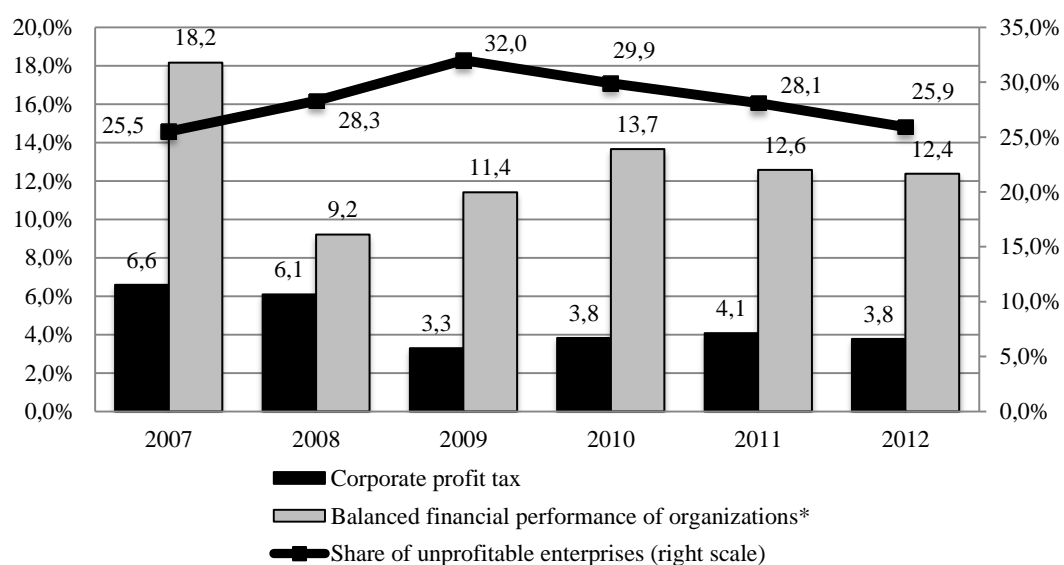
**Proceeds from customs duties
in 2008–2012, GDP, %**

	2008	2009	2010	2011	2012
Export duties for:					
– crude oil	4.3	3.1	3.6	4.2	4.0
– natural gas	1.2	1.1	0.4	0.7	0.7
– oil products	1.3	1.0	1.3	1.7	1.8
Customs duties and charges, total	8.6	6.8	7.0	8.4	8.0

Source: Russian Statistical Service; Russian Federal Treasury data.

Revenues from income tax have returned back to the level of 2010 (See *Fig. 14*). Despite the drop in the share of unprofitable enterprises in the Russian economy, the net balanced financial performance of enterprises and organizations (except for small businesses) in terms of GDP share continued to decline in 2012, having reached 12.4% of GDP, which suggests maintaining the downward trend in business activity.

¹ Estimated as the average chronological indicator of monthly data of the RF Central Bank.



* Tentative estimates of the Russian Statistical Service.

Source: Russian Federal Tax Service, Russian Statistical Service.

Fig. 14. Dynamics of corporate income tax revenue in the budget system of the Russian Federation, net financial performance of the organizations and the share of unprofitable enterprises in 2007–2012, GDP, %

The above-mentioned decline in imports in terms of the GDP share, however, did not affect the level of VAT revenues on imported goods (2.7% of GDP, as in 2011). The drop in revenues from VAT is entirely accounted to the VAT on goods sold in the territory of Russia (See *Table 11*). Such dynamics suggests that the quality of the VAT administration in Russia is higher in regard to the imported goods. In general, the rate of VAT collection¹ in 2012 got deteriorated by 5 p.p. as compared with 2011, which may be partly explained by the increased deductions on investment objects being implemented in Russia.

Table 11

Revenue from VAT to the RF Budget System in 2007–2012, GDP, %

	2007	2008	2009	2010	2011	2012
VAT	6.1	5.2	5.3	5.4	5.8	5.7
VAT on goods sold in the RF territory	3.5	2.4	3.0	2.9	3.1	3.0
VAT on goods imported to the RF territory	2.6	2.8	2.3	2.5	2.7	2.7
Rate of VAT collection, %	56.7	46.6	42.3	45.8	51.6	46.5
Imports*	15.3	16.1	13.7	15.0	16.1	15.6

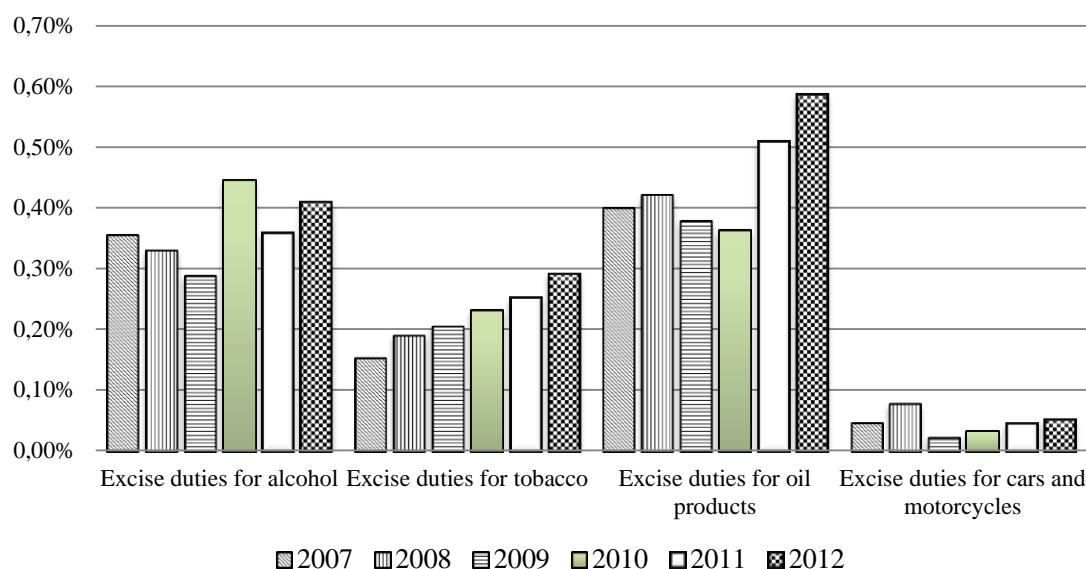
* The share of imports in the GDP share is estimated as the ratio of imports estimated on the Customs Statistics and GDP, denominated in dollars, based on the values of the average nominal exchange rate of the dollar against the ruble for the relevant year.

Source: Russian Statistical Service; Ministry of Finance of Russia.

In 2012 excise duties, along with the MET, have demonstrated an increase in revenue share of GDP. As seen in Fig. 4, the main drivers of growth were the excise duties on petroleum products (from 0.5% in 2011 to 0.6% of GDP in 2012). In 2012 there was a positive dynamics

¹This indicator is estimated by the formula $\frac{\text{Revenue from VAT}}{\text{VAT rate} \times (\text{Final Consumption})}$.

in charges for alcohol in relative terms (from 0.36% in 2011 to 0.4 % of GDP in 2012). Proceeds from taxation of tobacco products have also increased (from 0.25% to 0.29 % of GDP) and from excise revenue from the sale of cars and motorcycles the tax burden has stabilized at 0.05 % of GDP.



Source: Russian Federal Tax Service.

Fig. 15. Excise Revenues over 2007-2012 by Groups of Excisable Goods, GDP, %

Revenue growth from the excise tax is the result of indexation of their rate above inflation rate, while maintaining a relatively low flexibility of demand for excisable goods in terms of the price. Thus, according to the Russian Statistical Service, the sales of gasoline has increased from 36.6 to 36.8 million tons, for diesel fuel it has decreased from 70.2 to 68.3 million tons in 2012, while the excise rates were increased, respectively, from Rb 5,995 to Rb 7,725 per ton of gasoline and from Rb 2,753 to Rb 4,098 per ton for diesel fuel.

The value of indexation of tobacco products rates ranged on average from 20% to 35%; for alcoholic beverages - from 10% to 20%. In 2012 the consumption of all types of alcoholic products changed slightly, while the consumption of tobacco products has decreased (See Table 12). The growth rate of excise duties for these products was compensated by the decline in consumption thereof.

Table 12

Consumption of Alcohol and Tobacco Products in Russia in 2007–2012

Products	2007	2008	2009	2010	2011	2012
Alcoholic products, m decaliters						
vodka and alcoholic beverages	184.6	177.2	166.1	157.8	159.0	159.8
grape and fruit wines	94.9	102.9	102.5	103.4	103.0	95.6
cognac	8.9	10.8	10.6	11.1	12.0	12.5
champagnes and sparkling wines	24.1	26.0	25.5	27.3	29.8	30.1
beer	1155.3	1138.2	1024.7	1004.0	1077.5	1055.7
Cigarettes and whitefish-portraits, billion units	398.2	393.6	394.3	370.6	366.1	361.0*

* Assessment.

Source: Russian Statistical Service.

Expenditures of the Budget System

With the total cost increase of the budget system in 2012 by 0.7 p.p. of GDP as compared with the previous year, the dynamics of expenditures by categories thereof was volatile. The growth of expenditures in 2012 against 2011 was observed in the most budget lines, including the sections "National Security and Law Enforcement" by 0.3 p.p. of GDP, "National Defense", "National Economy" and "Healthcare & Sports" by 0.2 p.p. of GDP each, for "Education" and "Social Policy" by 0,1 p.p. of GDP. At the same time, for two sections of the extended government budget in 2012 expenditures were reduced, namely for "Federal Issues» by 0.2 p.p. of GDP and for "Housing and Public Utilities" by 0.5 p.p. of GDP against the previous year (See *Table 13*).

Table 13

Expenditures of the Extended Government Budget in 2008–2012, GDP, %

	2012	2011	2010	2009	2008	Change in 2012 vs. 2011, p.p. of GDP
EXPENDITURES	37.3	36.6	39.0	41.3	34.3	0.7
Federal issues *	2.3	2.5	2.6	2.8	2.7	-0.2
National defense	3.0	2.8	2.8	3.0	2.5	0.2
National defense and law enforcement	3.1	2.8	3.0	3.2	2.6	0.3
National Economy	5.3	5.1	5.1	7.1	5.5	0.2
Housing and public utilities	1.7	2.2	2.4	2.6	2.8	-0.5
Environmental protection	0.1	0.1	0.1	0.1	0.1	0.0
Education	4.2	4.1	4.2	4.6	4.0	0.1
Culture, cinematography and mass media	0.7	0.7	0.8	0.8	0.7	0.0
Healthcare and sport	4.0	3.8	3.8	4.3	3.7	0.2
Social policy	12.1	12.0	13.7	12.1	9.1	0.1
Public debt servicing	0.6	0.6	0.6	0.6	0.5	0.0

* With the exception of public and municipal debt servicing.

Source: Ministry of Finance of Russia.

Expenditures under the budget lines "Environmental protection", "Culture, Cinematography and Mass Media" and "Public Debt Servicing» in 2012 in terms of GDP shares did not change as compared with 2011.

There were the following changes in the structure of extended government budget in 2009–2012:

- increased share of expenditures for national security and defense in total expenditures from 15.0% in 2009 to 16.3% in 2012;
- decreased share of expenditures for the national economy from 17.2% in 2009 to 13.1% in 2010 and a slight increase in the next 2 years to 14.2% of the total budget expenditures of the extended government in 2012;
- decline in the share of expenditures under the budget line "Housing and Public Utilities" from 6.3% in 2009 to 4.5% in 2012;
- increased share of expenditure under the budget line "Social Policy" from 29.3% in 2009 to 35.1% in 2010 and a decline to 32.4% in 2012.

There were insignificant changes in the other sections of the budget system expenditure structure in 2012 against previous years.

In terms of specific areas of the budget expenditures in 2012 against 2011, there is a trend of significant increase in the absolute value of expenditures under the budget line "National Defense", under "Implementation of International Liabilities in the Sphere of Military-

Technical Cooperation" by 72.8% and "Other Issues in the Field of National Defense" by 31.7%. Expenditures are increased in absolute terms under the budget lines "Law Enforcement Agencies" by 49.4% and "Internal Military Forces" of the section "National Security and Law Enforcement" by 61.7%.

Under the section "National Economy" the largest increase in expenditures in 2012 as compared with the previous year occurred in "Fuel-Energy Complex" by 2.4 times and the section "Exploration and Use of Outer Space" by 44.4% at the expense of the federal budget. Also noticeable growth of expenditures in absolute terms in this section was noted for "Water Systems" and "Road Facilities" by 38.8% and by 38.6%, accordingly.

With the total cost reduction of the extended government in 2012 under the budget line "Housing and Public Utilities" against the previous year by 10.0% in absolute terms, the volume of expenditures under "Housing Utilities" and "Public Utilities" in 2012 remained at the level of the previous year due to the increased expenses of regional budgets. At the same time, expenditures of the budgetary system in 2012 for the improvement and applied research in the field of public utilities have been significantly reduced.

In the section "Education" a significant increase in the expenses of regional budgets is noted for "Preschool Education" - by 18.9% in absolute terms in comparison with 2011 and the federal and the RF Subjects consolidated budget for "General Education" by 19.6%. At the same time, expenditures of the extended government budget for "Applied Research in Education" in 2012 have decreased by 32.5%.

Expenditures of the budget system in 2012 under the section "Healthcare" have been increased in absolute terms as compared with the previous year by 18.1%, including grown expenses for increases to inpatient and emergency care, and reduced allocations for "Healthcare in Day Patient Facilities of All Types" by 24.5% and "Applied Research in the Field of Healthcare" by 14.5%.

The data on the outcome of the extended government budget execution in regard to the sector of government management in 2012 demonstrates the increasing government involvement in the economy through the subsidies to organizations of commercial sector or contributions in the authorized capital. Expenditures of the budget system to increase the value of shares and other forms of participation in the capital in 2012 amounted to Rb 724.8bn (against Rb 583.7bn in 2011), including the funds of the federal budget in the amount of Rb 505.1 bn (vs. Rb 409.8bn in 2011). Expenditures of the budget system for granted for free transfers to organizations, except for those to the state and municipal agencies, were increased by Rb 92.8bn versus the previous year and accounted in 2012 for Rb 1,078.6bn, including the funds of the federal budget transfers granted for free, having grown from Rb 41.8bn to Rb 526.1bn. The problem of subsidizing such enterprises is usually associated with the lack of control over the proper use of the funds by a recipients¹ and cost effectiveness thereof, as the state is funding the activity, rather than the result, as in the case of public purchases.

Due to the changes in the procedure of government financing of the public and municipal institutions, there was noted a significant growth in expenditures of the RF Subjects consolidated budget under the section "Gratuitous Transfers to the Public and Municipal Institutions" from Rb 557.0bn in 2011 to Rb 2,764.8bn in 2012. Expenditures under the section "Remuner-

¹ Analysis of the activities of such companies has shown that most of the recipients of budget funds placed on deposit, will receive additional income not related to the core business. A number of businesses receiving subsidies do not publish financial statements.

ation of Labor and Charges on the Payment of Wages» in the budgets of the RF Subjects have been reduced from Rb 2,098.9bn in 2011 to Rb 861.3bn in 2012.

In general, the structure and dynamics of the expenditure of the extended government budget in 2012 reflect the priorities of the national policy, with a strong focus on financing of social commitments and security.

Analysis of the RF Federal Budget Key Indicators in 2012 and for the Period of 2013–2015

The law on the budget implies to reduce revenue of the federal budget in the medium term (See *Table 14*) in 2013 by 0.7 p.p. of GDP, in 2014 by 0.3 p.p. of GDP and in 2015 by 0.2 p.p. of GDP from the previous year. A gradual decline of oil and gas revenues is planned from 10.5% of GDP in 2012 to 8.3% of GDP in 2015. The reduction of the forecast revenues from oil and gas sector in terms of GDP share in 2013–2015 against 2012 is due to the introduction of the new budget rules, as well as to the lower indicators of exchange rate of the ruble in regard to the GDP growth.

Table 14

Key indicators of the federal budget in 2008–2015, GDP, %

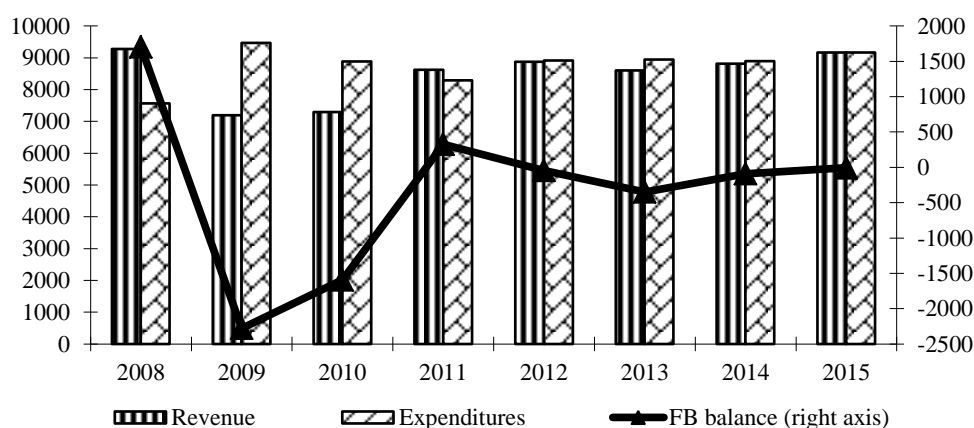
	Actual indicators					Budget law indicators		
	2008	2009	2010	2011	2012	2013	2014	2015
Revenue	22.5	18.9	18.4	20.8	21.0	19.3	19.0	18.8
<i>Including oil and gas</i>	10.6	7.7	8.5	10.2	10.5	8.9	8.5	8.3
Expenditures	18.3	24.9	22.4	20.0	21.1	20.1	19.2	18.8
Deficit (–)/Surplus (+)	+4.1	–6.0	–4.0	+0.8	–0.06	–0.8	–0.2	0.0
Non-oil deficit	–6.4	–13.7	–12.5	–9.4	–10.6	–9.7	–8.7	–8.3

Source: Ministry of Finance of Russia.

Expenditures of the federal budget are to be cut down in 2013 by 1.0 p.p. of GDP from the previous year to 20.1% of GDP, with further decline in 2015 to 18.8% of GDP, which is by 2.3 p.p. of GDP below the level of 2012. It should be noted that, when the main parameters of the federal budget were formed for 2013–2015, there was used a moderately conservative forecast of macroeconomic indicators, for instance, the pace of economic growth in 2013 by 3.7% of GDP, in 2014 - by 4.3%, in 2015 - by 4.5%.

There are insignificant changes from year to year in the income and expenditures of the federal budget for the next three years, estimated in the prices of 2008 (See *Fig. 16*).

As one can see in the Picture, revenues in the medium term remain at a rather high level, varying around the indicator of 2012, and reaching the pre-crisis level in 2015. Herewith, expenditures, planned for 2013–2015, remain virtually at the 2010 level, when funding of the anti-crisis measures, started in 2009 were still made from the budget, i.e., the 2010 budget had extremely high expenditure commitments. In other words, in the law on the federal budget under review, revenue is planned on the basis of expectations of the sustained favorable external economic situation at the current level, while expenditures have not been decreased after the anti-crisis pumping of the Russian economy with public finances made in 2009–2010. The budget balancing with relatively high prices for mineral resources challenges the sustainability of the state budget, bringing it in the sphere of exclusive effect of external factors on the national economy.



Source: Ministry of Finance of Russia, IEP estimates.

Fig. 16. Dynamics of Federal Budget Revenue, Expenditures and Deficit of the Federal Budget in Fixed Prices of 2008, Rb bn

The main sources of the federal budget in the medium term remain revenue from indirect taxes, customs duties and MET (See *Table 15*).

Table 15

Actual and Expected Revenue from Major Taxes to the Federal Budget of the Russian Federation in 2010-2015 (GDP, %)

	Actual indicators			Budget law indicators		
	2010	2011	2012	2013	2014	2015
Corporate income tax	0.6	0.6	0.6	0.6	0.6	0.6
VAT, total:	5.5	6.0	5.7	6.3	6.4	6.5
domestic production	2.9	3.2	3.0	3.2	3.2	3.2
imports	2.6	2.7	2.7	3.1	3.2	3.3
Excise duties, total:	0.6	0.5	0.6	0.7	0.9	1.0
domestic production	0.5	0.4	0.5	0.6	0.8	0.9
imports	0.1	0.1	0.1	0.1	0.1	0.1
MET	3.0	3.8	4.0	3.6	3.4	3.3
Customs duties, total:	6.8	8.2	8.0	7.4	6.8	6.7
Imports	1.2	1.4	1.4	1.4	1.4	1.4
Exports	5.6	6.8	6.6	6.0	5.4	5.3
The share of the above taxes and duties in the revenue of the federal budget, %	89.6	91.4	90.0	89.4	92.3	93.3

Source: RF Ministry of Finance.

In terms of foreign trade income, it is planned to reduce the weighted average rates of import customs duties in view of the accession of Russia to the WTO. However, in terms of GDP share, the revenue of the federal budget from the import customs duties remains at the three-year period indicator at the level of 1.4% of GDP.

The growth of non-oil revenues of the federal budget in terms of GDP volume in 2013-2015 is largely due to a projected increase in revenues from value-added tax in 2013 by 0.6 p.p. of GDP, in 2014 by 0.1 p.p. of GDP and in 2015 by 0.1 p.p. of GDP against the previous year, and from excise taxes in 2013 by 0.1 p.p. of GDP, in 2014 by 0.2 p.p. of GDP and

in 2015 by 0.1 p.p. of GDP as compared with the previous year. In 2013-2015 there is planned an annual growth of excise duties by 0.1-0.2 p.p. of GDP against the previous year due to the indexation and redistribution of revenue from excise taxes between the federal and regional budgets. The revenues from excise taxes on imported goods to the federal budget in 2013-2015 will remain at the level of previous years (0.1% of GDP).

Revenue from corporate income tax in GDP share is sustained at the level of 2012.

Forecast on revenues of the federal budget from the non-oil revenue for 2013 was made in mid-2012, when the trend of an economic slowdown was not demonstrated in full scope yet. Thus, the risks of reduction of the federal budget revenue from the import customs duties, VAT and corporate income tax are rather high in H1 2013.

The following revenues from the use of the state-owned property are expected in for 2013: revenue from placing funds of the federal budget in the amount of Rb 83.2bn, revenue from the management of the Reserve Fund in the amount of Rb 15.1bn and from management of the National Welfare Fund in the amount of Rb 47.9bn, and the revenue obtained in the form of interest earned from the provision of domestic loans from the federal budget is planned in 2013 in the amount of Rb 12.2bn.

The dynamics of the federal budget expenditures in 2010-2015 in terms of functional classification is presented in *Table 16*.

Table 16

Expenditure Liabilities of the Federal Budget in 2010–2015, GDP, %

Budget line	Actual indicators			Budget law indicators		
	2010	2011	2012	2013	2014	2015
TOTAL	22.4	20.0	21.1	20.1	19.2	18.8
Federal issues*	1.5	1.3	1.3	1.4	1.2	1.1
National defense	2.8	2.7	3.0	3.2	3.4	3.7
National defense and law enforcement	2.4	2.2	3.0	3.1	2.9	2.6
National Economy	2.7	3.2	3.2	2.6	2.4	2.1
Housing and public utilities	0.5	0.5	0.4	0.2	0.2	0.1
Environmental protection	0.0	0.03	0.03	0.04	0.04	0.03
Education	1.0	1.0	1.0	0.9	0.8	0.7
Culture, cinematography**	0.2	0.1	0.1	0.1	0.1	0.1
Healthcare ***	0.8	0.9	1.0	0.8	0.6	0.4
Social policy ****	0.8	5.6	6.3	6.0	5.6	5.5
Physical training and sports		0.08	0.07	0.1	0.04	0.04
Mass media		0.1	0.1	0.1	0.1	0.06
Public and municipal debt servicing	0.4	0.5	0.5	0.6	0.6	0.6
Intergovernmental transfers	9.2	1.2	1.0	1.0	0.8	0.7
<i>Tentatively approved</i>	-	-	-	-	0.5	0.9

* in 2010 regardless public debt servicing.

** in 2010 with regard expenditures for mass media.

*** in 2010 with regard to physical training and sports.

****In 2011 further on this budget lines includes targeted intergovernmental transfers, including those to extra-budgetary funds.

Source: Ministry of Finance of Russia.

Expenditures of the federal budget in the three-year period of fiscal planning have a strong tendency to decrease from 21.1% of GD in 2012 to 18.8% of GDP in 2015.

Increased expenditures in 2013 under the budget line "Federal Issues" is based on the increased budget allocations for wages versus to 2012 virtually to all the public authorities, which are funded in this sector. For example, it is planned to increase expenditures for the payment of the President's authorized representatives and his office staff in the federal dis-

tricts by 77.8%, i.e., from Rb 0.9bn in 2012 to Rb 1.6bn in 2013, and in 2014-2015 expenditures for the payment to civil servants in general are maintained at the level of 2013.

There is noted a significant growth in budget allocations addressed to the international cooperation under the section "Federal Issues" in 2013 as compared with the previous year by Rb 10.1bn to Rb 122.4bn, with further declining to Rb 108-109bn in 2014-2015. It is expected to increase spending under this section for the provision of financial assistance to socio-economic development of the Republic of South Ossetia from Rb 2.5bn, allocated in 2012, to Rb 2.8bn in 2013. Expenditures of the federal budget to provide financial assistance to the Republic of Abkhazia in 2013 in absolute terms remain at the level of 2012. In 2013 expenditures of the federal budget for the construction of facilities outside Russia are increased more than 2.5 times to Rb 5.1bn. In 2014-2015 expenditures for the assistance to Abkhazia and South Ossetia Republics, as well as to the construction of facilities abroad are planned in absolute terms at the level of 2013.

Under the budget line "National Defense" major growth of expenditures is planned in 2013 against the previous year in the section "Military Forces" by 17.3% to Rb 1.63 trillion and "Applied Research in the Field of National Defense" by 16.1% to Rb 198.3bn, which is about one third of total expenditures of the federal budget for research and development in the total public expenditures. In 2013 under the section "National Defense" about 25% are addressed to providing the service (labor) contracts.

It should be noted, that such a significant growth of expenditures for the national defense in terms of GDP, from 3.0% of GDP in 2012 to 3.7% of GDP in 2015 demonstrates the rapid growth in spending on military reform with respect to the GDP growth, while their share in the total expenditure of the federal budget is increasing. Without going in the criticism of the leaders of the country for the expenditures on defense, one should admit, that against this background we should recognize that the issue of control over the use of budget funds and state property turnover in not transparent agencies, as well as all levels of government authorities gets more actualized. In particular, during 2011-2012 there was discussed the issue of unsatisfactory state of the objects of property transferred by the Ministry of Defense¹, military settlements and social infrastructure to the management of regional and local authorities, and the inability thereof to carry out major repairs of those facilities without additional funding from of the federal budget. Already in the decision of the Federation Council² it was proposed to provide compensation for surplus expenditures for regions and municipalities, arising in connection with the transfer of ownership to them the military real estate, as well as the use of the Fund of Assistance to Reforming Housing and Communal Services for the funding for the resettlement of people from premises in apartment homes located in the territories of military settlements and recognized as emergency stock after January 1, 2012. The major increase in spending in 2013 by 0.1 p.p. of GDP versus 2012 under the section "National Security and Law Enforcement" pertains to the payments and social security for personnel. The increase in expenses is also associated with the implementation of the new program "Creation of the Sys-

¹ In accordance with the Federal Law of December 8, 2011 No. 423-FZ "On the order of donation of military non-movable property in the possession of the Russian Federation - the municipal property of federal cities of Moscow and St. Petersburg and the amendments to some legislative acts of the Russian Federation".

² "On the proposals of the Council of Federation of the Federal Assembly of the Russian Federation on the implementation of the Federal Law "On the Federal Budget for 2013 and the planning period of 2014 and 2015".

tem for Calling Emergency Services by a Single Number 112", which relevance and importance for the Russian citizens arises no doubt.

Under the budget line "National Economy» in 2015 against 2012 expenditures in absolute terms will be increased by the sections: the Exploration and Use of Outer Space by 16.2%, the Reproduction of Mineral Resource Base by 18.8%, the Road Facilities (Road Funds) by 8.7 %. In absolute terms, the greatest reduction in expenditures of the federal budget will be made for the fuel and energy sector from Rb 46.3bn in 2012 to Rb 24.7bn in 2013 (by 46.6%), to Rb 4.9bn and Rb 4.3bn in 2014 and 2015 respectively mainly due to reduction of contributions to the authorized capital, the expenses for purchasing additional shares and property installments in the energy sector companies.

In the medium term there are planned increased budget allocations for the development of transport infrastructure:

- in the form of subsidies from the state company Rosavtodor from Rb12.8bn in 2012 to Rb 19.9 bn in 2014 (+58.4%) in the framework of the Federal Program "Development of the Transport System";
- for the implementation of measures of the subprogram "Automotive Systems" of the Federal Program "Development of Transport System" by 13.0% in 2015 as compared with 2012;
- for overhaul, repair and maintenance of roads in 2015 in comparison with 2012 almost twice to Rb 220.2bn.

Under the line of the federal budget "General Economic Issues" expenditures in 2013-2015 are volatile: in 2013 there will be a slight increase with respect to 2012 by 6.6%, and a reduction in 2014-2015 to 13.2% and 2.7% respectively against the preceding year.

In 2013-2015 a modest increase in expenditure of the federal budget for the support of the agricultural sector is noted. In the section "Agriculture and Fishing" expenditures are increased from Rb 149.5bn in 2012 to Rb 165.6bn in 2015 (+10.0%). At the same time, expenditures for the implementation of the State program of agricultural development and regulation of agricultural products, raw materials and food in 2013-2015 will be increased by 14.7% as compared with 2012 in connection with the implementation of new mechanisms of state support to agricultural producers in the use of fuel lubricants and fertilizers, credits, exports.

Significant reduction of budgetary allocations in the medium term is planned for the projects implemented in the framework of the Russian Investment Fund (IF), from Rb 65.5bn in 2012 to Rb 18.3bn in 2013 (by 72.3%) and to Rb 13.5bn in 2015 (by 80.0% as compared with 2012). It may be noted that Investment Fund did not become a real mechanism for implementation of large-scale projects based on public-private partnerships. As of October 1, 2012 in the register of IF projects included 49 projects (among which 2 projects meaningful were regarded as completed), that were approved before January 1, 2012. Most of the projects implemented by IF have the status of regional projects, while the projects of national significance, for which IP was created, account only for 12 units, which have been started back in 2006. Payment discipline of execution the obligations for those projects by private investors and the RF Subjects still remains a problem.

Subsidies to the state companies in 2013 remain at the 2012 level in the volume of about Rb 100bn. In 2014 budget allocations for subsidies were reduced by 20.2% as compared with the previous two years, including through the reduction of the cost of assets contributed to the state company Olympstroy twice as compared with 2013. In 2015 expenditures have been

somewhat increased (by 6.4%) against the previous year due to the extended budgetary allocations from SC Rosatom.

In our opinion, expenditures of the budget for the national economy in the first place should provide the necessary institutional and infrastructural conditions for the restructuring of the real sector, rather than replace private financing of business. When providing direct budget support to the systemically and strategically important businesses, there occur the risks of conservation for technological backwardness of production and preservation of inefficient management.

Expenditures reduction in 2013-2015 is planned for all social sections of the federal budget.

Under the budget line "Education" the greatest expenditures reduction in the absolute terms in 2013 are scheduled against the previous year for the section "Secondary Vocational Education" by 63.9%, and about half of them are addressed at ensuring the functions of government institutions of secondary vocational education, subordinated to the federal bodies of executive "force power" block, as well as under the Ministry of Labor in Russia, providing education to persons with disabilities. Thus, the Government has rejected to support the regions in the field of vocational education despite the aggravated problems of qualified personnel in blue-collar jobs. The lack of personnel deficiency was repeatedly raised at meetings of government representatives of the regions and businesses. The problem is not only in the fact that most regions have no their own funds for the development of vocational education, but also in the fact that well-trained personnel not always works in the region, but prefers to leave the region. In addition, we should realize that the development of modern education and training programs of teachers and trainers there also needed considerable expenditures, which might be funded from the federal budget. Expenditures under the section "Higher and Postgraduate Professional Education" remain virtually unchanged in absolute terms for the next three years.

With the total spending cuts under the budget line "Healthcare" related among other things to the redistribution of the budget for the project of modernization of the sector from the budget of the Ministry of Healthcare, addressed to the Fund of Mandatory Healthcare Insurance, we note an increase by 2.5 times in the expenditures in 2013 against the preceding year under the section "Applied Research in the Field of Healthcare" up to Rb 22.8bn, 96.4% of which is allocated from the system of public procurement and will be addressed in the form of subsidies to the federal budget, independent agencies and other nonprofit organizations, and the balance 4.6% are budgetary investments, not included in the Federal Special Purpose Program. This approach is somewhat contrary to the principles of budget funds efficiency, as the activities, rather than the results of subordinate institutions are funded.

In other functional areas of expenditure of the federal budget, the main factor affecting in the change in expenditures volume are budgetary allocations made for the implementation of the federal program and the non-program federal funding. The allocations of the federal budget for the implementation of the Federal Special Purpose Programs in 2015 has been decreased by 24.3% in real terms against 2012 for all groups of the Federal Special Purpose Program (See *Table 17*), while funding for the "Far East" program package in 2015 is being terminated.

The structure of the federal budget expenditures by the Federal Special Purpose Program sections in the medium term remained at the 2012 level: the largest share of expenditure

(about 40%) in the next three years accounts for the section "Transport Infrastructure", in which only one federal program "Development of Transport" is implemented.

In 2013-2015 the share of expenditures is increased from 27.2% in 2012 to 33.7% for the section "High-tech Development» in the total cost of the Federal Program, which is consistent with the objectives set by the President of Russia to ensure rapid technological development. The expenditure for this section is increased by 12.6% in 2015 against 2012 in nominal terms mainly due to the increased budget allocations to the Federal Program "Maintenance, Development and Use of the GLONASS" by Rb 20.5bn in 2012 to Rb 50.3bn in 2015. In the framework of the GLONASS program expenditures are increased for research and use of outer space by more than Rb 10bn in 2015 as compared with 2014.

Table 17

Dynamics of the Federal Budget Expenditures Planned for the Federal Special Purpose Program Implementation in 2012–2015, in Rb bn

	2012	2013	2014	2015	Change of 2015 vs. 2012, % in real terms
FSPP funding	1027,9	1 011,7	918,4	932,6	-24,3
Funding by FSPP sections					
1. High-tech development	279.3	324.7	301.0	314.1	-6.2
2. Housing facilities	58.6	41.9	40.9	41.1	-41.5
3. Transport infrastructure	353.5	353.2	362.6	366.5	-13.5
4. Far East	67.9	53.9	14.0	0	-100.0
5. Rural areas development	20.4	16.1	16.2	17.8	-27.2
6. Social infrastructure	112.1	93.8	57.1	66.7	-50.4
7. Security	99.9	105.2	84.4	83.4	-30.4
8. Regional development	40.1	21.9	13.4	12.1	-74.8
9. Public institutions development	4.3	4.1	4.1	4.4	-14.6

Source: Ministry of Finance, Ministry of Economic development, IEP estimates.

Expenditures of the federal budget are cut down for the program sections "Housing Facilities" by 29.4% in nominal terms, for the section "Rural Areas Development" by 12.8% and for the section "Social Infrastructure" by 41.1% in 2015 as compared with 2012. For the section "Housing facilities" expenditures are reduced for the federal program for:

- housing facilities for the young families from Rb 5.0bn in 2012 to Rb 3.5bn in 2015;
- housing programs of the RF Subjects promotion from Rb 2.4bn in 2012 to Rb 1.0bn in 2015;
- upgrading of municipal infrastructure objects from Rb 3.9bn in 2012 to Rb 2.7bn in 2015;
- measures to provide housing facilities for certain categories of citizens from Rb 11.5bn in 2012 to Rb 8.1bn in 2015.

Under the package of programs "Rural Areas Development" reduction of the federal budget expenditures is planned in connection with the termination of the program implementation term in 2012-2013 and the redistribution of funds of the federal budget for the implementation of new programs, such as "Sustainable Development of Rural Areas for 2014-2017 and for the Period up to 2020".

For the package of program "Social Infrastructure" one should note completion of the program "Prevention and Control of Socially Significant Diseases (2007-2012), the amount of funding for which in 2012 amounted to Rb 10.8bn in 2014-2015; budget financing of the "successor" of that program is not provided. At the same time, expenditures for the federal target program "Development of Education for 2011-2015" are increased from Rb 11.7bn in

2012 to Rb 17.7bn by increasing public investment in the state property objects in the federal public institutions of higher and postgraduate education and housing and utilities services.

The utmost reduction of the federal budget expenditures is planned under the package of programs "Far East" in view of termination of the federal program "Economic and Social Development of the Far East and Transbaikal Region for the Period to 2013" in 2012. The amount of funding for this federal program was Rb 67.9bn, including expenditures on development of Vladivostok in the amount of Rb 12.9bn, and budgetary allocations for contributions in the authorized capital of share-holding companies in the amount of Rb 25.0bn. Although the validity term of the program is developed up to 2013, funding of the program in the federal budget is planned in the amount of Rb 14.0bn in the form of subsidies for the financing of capital construction of the state-owned property in 2014.

Funding is reduced for the program package "Regional Development» in 2015 against 2012 by 70% in connection with the termination of the federal program "Socio-Economic Development of the Chechen Republic for 2008-2012", the amount of funding of which in 2012 amounted to Rb 12.2bn, and the federal program "South of Russia" (2008-2013) with the funding in 2012 of Rb 12.9bn. The budget is reduced for implementation of the measures of the federal program "Social and Economic Development of the Kuril Islands in 2007-2015" from Rb 4.0bn in 2012 to Rb 0.6bn in 2015.

Under the package of "Safety" measures, the budget allocation was reduced by 16.2% in 2015 against 2012 due to the end of a series of FTPs, in the first place "Fire safety in Russia up to 2012". Under a number of programs it is planned to increase funding, including the Federal Program "Development of the Penitentiary System" from Rb 5.6bn in 2012 to Rb 13.8bn in 2015.

In general, there should be noted a negative trend of reduction in expenditures for federal programs in the total expenditures of the federal budget in the next three years from 8.1% in 2012 to 7.6%, 6.5% and 6.0% in 2013-2015, respectively. Currently, before the introduction of the program budget, federal targeted programs are the most effective tools for the targeted budget management and the reduction of the share of expenditures allocated for the federal programs can be considered inappropriate in terms of increasing the efficiency of budget expenditures.

Expenditures for public debt servicing in 2013 as compared with the previous year will increase by 0.1 p.p. of GDP in 2015 and in percentage of GDP will remain at 0.6 of GDP. In 2012 the volume of balances in the Reserve Fund has increased from Rb 811.5bn to Rb 1,885.7bn, and in January 2013 there were allocated additional amount about Rb 704bn as per results of 2012. Thus, at this time the Reserve Fund makes about 3.9% of GDP. On the contrary, the amount of the National Welfare Fund over 2012 has decreased by Rb 103.8bn due to the exchange rate differences and on 01.01.2013 it makes Rb 2690.6 bn, which is equivalent to 4.4% of GDP. In 2013-2015 it is expected to maintain the growth of the Reserve Fund with oil and gas revenues. Herewith, the balance of the federal budget most likely will be either unchanged or reduced with regard to the decisions made on the pension reform.

Deficit of the federal budget in 2013-2015 will be covered, as before, by government borrowing and funds from the privatization of federal property. In 2013 the amount of involvement of government securities in the domestic market is planned to be in the amount of Rb 1,213.2bn, in 2014-2015 in the amount of Rb 842.2bn and Rb 1,114.8bn respectively. The

amount of public external debt in foreign currency in 2013 will amount to \$7.27bn, in 2014–2015 - to \$7.19bn and \$717bn, respectively.

Dynamics of the main parameters of the federal budget in 2013-2015 gives grounds to say that the objective of the federal budget balancing is a priority.

Fiscal Policy Outlooks

There were two components of fiscal policy identified in the Guidelines of fiscal policy for 2012 and the planning period of 2013-2014:

- financial component, focused on reducing the deficit and increasing efficacy and transparency of public administration;
- economic component, which is to address the issues of sustainable post-crisis development, reduction of revenues depending on the current economic situation and creating conditions for the development and modernization of the economy, improving the level and quality of life.

Despite the fact that it is hardly possible to solve the problem of reducing the budget deficit with unconditional implementation of the commitments in the long term without the solution of the economic problems in the medium term, the objective of budget deficit reduction and capital accumulation was clearly dominating over objectives of priming of economy in fiscal policy in 2012.

Adjusted in 2012 fiscal rules include:

- addressing of a share of oil and gas revenues of the federal budget recognized as additional revenue, to the Reserve Fund up to the amount of the normative value in 7% of GDP;
- a new approach to the definition of the main parameters of the federal budget on the basis of the average price of oil. Revenue of the federal budget in 2013 is calculated on the basis of the average 5-year Urals crude oil prices with regard to increasing period of calculations every 1 year to 10 years. Total expenditures of the federal budget are limited to the amount of revenue of the federal budget without additional oil and gas revenue. With reaching the nominal value of the Reserve Fund the total expenditures of the federal budget can be increased up to 50% of additional oil and gas revenue, and addressing thereof to the financial security of infrastructure and other priority projects with a limited term of their implementation;
- limitation of the federal budget deficit at the level of 1% of GDP.

The new rules were declared by the government as a tool to reduce dependence of the federal budget from fluctuations in global prices for hydrocarbons and a "safety cushion» in the crisis situation.

At the same time, new approaches to the definition of the federal budget basic parameters can provoke reduction of the budget expenditure which is not always appropriate in terms of slowing economic growth. It should be noted that, despite the many years of experience of implementing the principles of performance-based management and budgeting by results, the formation of an effective and transparent system of public expenditure management is still far from being completed. The approaches to sequestering the budget basing on the priorities in the framework of a single section and by type of expenditure are still undeveloped. There is no break-down of expenditures by the mandate and discretionary ones, which results in subjectivism and protectionism in making decisions on increasing or reducing thereof. Priorities of investment activities of the state are undeveloped.

It may be admitted that the strategy of accumulating funds for the future is the most simple, not requiring any complicated calculations and skills, way manage finances, but not the most-effective way, since confiscated through taxes budgetary funds should be invested back in the economy and provide the required returns, the level of which may vary according to the basic terms and conditions of funding thereof.

It should also be recalled that the forecast of the budget funds needed for the financial system stabilization and the support the real sector of economy in case of occurrence of a new wave of crisis or a prolonged recession, is achieved as yet. Therefore, it is impossible to estimate the safety margin of "safety cushion" in the form of accumulated funds of stabilization funds. The Ministry of Finance has internal reserves to balance the budget by partial freezing of budgetary allocations, such as Housing Utilities Fund (about Rb 100bn) and non-donation transfers to the regions.

Introduction of fiscal rules may place in doubt the possibility of realization of certain projects. For example, in late 2011 a proposal was expressed for the establishment of a special fund of regional investments from January 1, 2012. In anticipation of further reductions in income of consolidated regional budgets, the investment fund could compensate for the loss of revenue by increasing the tax potential of the regions. It was planned that the source of funds generated by the Federal Fund for Support of Investment (FFSR) will become unallocated revenues of the federal budget, but with the introduction of new fiscal rules creation of the Fund under such conditions is unlikely.

With the introduction of fiscal rules a part of oil and gas revenues will not be reflected in the budget, so the share of non-oil revenues in the structure of revenues of the federal budget will grow, and the value of non-oil deficit will decrease. With a moderate growth of oil prices up to 2020 (average annual oil price is about \$100 per barrel in 2011 prices), the non-oil deficit will decrease from 10.6 % of GDP to 7.8% of GDP. Such "positive" changes in the structure of budget revenues in the short term will be due solely to the calculation technique, rather than a result of systematic work on the restructuring of the economy.

Meanwhile, the adoption of the new fiscal rules and formation of reserves is a necessary condition for the stability of the budget of the Russian Federation, as for many other countries with undiversified economies and limited capacity for borrowing in the time of crisis. In addition, the creation of reserves for "future expenditure" will ensure the unconditional fulfillment of the Russian government commitment in funding of the Olympics - 2014, 2018 World Cup, as well as the development of the innovation center "Skolkovo".

Thus, it is difficult to give a clear assessment to the implications of the new fiscal rules; the 2013 is likely to add much clarity to the assessments.

It should also be said about the need for revision in management policy of state-government guarantees. In the last three years there has been a significant growth in the volume of state guarantees and their share in the total volume of domestic government debt. At the beginning of 2010 the volume of government guarantees amounted to Rb 251.4bn, and 12.0% in the total volume of domestic government debt, at the end of 2012 the volume of state guarantees rose to Rb 909.1bn and accounted to 18.2% of GDP. According to the normative and legal documents of different levels, government guarantees are provided to:

- backbone enterprises, included in the list¹ approved by the Government Commission² on Sustainable Development of the Russian economy in 2008 in the framework of anti-crisis measures of the government policy to ensure continuous monitoring of financial, economic and social situation;
- enterprises of the military-industrial complex (MIC);
- commercial investment projects.

It should be noted that most of the companies included in the list of backbone enterprises that receive government guarantees are the joint stock companies, in which the government is in the best case the minority shareholder, and other main shareholders may be offshore companies. In terms of such way to support the military-industrial companies, the government guarantees are not the major, but additional tool of support, along with budget subsidies and contributions in the authorized capital, being less focused on improving the performance of these companies.

First of all, it is needed to review the list of the backbone enterprises, among other reasons, including the liquidation of the Committee, which approved the list, and the introduction of more stringent standards of the criteria for inclusion the enterprises in the backbone ones, for example, the inclusion of the requirement on the absence of the offshore companies among the founders. Second, we must implement individualized approach to provide guarantees to the backbone enterprises, MIC companies and investment projects, and, if possible, to change the instruments of support and replace them with such instruments as budgetary credits, interest rate subsidies, government purchase contracts.

The national debt policy needs to be improved as well. With the introduction of the new fiscal rules and with the growth of the Reserve Fund there raises a question of the relevance of continuing the practice of raising government borrowing, dictated solely by the current favorable conditions in the capital markets, especially in the situation when expenditures for servicing the funds raised exceed the proceeds of the placing thereof on deposits. Under these circumstances it seems reasonable to limit the amount of government borrowing only to the long-term targeted financing of investment projects of high socio-economic significance.

¹ The initial list included 304 enterprises.

² Decree of the Russian Federation Government N 957 of December 15, 2008 "On the Government Commission on Sustainable Development of the Russian Economy".